FBN Holdings

ONE GROUP
MULTIPLE SOLUTIONS

FBN Holdings Plc

Annual Report and Accounts 2014

FBNHOLDINGS IS ONE GROUP OFFERING MULTIPLE SOLUTIONS.

We are the sum of all our parts. Capitalising on the synergy between our Group's subsidiary businesses means we can maximise opportunities, explore new ones and build on our shared learning. It means we can offer our customers a one-stop shop, giving them access to a huge range of financial services and solutions.

But it's not just our customers who benefit from this approach. Collaborating under a holding company structure means we're resilient and agile in the face of a tough operating environment. By working together, our Group businesses create a platform of specialisation so we can maximise our combined strengths and enhance shareholder value.

FBNHoldings: one Group, multiple solutions.

Using this interactive PDF

At the top of each page, click on the symbols to:

- Jump back to contents
- Move back one page
- Move forward one page
- Print this report or individual pages
- Search the text in this report

Using links in the report

- The contents list on the next page includes links to each of the report sections as well as to specific chapters within these sections.
- The report text also includes related links to other relevant areas of the document, as well as external websites and email addresses.
- To follow a link, simply move your cursor over the section or chapter you would like to view and click.
- You can also click on the titles along the top of each page to jump to the start of a section.

The term 'FBN Holdings Plc' or the 'Group' means FBNHoldings together with its subsidiaries. FBN Holdings Plc is a financial holding company incorporated in Nigeria on 14 October 2010. The Company was listed on the Nigerian Stock Exchange under the 'Other Financial Services' sector on 26 November 2012 and has issued and fully paid-up share capital as 32,632,084,356 ordinary shares of 50 kobo each (₦16,316,042,178). 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, FBNBank (UK) Limited, FBNBank DRC, First Pension Custodian Nigeria Limited and FBN Mortgages Limited. Others include ICB Senegal* and the FBNBank 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, FBN Funds, FBN Trustees, FBN Securities and FBN Capital Asset Management. FBN Capital Limited is the lead entity of the Investment Banking and Asset Management business group.
- The Insurance business group comprises FBN Insurance Limited and FBN Insurance Brokers Limited.
- Other Financial Services business group includes the Group's non-operating holding company and other non-banking financial services businesses, primarily FBN Microfinance Bank and most recently Kakawa Discount House Limited.

This report has been prepared under the International Financial Reporting Standards (IFRS), and unless otherwise stated, the income statement analysis compares the 12 months to December 2014 to the corresponding 12 months of 2013, and the balance sheet comparison relates to the corresponding position at 31 December 2013. Unless otherwise stated, all disclosed figures relate to continuing operations. Relevant terms that are used in this document but are not defined under applicable regulatory guidance or International Financial Reporting Standards are explained in the glossary or abbreviation section of this report.

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

* To be renamed and rebranded to FBNBank Senegal.

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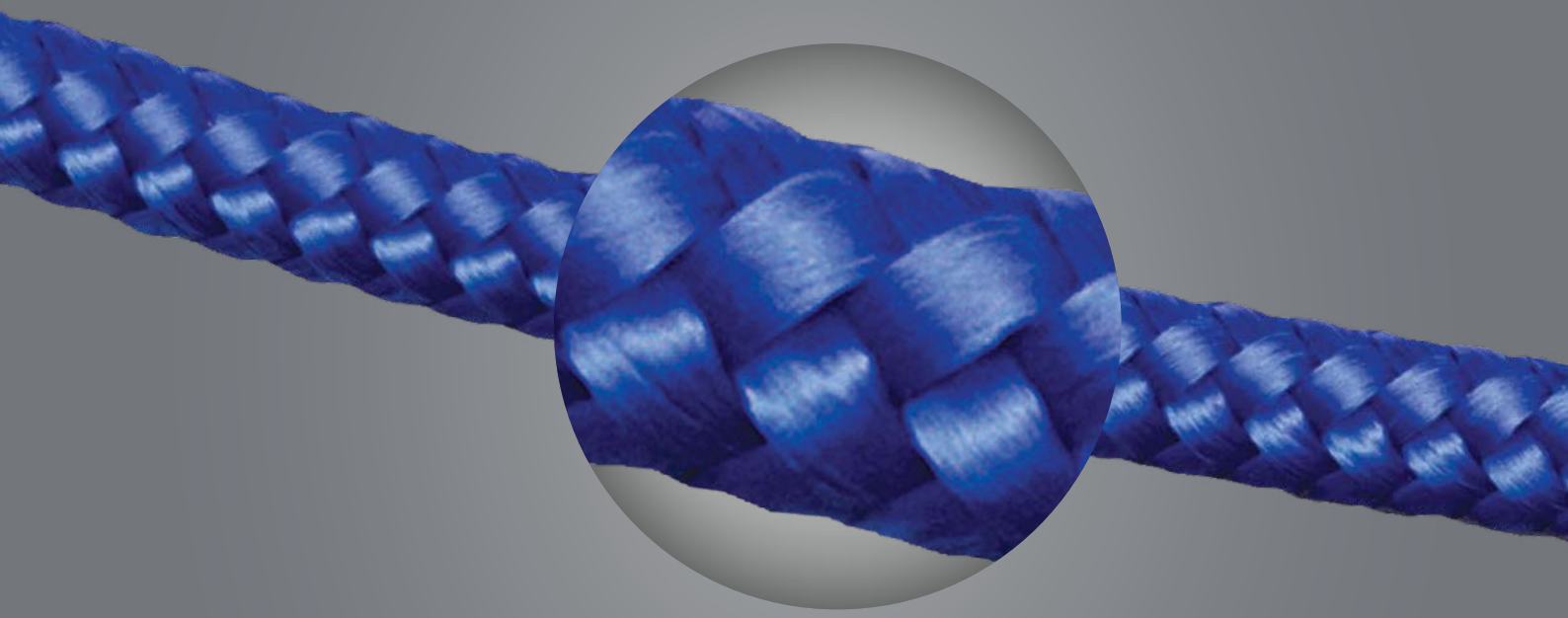
DESIGNED TO BE RESPONSIVE

Our businesses are flexible and agile in a tough operating environment. By constantly being responsive to the changing marketplace in which we operate, we are able to allocate our resources efficiently and effectively. The flexibility of our businesses' operating models means we can remain agile and respond to change quickly.

BUILT TO BE STRONG

Our diversity gives us great strength. The synergies created by the intertwining and collaboration between the Group's subsidiary businesses means we are able to maximise opportunities from existing customers while increasing new ones; building a shared platform for growth.



REMAIN FOCUSED

We are focusing on driving enhanced profitability through revenue generation and increasing efficiencies. Our detailed focus on our non-banking subsidiaries connects our customers to a diverse range of financial solutions, enables more specialisation and increases customer satisfaction.

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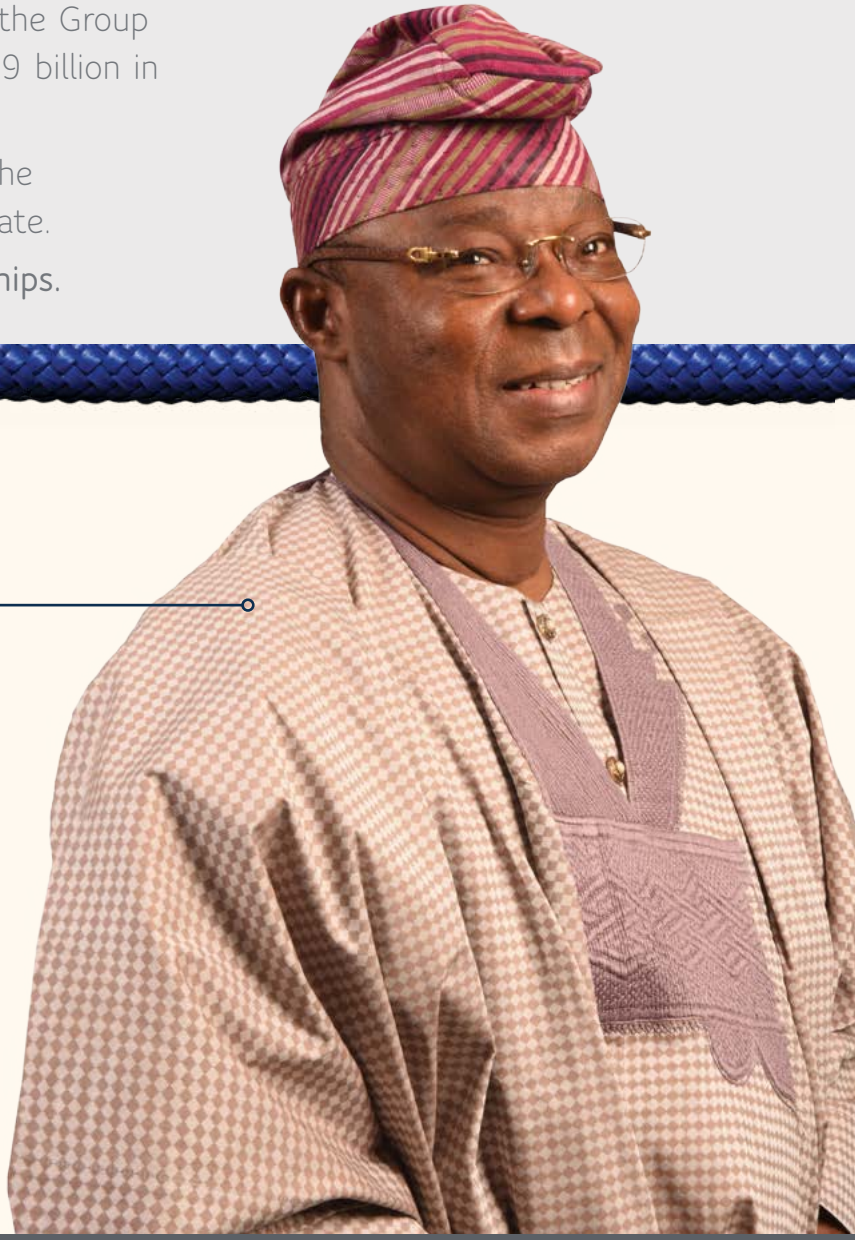
GROUP OVERVIEW

FBN Holdings Plc is a leading diversified financial services group in Middle Africa, with a presence in eight African countries and offices in London, Paris, Beijing and Abu Dhabi. At 2014 year end, the Group had ₦4.3 trillion in total assets and ₦522.9 billion in total equity.

We maintain leading positions in most of the financial service markets in which we operate.

Our core values: Passion, People, Partnerships.



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CORPORATE PROFILE

FBN Holdings Plc is the non-operating holding company of the FBN Group. A truly diversified financial services group, our businesses offer a broad range of products and services, including commercial banking, investment banking and asset management, insurance and other financial services, to millions of customers, with the bulk of the business in Nigeria. FBNHoldings oversees four business groups which collaborate to deliver innovative financial solutions.

- The holding company's principal bank subsidiary is First Bank of Nigeria Ltd (FirstBank), a commercial bank with operations in 12 countries.
- FBN Capital, a leading investment banking and asset management company.
- The Insurance business group comprises FBN Insurance, with capacity to underwrite both life and general insurance business, as well as FBN Insurance Brokers.
- Other Financial Services business group primarily includes FBN Microfinance Bank, which offers microfinance services, and Kakawa Discount House Ltd.

The bank and the non-bank subsidiaries of the holding company operate in Nigeria, as well as through overseas branches, subsidiaries and representatives' offices.

FBNHoldings is a diversified financial services group with the following:

- a full range of commercial banking, investment banking, asset management, insurance and other financial services provision;
- number one bank in Nigeria by total assets and total deposits;
- a leading life and general insurance underwriter;
- a rich history on the Nigerian Stock Exchange from 1971 and specifically as FBNHoldings since November 2012;
- 10,464 employees across the Group;
- 9.7 million active customer accounts;
- 892 business locations and 2,597 ATMs; and
- our core values: Passion, People, Partnership.

₦4.3tn
total assets

The strategic vision for the Group in 2015-16 is 'to become the leading financial services group in Middle Africa, providing value to our stakeholders'.

Our goal is to be the undisputed leader in every business we choose to participate in, delivering superior returns to our shareholders.

9.7mn
active customer accounts

₦480.6bn
gross earnings

2,597
ATMs

892
business locations

10,464
employees

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OUR GEOGRAPHIC REACH

KEY
- Head office
- Subsidiary
- Branch of FBNBank (UK)
- Representative office

PARIS, FRANCE
Branch of FBNBank (UK)

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

BEIJING, CHINA

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

LONDON, UK
Subsidiary

Name	FBNBank (UK) Ltd
Est.	2002
Type	Licensed bank
Total assets	₦659.7 billion
Total deposits	₦413.9 billion
Net loan book	₦369.7 billion
Profit before tax	₦9.2 billion

WEST AFRICA

Name	FBNBank (Ghana, The Gambia, Guinea, Sierra Leone) and ICB Senegal
Est.	Ghana - 1996 Guinea - 1996 The Gambia - 2004 Sierra Leone - 2004 ICB Senegal - 2014
Type	Licensed bank

LAGOS, NIGERIA*
Subsidiary

Name	First Bank of Nigeria Ltd
Est.	1894
Type	Licensed bank
Total assets	₦4.1 trillion
Total deposits	₦3.0 trillion
Net loan book	₦2.2 trillion
Profit before tax	₦94.5 billion

LAGOS, NIGERIA
Head office

Name	FBN Holdings Plc
Est.	2012
Type	Financial holding company
Total assets	₦4.3 trillion
Total deposits	₦3.1 trillion
Net loan book	₦2.2 trillion
Profit before tax	₦92.9 billion

KINSHASA, DRC
Subsidiary

Name	FBNBank DRC
Est.	1994
Type	Licensed bank
Total assets	₦64.8 billion
Total deposits	₦52.2 billion
Net loan book	₦34.0 billion
Profit before tax	₦1.9 billion

ABU DHABI, UNITED ARAB EMIRATES

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

JOHANNESBURG, SOUTH AFRICA

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

* Commercial Banking group.
All loans and deposits are to customers only.

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HOW WE ARE STRUCTURED

Our business and operating model is structured around our key client services - commercial banking, investment banking and asset management, insurance and other financial services.

Each of our business groups has market leading customer franchises serving personal, retail, corporate and institutional clients.

FBN HOLDINGS PLC (FBNHOLDINGS)

COMMERCIAL BANKING

- FIRST BANK OF NIGERIA LTD
- FIRST PENSION CUSTODIAN NIGERIA LTD
- FBN MORTGAGES LTD
- FBNBANK (UK) LTD
- FBNBANK DRC LTD
- FBNBANK GHANA LTD
- FBNBANK GAMBIA LTD
- FBNBANK GUINEA LTD
- FBNBANK SIERRA LEONE LTD
- ICB SENEGAL*

INVESTMENT BANKING AND ASSET MANAGEMENT

- FBN CAPITAL LTD
- FBN TRUSTEES LTD
- FBN CAPITAL ASSET MANAGEMENT LTD
- FBN FUNDS LTD
- FBN SECURITIES LTD

INSURANCE

- FBN INSURANCE LTD
- FBN INSURANCE BROKERS LTD

OTHER FINANCIAL SERVICES

- FBN MICROFINANCE BANK LTD
- KAKAWA DISCOUNT HOUSE LTD

OPERATING STRUCTURE

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

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

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

Insurance - this group includes both our legacy insurance brokerage business and the underwriting business. The underwriting business is performed by FBN Insurance Ltd, a partnership with South African-based Sanlam Group.

Other Financial Services - this currently serves as a quasi-incubator for our smaller non-banking financial services businesses including a microfinance bank, which provides microfinance services to the mass-market retail segment and Kakawa Discount House.

* To be renamed and rebranded to FBNBank Senegal.

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What we do

FBNHoldings is a non-operating financial holding company. Our diverse range of businesses offer a complete range of financial service solutions across commercial banking, investment banking and asset management, insurance and other financial services. FBNHoldings' principal operating company is First Bank of Nigeria Limited (FirstBank).

PERCENTAGE CONTRIBUTION TO GROSS EARNINGS

93.5%

COMMERCIAL BANKING

This is the Group's core business, which provides both individual and corporate clients/customers with financial intermediation services. This business segment includes the Group's local, international and representative offices offering commercial banking services and serving over 9.7 million active customer accounts in 12 countries.

1.0%

INSURANCE

This offers composite insurance and insurance brokerage services to customers.

3.9%

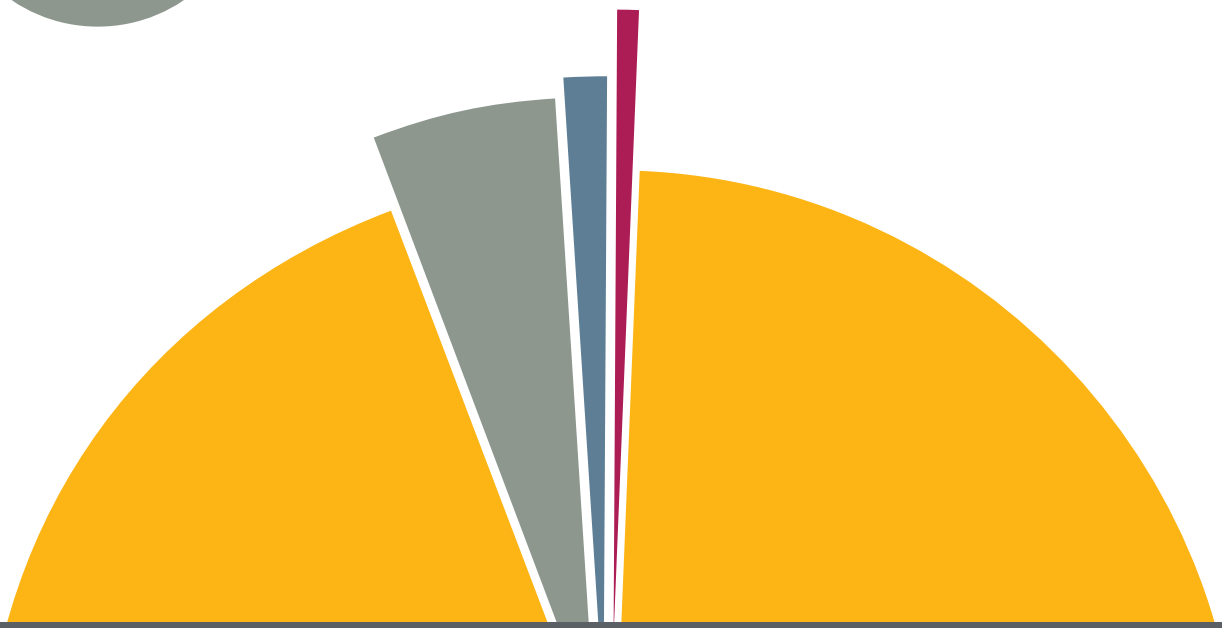
INVESTMENT BANKING AND ASSET MANAGEMENT

This arranges finance, provides advisory services, administers assets, manages funds and invests capital, for both institutional and individual clients.

1.6%

OTHER FINANCIAL SERVICES

This includes the Group's non-operating holding company and other non-banking financial services businesses primarily FBN Microfinance Bank and most recently Kakawa Discount House.



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WHAT WE DO

COMMERCIAL BANKING

FIRST BANK OF NIGERIA LTD

- FIRST PENSION CUSTODIAN NIGERIA LTD
- FBN MORTGAGES LTD
- FBNBANK (UK) LTD
- FBNBANK DRC LTD
- FBNBANK GHANA LTD
- FBNBANK GAMBIA LTD
- FBNBANK GUINEA LTD
- FBNBANK SIERRA LEONE LTD
- ICB SENEGAL*

GROSS REVENUES

₦449.2bn

PROFIT BEFORE TAX

₦90.1bn

TOTAL CAPITAL ADEQUACY RATIO (CAR)

16.7%[1]

NUMBER EMPLOYED

9,668

PERFORMANCE HIGHLIGHTS

- Completed the acquisition of the International Commercial Bank West Africa operations with the acquisition of ICB Senegal*
- Revised the Bank's operating model to ensure strategic realignment and optimal use of available resources
- Successfully concluded a USD450 million subordinated tier 2 debt issuance in the international markets
- Closed an exclusive partnership with PayPal geared towards accelerating the adoption of e-commerce in Nigeria signifying our leading e-business solution
- Awarded the 'Best Segment Solution Award' by Mastercard Innovation Forum 2014 in Singapore as well as the Best Mobile Money Operator award by EFInA.

1 This is the capital ratio for the Banking Group. The individual entities within the Group complied with all the externally imposed capital requirements.

INVESTMENT BANKING AND ASSET MANAGEMENT

FBN CAPITAL LTD

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

GROSS REVENUES

₦18.8bn

PROFIT BEFORE TAX

₦3.5bn

ASSET UNDER MANAGEMENT

₦148bn

NUMBER EMPLOYED

160

PERFORMANCE HIGHLIGHTS

- Strengthened the distribution platform and introduced additional products to drive the Asset Management business
- Increased and institutionalised Group collaboration and synergy between Investment Banking and Asset Management and Corporate and Retail Banking businesses
- Refocused on asset management sales effort resulting in customer diversification and growth
- Received notable awards during the year including: Best Investment Bank in Nigeria (Global Finance) and Best Asset Manager in Nigeria (EMEA Finance).

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

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WHAT WE DO

INSURANCE

FBN INSURANCE LTD

FBN INSURANCE BROKERS LTD

GROSS REVENUES

₦4.7bn

PROFIT BEFORE TAX

₦0.7bn

LOSS RATIO[2]

13.4%

NUMBER EMPLOYED

140

PERFORMANCE HIGHLIGHTS

- FBN Insurance Ltd completed the acquisition of 100% equity interest in Oasis Insurance Plc
- The improvement in performance on the Insurance business group was driven by increased business volumes from the life business through enhanced market penetration as well as the acquisition of general insurance business
- The retail-focused strategy is geared towards the mass-market where insurance penetration is at its lowest
- We enhanced the premium-value scheme to provide easy access to inexpensive insurance plans with prompt settlement.

OTHER FINANCIAL SERVICES

FBN MICROFINANCE BANK LTD

KAKAWA DISCOUNT HOUSE LTD

GROSS REVENUES

₦7.8bn

PROFIT BEFORE TAX

(₦1.4bn)

NUMBER EMPLOYED

496

PERFORMANCE HIGHLIGHTS

- FBNHoldings completed the acquisition of Kakawa Discount House Ltd (KDHL) which is now a direct subsidiary of FBNHoldings
- This acquisition is motivated by the proposed conversion of KDHL into a merchant bank and the desire to expand the Group's product platform
- KDHL brings on board a strong fixed income origination and distribution franchise, which can be further leveraged through FBNHoldings existing infrastructure
- FBN Microfinance (FBN MFB) recorded gross earnings and profit before tax of ₦1.3 billion and ₦283.3 million respectively.

2 Relates to FBN Insurance (computed as claims expenses/gross premium income).

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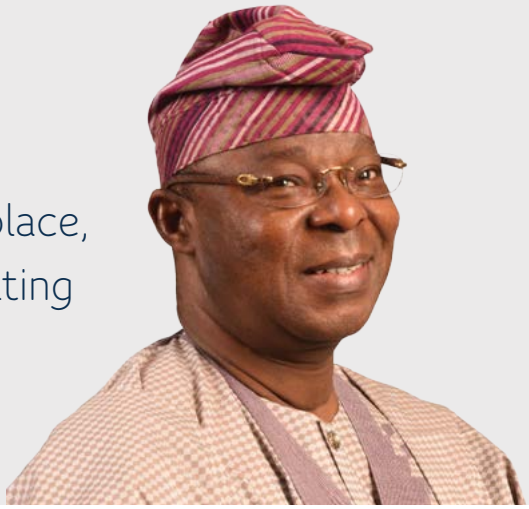
Group Chairman's statement

"With a solid foundation now firmly in place, the focus in 2014 has centred on creating a springboard for accelerated growth as a portfolio company..."



My esteemed shareholders, in the last two years since the inception of our new holding company structure, we have seen the steady transformation of your Company into a unified African financial services group, with the various subsidiaries working seamlessly together to deliver superior customer solutions.

During the year 2014, we made further progress by launching our ambitious but attainable three-year strategic plan as we strive to consolidate our position as the leading financial services group in Sub-Saharan Africa. If you recall, in 2012 and 2013, we had laid the foundation for our new holding company structure, putting in place the corporate governance structure and group operating model needed to run a world-class diversified financial holding company and maximise extraction of synergy among members of the Group. With a solid foundation now firmly in place, the focus in 2014 centred on creating a springboard for accelerated growth as a portfolio company with priority for driving new innovation and balancing scale with Group-wide efficiency. Shifting into full execution mode has yielded clear and consistent benefits for our clients and our people in the wake of an increasingly tough operating environment.

OUR OPERATING ENVIRONMENT

Despite an unexpected crash in the commodities and currency markets in the latter half of 2014, global economic growth improved with a GDP growth of 3.5%. In Nigeria and the West African countries which constitute our major markets, the real GDP growth rate forecast is approximately 5%. The evolving global oil dynamics, evidenced by the sharp decline of oil prices in Q4 2014, continues to present growth risks to oil dependent economies such as Nigeria, with its implications for currency devaluation. Beyond the falling oil prices, the strengthening of the US dollar and the concurrent currency devaluation across 26 countries are translating to increased market volatility and business uncertainty for import-dependent clients across all our operating countries. In addition, the tightening of monetary policy by the Central Bank of Nigeria equally affected liquidity, and increased the cost of funds of banking institutions, with an attendant impact on bank profitability.

Notwithstanding the tough macroeconomic and regulatory terrain, our business groups across Commercial Banking, Investment Banking and Asset Management (IBAM), Insurance and Other Financial Services all recorded remarkable progress consolidating market leadership in various segments. While the Commercial Banking group leveraged the growing opportunities in trade and transaction banking in our domestic market, as well as across the six West African economies in which we operate and Europe, the Investment Banking arm was able to seize the opportunities arising from ongoing reforms in the power sector and divestment of oil and gas assets by foreign players to record a remarkable growth in earnings over the previous year. Concurrently, the Insurance business grew its retail life business by about 80%, leveraging new products and channels to maximise the enhanced client base we acquired through our recent acquisition of Oasis Insurance Plc, a general insurance business.

Overall, the deployment of our resilient holding company structure, with its sharp focus on efficiency, and strong collaboration and governance across all our operating entities, continues to play a key factor in helping to sustain our current momentum while addressing tomorrow's challenges and ensuring long-term success for the Group.

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GROUP CHAIRMAN'S STATEMENT

OPERATIONALISING OUR GROUP STRATEGY

In my inaugural statement in 2012, I articulated as key pillars of our Group strategy the enhancing of the contribution of our non-banking businesses and exploiting the natural synergies between our various operating companies to drive accelerated growth and operating efficiency. 2014 marked the first year of our three-year strategic plan as a Group which presents very bold, clear objectives to consolidate our position as the foremost financial services group in Sub-Saharan Africa, drive cross-entity synergies and enhance the contribution of non-banking subsidiaries to the Group's portfolio.

Today, we have recorded appreciable success in our effort to fully realise the benefits of this strategy along all the major themes. The Investment Banking group continues to lead the charge for our non-banking subsidiaries with a stellar performance in 2014, a feat which has seen over 208% growth in profit before tax between the year prior to the restructuring of the Group and the 2014 financial year. This performance has been further enhanced by our recent acquisition of Kakawa Discount House which provides us with further inroads into the investment banking space.

Likewise, our Insurance group has experienced significant growth over the period between 2011 and 2014. Profit before tax for the Insurance group has grown from ₦300 million in 2011 to ₦1.6 billion in 2014, representing 52% cumulative average growth rate. Again, our Insurance group has been enhanced by the recent acquisition of Oasis Insurance Plc.

In 2014, we made huge investments in expanding and deepening our portfolio of investments through acquisitions. As an investment company, FBN Holdings Plc will continue to review its portfolio of investments with a view to enhancing value to shareholders through both organic and inorganic means.

GROUP-WIDE INNOVATION PROJECT

Last year, the FirstBank Group celebrated 120 years of providing unrivalled financial services in Nigeria which has seen us contribute immensely to groundbreaking historical events in building the Nigerian nation. Our story is the story of Nigeria and the Nigerian people. It is a story of humble beginnings - from a small bank with a paid-up capital of £12,000 to one of the most enduring African brands and institutions with total assets in excess of ₦4.3 trillion and customer deposits of over ₦3.1 trillion.

Following the rapid growth and diversification experienced in the Nigerian banking sector subsequent to the industry consolidation in 2005, it became clear to us that we needed a more efficient and effective operational structure in order to continue to deliver value and service quality levels demanded by our stakeholders. As Nigeria's longest standing pre-eminent financial services provider, to attain this objective, we embarked on a process of transformation, investing heavily across our key segments and restructuring our business architecture to ensure we retained our leading position as Nigeria's financial services group of first choice, while positioning ourselves to deliver our aspirations to be the leading financial services group in Sub-Saharan Africa.

In furtherance of our aspiration to deliver first-class financial services offerings in the Sub-Saharan market, we have embarked on a Group-wide innovation project, working with a reputable international innovation consultant. This project is aimed at crafting a new growth path for our Group in an effort to break new grounds, open new frontiers and accelerate growth by unearthing newer sources of significant revenue streams.

REVENUE SYNERGIES AND INTRA-GROUP COLLABORATION

Over the course of the 2014 financial year, we kicked off the pilot phase of our synergy quantification and extraction exercise which provides the framework for enhanced Group collaboration and cross sell across the entire FBNHoldings Group.

The framework for intra-Group collaboration between our various operating companies unleashed the benefits of our full service offerings through rewarding collaborative teamwork via a redesigned rewards-based performance management system. From this arrangement, our Investment Banking franchise, FBN Capital realised about ₦3.3 billion revenue synergies through seamless collaboration with the various strategic business units of Commercial Banking by delivering tailored corporate finance solutions and sale of asset management products. The Insurance group also recorded significant mileage in driving its products through the extensive retail network of the Commercial Banking business, achieving ₦2.2 billion additional revenue in the process.

Now that we have successfully launched and fine-tuned the process, we strongly believe that the synergy extraction exercise represents a good value proposition to our stakeholders, further laying credence to our decision to restructure through a holding company.

Our recent acquisitions in the investment banking and insurance sides of the Group's business will further enhance the platform by deepening our product and service offerings to the market. Also, the acquisitions of five ICB banks in West Africa will ensure that we extend our bouquet of products and services beyond the Nigerian borders. In the medium term, we are positive this would have an upward impact on our average-products-per-customer and customer lifetime value.

> *"The framework for intra-Group collaboration between our various operating companies unleashed the benefits of our full-service offerings through rewarding collaborative teamwork via a redesigned rewards-based performance management system."*

GROUP SHARED SERVICES: CONSOLIDATING RESOURCES

Further to the remarkable achievements we made in the first two years of operation in consolidating key aspects of Human Resources, Information Technology, and Marketing and Corporate Communications functions, 2014 also witnessed further exploitation of cost efficiencies through potential gains from leveraging economies of scale in our procurement, legal, and company secretariat services. In line with the Guidelines for Licensing and Regulation of Financial Holding Companies released by the Central Bank of Nigeria in August 2014, which details permissible activities for shared services, the Group is implementing a more resilient, agile and customer-centric operating model that is more aligned with our cost aspirations.

In addition to revenue synergy derivable from our extensively diversified Group structure, the holding company structure is also offering significant cost benefits through economies of scale. With the release of the guidelines by the CBN, the Group has begun to put in place the required structure to fully exploit the potential benefits of operating a diversified portfolio and thereby creating value for our esteemed shareholders.

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GROUP CHAIRMAN'S STATEMENT

REFOCUSED BUSINESS MODEL

In continuance of the improvements discussed last year on improving our service delivery, the holding company is implementing a more agile business model with a gradual shift from an asset-intensive and credit-led model to a service-led strategy to drive our spectrum of diverse product and service offerings across the entire value chain of our clients' businesses. In the medium term, the impact of this asset-light business model would be to shift resources into client-facing functions, and decrease our cost to serve. Our branch and customer service point transformation is also creating a culture that empowers employees to take ownership of customer experience. Expectedly, our focused execution on these service initiatives including our Relationship Manager excellence programme and the Group-wide harmonisation of service standards are laying a solid foundation for sustained customer retention across all our operating companies. Each of these initiatives is primed to contribute to the attainment of our goal of delighting our customers by delivering a uniform experience of unparalleled and innovative customer service across all locations.

PORTFOLIO OPTIMISATION

Our central theme of driving efficient profitable growth from both newer revenue sources and cost optimisation has led us, during the course of the year, to launch bold moves towards more dynamic asset allocation, asset optimisation and credit portfolio rebalancing. Gradual diversification of our loan asset portfolio from a hitherto relative concentration in institutional and corporate clients to a more balanced mix of higher-yield commercial and retail clients, is underway. This is supported by a new mechanism that ensures appropriate pricing of all risk assets through intensive periodic reviews.

During the course of the year, we equally made the decision to acquire 100% of Kakawa Discount House, a company in which we hitherto held a 46% equity. This acquisition, which is en route to obtaining a merchant banking licence, would unleash a spectrum of newer opportunities for growth in the investment banking space, especially in terms of driving foreign exchange and fixed income trading and arranging long-term financing.

BOARD DEVELOPMENTS AND CORPORATE GOVERNANCE

Since last year's report, we have appointed an independent non-executive director to the Board in the person of Dr Hamza Sule Wuro Bokki, an experienced investment and fund management professional, thereby widening the Board's skills and experience, which will be invaluable as we continue to pursue our stated strategies. This appointment brings the number of independent directors we have on the Board of your Company to two. In addition, we are in the process of obtaining regulatory approvals for the appointment of Adebola Osibogun and Omatseyin Ayida to the Board of the Company. These additions further deepen the Board's financial services experience and enhance our ability to fully constitute our various Board committees. Separately, in July 2014, we announced that one of our directors, Lt. Gen Garba Duba (rtd) would be retiring from the Board. On behalf of the Board, I sincerely thank him for his commitment and contribution over the years to the Group.

In 2014, in line with our continued emphasis on continually strengthening our corporate governance practices, the Board approved several Board charters and policies, including the Conflict of Interest and Related-party Transaction Policy and the Succession Planning Policy. Other policies approved include: Board Evaluation Policy, Board of Directors' Delegation of Authority Policy, Directors' Development Policy, Directors' Remuneration Policy, Directors' and Code of Conduct. Also, the Board approved several charters for the various Board committees.

I am also glad to report that during the course of the year, FBN Holdings Plc was one of the few companies in Nigeria which participated successfully in the pilot stage of the Corporate Governance Rating System (CGRS) promoted by the Nigerian Stock Exchange in conjunction with the Convention on Business Integrity. As a result, the Nigerian Stock Exchange has communicated to us its decision to list FBNHoldings on the Premium Board of the Exchange. This attainment reflects the ongoing commitment of your Company to the highest standards of excellence in corporate governance and attests to the high level of your Company's compliance to globally accepted corporate governance practices. In addition to being on the Premium Board, FBNHoldings will also be part of the Premium Index, and the Corporate Governance Index, which are indices being established by the Nigerian Stock Exchange for companies that have met the Exchange's high requirements of good corporate governance.

LOOKING INTO THE FUTURE

Mixed economic forecasts across most emerging markets suggest a near-term outlook of moderated demand amidst stiffer, more intense competition in financial services. In the African markets where we operate, current trends suggest that the winners would be the agile players with diversified income streams across customer segments, supported by innovative service and cost-efficient digital platforms. The Board is confident that the sound governance structures and the resilient business model of our Group, coupled with relentless execution, would continue to yield profitable growth in 2015 and beyond.

Even as we acknowledge that the task of developing a world-class, diversified financial services group is a continuous one, we have largely achieved what we set out to do in 2014 and the benefits of adopting the holding company structure are clear from our operating results.

As we move onto the next phase of our efficient growth, reflecting renewed investment in our clients, our people and our future growth, the Board is positive that we will achieve our growth aspirations by a sustained sharp focus on our strategic priorities. Operating efficiency will remain at the heart of our decisions to ensure that our disciplined growth meets the strictest hurdles of shareholder returns.

In 2015, as we steadily progress in our journey under the holding company arrangement, we will continue to deliver meaningful growth in each of our business lines, in a way that will enhance the aggregate performance of the Group in fulfilment of our promises to our various stakeholders, especially the shareholders of FBN Holdings Plc.

Thank you and God bless you all.

Dr OBA OTUDEKO, CFR
April 2015

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Group Chairman's letter to shareholders

To our esteemed shareholders

DECLARATION OF DIVIDENDS AND BONUS ISSUE TO SHAREHOLDERS

As I reflect on the 2014 financial year, I am encouraged and energised by what your Company, FBN Holdings Plc, has accomplished in this dynamic financial services environment. We overcame a number of significant challenges during a year that witnessed tremendous headwinds from both the macroeconomic standpoint and the regulatory point of view.

During this period, I have come to appreciate and respect the resilience of the FBNHoldings Group, which is the result of our decision in 2009 to restructure through a holding company, an arrangement implemented in 2012. The strength in our diversified earnings base both across products and services, and across geography has proved a masterstroke in weathering the stormy business environment that our Commercial Banking business experienced in 2014. This has strengthened my belief in our capabilities to deliver in a rapidly changing world and points to a future characterised with a good breadth of opportunities.

In spite of the highlighted challenges, FBN Holdings Plc delivered solid financial results in 2014, across a number of key financial metrics including gross earnings and profit before taxes. This strong performance is championed by our Commercial Banking franchise, First Bank of Nigeria Limited, and buoyed by our Investment Banking and Asset Management business, which is rapidly growing into a powerhouse in the investment banking space. Also, our newly strengthened Insurance group delivered exceptional financial results in 2014, doubling its profit before tax numbers from the previous year.

Esteemed shareholders, I am delighted to report that in addition to achieving a strong financial year, the Group also achieved significant mileage in its effort to strengthen its earnings base and expand into sectors that are capable of providing us with the right opportunities to fortify our leadership position in the Sub-Saharan African market. During the year, we completed the acquisition of 100% equity interests in Kakawa Discount House Limited and Oasis Insurance Plc. These recent acquisitions are in addition to our recently concluded acquisition of five ICB Banks across West Africa, providing our Commercial Banking franchise the leverage to dominate and deliver our exceptional bouquet of service offerings beyond the Nigerian borders.

In spite of compelling investment propositions including our huge capital-intensive acquisitions and the need to strengthen the capital adequacy ratio of the Commercial Banking group so as to fuel our future growth aspiration, as a Group, we continue to live up to our unbroken promise to our shareholders to deliver annual dividend payouts. As a result, we sought and received the approval of the Board of Directors of FBN Holdings Plc to declare a cash dividend of 10 kobo per share and a scrip issue of one for every 10 units of shares of FBN Holdings Plc. Based on the current price of FBNHoldings, of about ₦9.8 per share, the bonus amounts to about 98 kobo per share.

As we look to the future at FBNHoldings, our objective is more than just anticipating change, it is about creating it. In furtherance of this aspiration, we have embarked on a Group-wide innovation project, working with a reputable international innovation consultant, a project that is aimed at crafting a new growth path for our Group in an effort to break new ground and accelerate growth by unearthing new sources of significant revenue streams. This project will also allow us strengthen our most differentiating asset, our dedicated people. These remarkable people are present in every one of our businesses, geography and functions. They are the reason for our 121-year history, the heartbeat of the Group and the lifeblood of our future growth and leadership.

On behalf of the Board of Directors, I thank you for your longstanding support as we continue to create and deliver sustainable value for generations to come.

Sincerely,

Dr OBA OTUDEKO, CFR
April 2015

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Financial highlights

GROSS EARNINGS

2014	₦480.6bn
2013	₦396.2bn

21.3% growth supported by a 66.1% increase in non-interest income to ₦111.8 billion, followed by a 12% rise in interest income to ₦362.6 billion.

NET INTEREST INCOME

2014	₦243.9bn
2013	₦230.1bn

Net interest income increased by 6.0%, supported by repricing and reallocation of assets and investments to the shorter end of the curve given the increasing interest rate environment.

NON-INTEREST INCOME

2014	₦111.8bn
2013	₦67.3bn

Non-interest income grew strongly by 66.1% driven primarily by a 12.8% growth in fees and commission (F&C) income from ₦59.4 billion in 2013 to ₦67.0 billion. In addition, foreign exchange income rose to ₦44.9 billion from ₦6.7 billion in 2013 on the back of enhanced treasury activities, increased volume of trade business and a favourable exchange rate.

PROFIT BEFORE TAX

2014	₦92.9bn
2013	₦91.3bn

Improved profitability and commendable key performance indicators buoyed by the complementary performance of our non-bank subsidiaries in spite of the highly challenging operating environment.

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FINANCIAL HIGHLIGHTS

CUSTOMER DEPOSITS

2014	₦3,050.9bn
2013	₦2,929.1bn

Customer deposits grew by 4.2% as the Group continues to enjoy access to low-cost deposits, which ensures cheap and sustainable deposits to support the business.

CUSTOMER LOANS AND ADVANCES

2014	₦2,179.0bn
2013	₦1,769.1bn

Customer loans and advances grew by 23.2% with the general commerce, construction, oil and gas, as well as power sectors driving loan growth.

RETURN ON AVERAGE EQUITY*

2014	16.7%
2013	15.5%

Return on average equity improved 120bps owing to the Group's increased profitability over a healthy equity position.

RETURN ON AVERAGE ASSETS*

2014	2.0%
2013	2.0%

Return on average assets remained flat as post-tax profit increased by 17.3% and average assets by 15.7%.

EARNINGS PER SHARE (EPS)*

2014	₦2.55
2013	₦2.16

Earnings per share (EPS) improved 180bps on the back of increased profitability.

* Post-tax returns.

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Non-financial highlights

EUROBOND ISSUANCE

The largest subordinated Eurobond ever issued by any Nigerian financial institution was raised by FirstBank in July 2014. A USD450 million subordinated tier 2 debt at 8.25% for general banking purposes specifically to add duration to the deposit liabilities, diversify the foreign exchange deposit sources and support capital requirements.

REBRANDING

A brand refresh was launched with a uniform logo and aligned brand architecture across the Group. It retains the iconic elephant to appeal to the diverse markets we serve. There was also a name change for all the international subsidiaries to include 'FBNBank' and then the location the subsidiaries.

OPERATING MODEL

In line with the evolving business environment, we reviewed our operating model to ensure strategic realignment and optimal use of available resources. Primarily, the existing Public Sector South and Retail Banking South groups are now split along regional lines, Lagos & West and South Region, to enhance penetration across those regions. Corporate and Commercial Banking groups retain portfolio focus and continue to exploit latent opportunities in primary locations. Public Sector North and Retail Banking North groups, as well as Institutional and Private Banking groups, maintain the current structure.

In addition, we increased focus on growing in the higher margin segments of retail and mid-corporate/commercial and SME space, as well as drove shorter tenured loans.

ACQUISITIONS

The Group completed the integration of Oasis Insurance and the acquisition of Kakawa Discount House for possible merchant bank business while the Bank completed the acquisition of International Commercial Bank (ICB) West African operations through the acquisition of ICB Senegal. The acquisitions are ultimately to drive business and enhance non-interest revenue through cross-selling and driving improved performance and returns from other subsidiaries. This helps provide diversified and sustainable revenue for the Group.

VALUE CHAIN BANKING

We have taken a renewed focus on the value chain within the public sector and the institutional banking space. We also increased our focus on transaction banking services to stimulate improved collections; grow low-cost deposits; and, retain funds through offering effective e-payment and liquidity management solutions.

ELECTRONIC BANKING

We have improved our facilities in this regard through focused financial inclusion/banking convenience awareness and increasing the number of customers, agents and transaction value the mobile banking business advanced. Higher transaction volumes through alternative channels including mobile banking, ATM, internet banking etc., which resulted in increased e-business gross revenue and increased transaction value in mobile banking. The number of subscribers increased from c500,000 to in excess of two million.

Firstmonie® won the best Mobile Money Operator award in the recent EFINA Mobile Money Awards. The award was in recognition of the enormous contributions of Firstmonie in providing seamless, safe and secure financial services to the under-banked and unbanked population in Nigeria.

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Group Chief Executive Officer's review

"The extensive business breadth as a result of the holding company structure has proved a masterstroke, providing a natural hedge against regulatory headwinds..."

Our distinguished shareholders, ladies and gentlemen, I am delighted to welcome you to this year's Annual General Meeting of your Company, FBN Holdings Plc. It is also my pleasure to present to you the financial results of FBN Holdings Plc for the year ended 31 December 2014.

INTRODUCTION

The financial year 2014 remains one that witnessed many activities in monetary and fiscal policies occasioned by the monetary tightening stance of the Central Bank of Nigeria (CBN). The early part of the year saw the exit of the CBN Governor, Mallam Sanusi Lamido Sanusi, CON in February and his subsequent replacement by the former Managing Director of Zenith Bank Plc, Godwin Emefiele, assume office in June 2014.

The new CBN Governor's pledge upon assumption of office to stabilise the naira and keep interest rates within acceptable levels immediately met with significant challenges owing to the spending activities of the political class in the run-up to the 2015 general election and the dwindling oil prices resulting in major regulatory pronouncements. The CBN embarked on counter monetary policy reactions to rein in the emerging inflationary pressures and preserve the purchasing power of the naira. Some of the measures include an increase in private sector cash reserve ratio from 15% to 20%, a hike in the benchmark monetary policy rate by 100 basis points to 13% and subsequent devaluation of the naira by moving the exchange rate midpoint from ₦155/$1 to ₦168/$1.

Also in 2014, Nigeria's GDP was rebased from about USD270 billion to USD510 billion for the 2013 calendar year. The increase of about 90% was attributed to new sectors of the economy such as telecommunications, entertainment and retail services, which were previously either not captured or underreported. As a result of the rebasing, Nigeria is now the largest economy in Africa and the 26th largest in the world.

In spite of the highlighted challenges facing the economy in general, and the financial services sector in particular, FBNHoldings continues to remain true to its aspiration to become the leading financial services group in Sub-Saharan Africa. This commitment is bolstered by our extensively diversified business portfolio, which enhances the resilience of our Group and strengthens our revenue profile. The extensive business breadth as a result of the holding company structure has proved a masterstroke, providing a natural hedge against regulatory headwinds in the commercial banking sector through enhanced contribution by non-bank subsidiaries.

Consistent with our long history of corporate social responsibility, FBNHoldings remains resolute in our pursuit of the Group's corporate responsibility and sustainability vision. We continue to build on our heritage and commitment to leadership and to become a leading sustainable business of Nigerian origin. This is our corporate responsibility and sustainability vision, from which our strategy and approach are derived.

In line with this vision, FBNHoldings continues to support programmes in education, sport and empowerment. Our educational endowment programme, which was instituted in 1994, is designed to enhance academic excellence in Nigeria and is present in 10 universities in Nigeria with a value of over ₦440 million. In addition, we have been sponsoring major sports tournaments including the Georgian Cup of the Kaduna International Polo Tournament, probably the oldest sports trophy in Nigeria, the Dala Hard Court Tennis Championship in Kano and the CBN Classic Golf Tournament (CBN Governor's Cup). For over 40 years, we have consistently supported the Lagos Amateur Golf Championship of Ikoyi Club 1938. All of these are geared towards supporting the communities in which we operate.

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GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

INDUSTRY REVIEW

The Guidelines for Licensing and Regulation of Financial Holding Companies in Nigeria were finally released during the year under review by the CBN. This regulation, among other things, defines the operating structure and governance framework of a financial holding company in Nigeria, while also providing clarity on the permissible activities and otherwise of a holding company. Subsequent to its release, FBNHoldings embarked on an extensive review of the guidelines and has since put in place the required structure to ensure full compliance.

In the financial services industry, the 2013 regulatory pronouncements by the CBN took its full year impact on the performance of the commercial banking subsector in the 2014 financial year. Even though the new CBN Governor provided some respite with the partial reintroduction of the remote-on-us ATM cash withdrawal fees of ₦65 after the third ATM withdrawal, other regulatory pronouncements of 2013 remain in force in 2014 and continued to slow down the Bank's ability to grow its loan book and by implication, its earnings. Also, the implementation of the Basel II Accord in 2014 continues to shape the banking industry landscape with a resulting impact on the capital adequacy ratio of banks. This development has necessitated systemic restructuring of capital and beamed light on capital consumptions in the quest for creation of assets.

The CBN continued its tightening monetary policy during the year when the Monetary Policy Committee raised the cash reserve requirement on private sector deposits in commercial banks by 500 basis points to 20%. This led to further mopping up of over ₦400 billion in loanable funds in the system. Also, the CBN moved the exchange rate midpoint from ₦155 to ₦168/USD, which represented 8% devaluation of the naira while raising the monetary policy rate by 100 basis points to 13%. The rationale for the devaluation includes the increased volatility recorded at the interbank and parallel markets driven largely by the dwindling oil prices and CBN's continued support of the naira at a huge and unsustainable cost to external reserves.

The investment banking subsector continues to witness significant growth largely driven by the project finance segment of the market. This growth is fuelled by activities of local players in the oil and gas sector seeking to fund capital expenditure programs subsequent to the acquisition of assets of international oil companies. Also, the ongoing funding of capital expenditure in the power sector as a result of the recently concluded divestment of power assets by the Government will continue to provide project finance opportunities as evidenced by the recently structured ₦214 billion CBN-NEMSF (Nigerian Electricity Market Stabilisation Facility) and the declaration of the Transition Electricity Market.

On the capital market front, the market experienced a myriad of highs and lows in 2014 as the Nigerian Stock Exchange All Share Index (NSE ASI) dipped by 16.14% in 2014 when compared to the previous year. The poor market performance during the year was largely as a result of negative macro events in the Nigerian economy and sociopolitical space, which includes the weak currency, high interest rate, unhealthy politicking and growing insecurity in some parts of the country. Due to these variety of factors, the Nigerian stock market lost ₦1.75 trillion against the ₦4.25 trillion gains recorded in 2013. In relative terms, the market erased 41% of total gains recorded in the previous year to put the market net worth at ₦11.48 trillion. On a positive note, the primary market activity, which is part of the key parameters for measuring capital market growth and efficiency, improved in the year under review.

Our Investment Banking franchise, FBN Capital, consolidated its position in the market with the Project and Structured Finance unit, closing a healthy number of landmark deals in power, oil and gas and infrastructure. We also improved our ranking in the private and corporate trust, equity and debt capital market as well as asset management during this period.

To further cement our leadership position in the investment banking and asset management space, we recently acquired Kakawa Discount House Limited as an inroad to securing a merchant banking licence. With the new licence, the array of product offerings by our Investment Banking franchise which will include fixed income and foreign exchange trading as well as end-to-end project finance transactions will be increased.

On insurance, it is noteworthy that the National Insurance Commission (NAICOM) continues to push its industry transformation agenda on the back of new regulatory measures. The reform, which was heralded by the introduction of 'No Premium, No Cover' in 2013 has subsequently been backed by the adoption of IFRS reporting standards, and the issuance of guidelines on micro-insurance and Takaful among others. All these together means a tougher regulatory environment, even as these measures further deepen the market.

During the year, the market experienced a wave of M&A activities including cross-border acquisitions such as the acquisition of 77% interest in Mansard Insurance by AXA and the acquisition of Oceanic Life by Old Mutual, a South African franchise. The insurance industry continues to remain a strong investment proposition driven largely by the rich demography of Nigeria, rising urban population, increasing telecom penetration and the expanding middle class.

FBN Insurance Limited continues to leverage its relationship with Sanlam of South Africa and the retail chain of FirstBank to deepen its market reach. Furthermore, the recent acquisition of Oasis Insurance will provide us with a speedy inroad into the larger and deeper general insurance segment. Given that general insurance constitute 85% of the insurance market, this acquisition is expected to generally increase our share of the insurance market.

PERFORMANCE REVIEW[3]

The Group recorded a strong financial performance across all business segments in 2014, in spite of the difficult terrain under which our flagship business, First Bank of Nigeria Limited, operated in the year. The performance by the Commercial Banking group is proof of the resilience of our commercial banking business built on an extensive retail network and a robust information technology platform.

Secondly, our Investment Banking group continues to enhance its contribution to the Group's portfolio both in terms of landmark deals consummated during the 2014 financial year and the resulting financial numbers, consistent with its steady performance since 2012. Likewise, the Insurance group recorded very good performance in the 2014 financial year. This performance is in spite of the fact that the recently acquired general insurance business, Oasis Insurance Plc, is yet to be fully integrated into the Group. We hope to accrue significant mileage in the 2015 financial year when our Insurance group would have operated a general insurance business for a full year.

In spite of the difficult regulatory environment under which the Commercial Banking group operated in 2014, which saw a full year impact of the regulatory headwinds, the Commercial Banking group exceeded its prior year performance in a good number of financial performance metrics. Specifically, the Commercial Banking group recorded a growth of 22.1% in gross earnings, growing from ₦372.8 billion in 2013 to ₦455.4 billion during the year under review. Profit before tax of the Commercial Banking group increased by 9.1% when it grew from ₦86.6 billion in 2013 to ₦94.5 billion in 2014. Similarly, total assets grew by 10.3% from ₦3.7 trillion in 2013 to ₦4.1 trillion in 2014, while customers' deposits grew from ₦2.9 trillion in 2013 to ₦3.0 trillion in 2014, representing a growth of 1.6% year on year.

The Investment Banking and Asset Management business group continued its positive growth trajectory during 2014 financial year. This performance is driven by the performance of the investment banking arm and a rebound in the asset management business. The trust business also continues to generate steady income while the markets and alternative investments businesses continue to increase its contribution. Overall, total earnings increased by 8.6%, growing from ₦21.7 billion in 2013 to ₦23.5 billion in 2014 while profit before tax increased by 17% from ₦5.3 billion to ₦6.2 billion.

The Insurance group recorded an exceptional performance in 2014 on the back of its enhanced synergy with the Banking group. Revenue for the Insurance group increased by 78.4% year on year to ₦6.5 billion from ₦3.7 billion, while profit before tax rose to ₦1.6 billion, up 83.2% year on year from ₦854.9 million in 2013.

3 The business group numbers discussed in this section are pre-consolidation.

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GROUP CHIEF EXECUTIVE OFFICER'S REVIEW

The tough operating environment notwithstanding, overall, the consolidated results of the Group showed appreciable growth across all the key indices buoyed by the complementary performance of our non-bank subsidiaries to the results posted by the Commercial Banking group. Gross earnings grew by 21.3% from ₦396.2 billion in 2013 to ₦480.6 billion in 2013. Also, profit before tax exceeded the performance of prior year and grew from ₦91.3 billion in 2013 to ₦92.9 billion in 2014. The total asset base of the Group grew by 12.2% during the year rising from ₦3.9 trillion in 2013 to ₦4.3 trillion in 2014. At the same time, deposits grew from ₦2.9 trillion in 2013 to ₦3.1 trillion in 2014.

12.2% increase in total assets

As we begin to extract value from our recent acquisition of the ICB banks in West African countries, consolidate our position in the investment banking space especially with the recent acquisition of Kakawa Discount House and expand our insurance business scope, we believe that our aspiration to dominate the Sub-Saharan financial services market is very well on its course. Today, we have reached a point where our investment in technology, human capital and portfolio expansion are beginning to shape the long-term fundamentals of the Group.

OUTLOOK

Sub-Saharan Africa is projected to continue on its strong growth path, driven largely by sustained infrastructure spend, demographically supported buoyant services sector and strong agricultural production, even as oil-related activities taper. This overall positive outlook is however dampened by pockets of acute difficulty in a few countries. Dwindling oil prices threaten to slow down the growth of major oil producing countries in Sub-Saharan Africa including Nigeria, Angola and Ghana. In Guinea, Liberia and Sierra Leone, the Ebola outbreak is taking a heavy human and economic toll. In addition, the security situation continues to be difficult in some countries, including the Central African Republic, South Sudan and Nigeria.

In Nigeria, the projected GDP growth rate of 6.4% has been cut down to 5.2% by the IMF largely as a result of the escalating security challenges in the northern part of the country, the general election and post-election issues, and the falling oil price. All of these factors will significantly influence the monetary policies of the CBN in 2015 with an attendant impact on the macroeconomic variables. Further devaluation of the naira may be imminent in the short horizon, considering the dwindling external reserves, coupled with the drop both in volume and price of crude oil.

In spite of the tightening monetary stance of the CBN and the numerous challenges confronting the banking industry, our Commercial Banking franchise, FirstBank, is expected to strengthen its dominance in the market by driving transaction volumes through its extensive retail infrastructure, regional expansion of its commercial banking business and risk asset portfolio diversification into the high-yield segments of the wider financial services sector with increasing efficiency towards enhanced profitability. Internally, we have commenced the process of integrating the recently acquired ICB banks in Ghana, The Gambia, Guinea, Sierra Leone and Senegal. Subsequently, we will begin to sweat our investments in these markets in an effort to consolidate our position as the leading financial services group in the Sub-Saharan market through the deployment of our retail banking expertise.

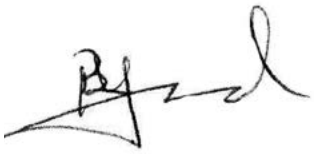
Our Investment Banking business is expected to continue to increase its contribution to the Group portfolio on the back of its growing transactions. This is driven by the need to bridge the infrastructure gap in the country, refurbish and expand the power distribution network and invest in generation capacity. Also, the ongoing drive to recapitalise the banking industry, in an effort to boost capital adequacy as a result of the implementation of Basel II accord is expected to throw up equity capital market opportunities in the short to medium term. The imminent funding gap for various tiers of the Government in Nigeria is expected to also result in opportunities to raise bonds and other funding types for government by our investment banking business. All of these continue to provide prima facie evidence that our decision to reorganise our businesses through the holding company structure is a good strategic decision.

The prognosis of the Nigerian insurance industry is projected to remain positive, driven by enhanced rising urban population, increasing telecom penetration and the expanding middle class.

Finally, we have begun to reap the dividend of restructuring to a holding company, as evidenced by the successful launch of the Group synergy identification and extraction exercise. The pilot phase which kicked off in 2014 has recorded tremendous success with greater collaboration between the Investment Banking and Asset Management business, and the various strategic business units within FirstBank. We have also seen enhanced business handshakes between the Insurance business and the Bank, especially for the sale of bancassurance products that have been further fuelled by our foray into the general insurance business.

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

Thank you and God bless you.



Bello Maccido
Group Chief Executive Officer
April 2015

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MOST VALUABLE BANK BRAND IN NIGERIA

THE BANKER MAGAZINE

FirstBank has been named 'The Best Bank Brand in Nigeria' four times in a row – 2011, 2012, 2013 and 2014 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.

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 11 consecutive years in recognition of the Bank's consistent leadership in innovative banking in Nigeria.

OUTSTANDING BANK BRAND OF THE DECADE

MARKETING EDGE AWARDS

The Bank clinched the 'Outstanding Bank Brand of the Year' award in recognition of its consistent and outstanding performance in revamping its brand over the past several years.

MOST INNOVATIVE BANK IN NIGERIA

EMEA FINANCE AFRICAN BANKING AWARDS

FirstBank was adjudged winner based on its innovative partnerships to drive e-commerce evolution in Nigeria. The Bank struck a partnership with online payment company PayPal – the only such project in the country – that allows customers to create and run a secure PayPal account directly from the FirstBank online banking platform, FirstOnline.

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 fourth 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.

BEST RETAIL BANK

BUSINESSDAY BANKING AWARDS

FirstBank won the 'Best Retail Bank in West Africa' awarded by Businessday in recognition of its continued drive to enhance retail banking business through e-banking interventions, and various retail product and service initiatives.

BEST COMPANY IN SME

SOCIAL ENTERPRISE REPORT AND AWARDS (SERAs)

The Bank was awarded the 'Best Company Supporting SME' in recognition of its role in promoting SME development in Nigeria. This it has done through capacity building initiatives championed through the FirstBank Sustainability Centre.

BEST PRIVATE BANK IN NIGERIA

***WORLD FINANCE* MAGAZINE**

FirstBank clinched the 2014 'Best Private Bank in Nigeria Award' in recognition of its attention to client services and its 'Best in Class' private banking hubs located in Abuja, Lagos and Port Harcourt, as well as the accelerated speed in growing its market share and registering 39% in revenues within a short span of operation.

BEST PRIVATE BANK IN NIGERIA

EMEA FINANCE AFRICAN BANKING AWARDS

FirstBank clinched the 2014 'Best Private Bank in Nigeria Award' in recognition of its 'Best in Class' Private Banking Hubs located in Abuja, Lagos, and Port Harcourt, as well as the value created for private banking clients.

BEST PRIVATE BANK

BUSINESSDAY

The Bank won the 'Best Private Bank Award', in recognition of the value created for its clients through an accurate understanding of clients' financial objectives, efficient asset/portfolio allocation and first-class customer service delivery, consistently providing best-in-class solutions to clients' investment needs and objectives.

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THE BEST IN E-BANKING AWARD

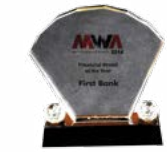
NIGERIA TELECOM AWARDS

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

BEST MOBILE MONEY OPERATOR

EFINA FINANCIAL INCLUSION AWARDS

Firstmonie, the FirstBank mobile money services platform was awarded the 'Best Mobile Money Operator in Nigeria.' This award recognises a leading mobile money operator that is making impact that has significantly driven the uptake of mobile money 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.

BEST SEGMENT SOLUTION AWARD

MASTERCARD INNOVATION FORUM

This award is in recognition of the Bank's leadership in the growth and development of card and electronic payment solutions in Nigeria.

MOST TRUSTED BRAND IN NIGERIA FOR 2014

BRANDHEALTH

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

AFRICA MID-STREAM OIL AND GAS DEAL OF THE YEAR 2014

EUROMONEY PROJECT FINANCE

FBN Capital was recognised by Euromoney Project Finance for its role as Global Facility Coordinator and Financial Modeling Bank on the Accugas USD225 million Project Finance Debt Facility. The firm also undertook the role of de facto Financial Adviser to the Borrower, Accugas (a wholly owned subsidiary of Seven Energy International), while FirstBank, UBA, FCMB and Stanbic IBTC jointly acted as Mandated Lead Arrangers on the transaction to assist the company in structuring and raising USD225 million for its gas pipeline project. Awarded in March 2014.

TELECOMS DEAL OF THE YEAR 2014

EUROMONEY PROJECT FINANCE

FBN Capital was recognised by Euromoney Project Finance for its role as the Joint Financial Adviser to Etisalat's USD1.25 billion Loan Facility. FBN Capital and Citigroup Global Markets, together as 'Financial Advisers', were mandated by Etisalat to raise financing to refinance its existing USD650 million senior debt facility, and finance needs for its network deployment plan across Nigeria. Awarded in March 2014.

BEST ENERGY INFRASTRUCTURE DEAL IN AFRICA 2014

EMEA FINANCE PROJECT FINANCE AWARDS

FBN Capital was once again recognised by EMEA Finance for its role as Global Facility Coordinator and Financial Modeling Bank on the Accugas USD225 million Project Finance Debt Facility. The firm also undertook the role of de facto Financial Adviser to the Borrower, Accugas (a wholly owned subsidiary of Seven Energy International), while FirstBank, UBA, FCMB and Stanbic IBTC jointly acted as Mandated Lead Arrangers on the transaction to assist the company in structuring and raising USD225 million for its gas pipeline project. Awarded in June 2014.

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ICT/TELECOMS DEAL OF THE YEAR

AFRICA INVESTOR INFRASTRUCTURE INVESTMENT AWARD 2014

FBN Capital recently received recognition at the 2014 edition of the Africa Investor Infrastructure Investment Awards for the ICT/Telecoms deal of the year: Emerging Markets Telecommunications Limited. FBN Capital was the Joint Financial Adviser to Etisalat's USD1.25 billion loan facility to fund the addition of 924 BTS sites. FBN Capital and Citigroup Global Markets, together as 'Financial Advisers', were mandated by Etisalat to raise the funding required for the refinancing of the company's existing USD650 million senior debt facility, and finance the needs for its network deployment plan across Nigeria.

BEST PROJECT FINANCE DEAL IN AFRICA 2014

EMEA FINANCE PROJECT FINANCE AWARDS

FBN Capital was recognised by EMEA Finance for its role as the Joint Financial Adviser to Etisalat's USD1.25 billion Loan Facility. FBN Capital and Citigroup Global Markets, together as 'Financial Advisers', were mandated by Etisalat to raise financing to refinance its existing USD650 million senior debt facility, and finance needs for its network deployment plan across Nigeria. Awarded in June 2014.

BEST INVESTMENT BANK

GLOBAL FINANCE AWARDS

In 2014, FBN Capital was announced as the 'Best Investment Bank in Nigeria' by Global Finance for the 3rd consecutive year. Awarded in February 2014.

BEST ASSET MANAGER IN NIGERIA

EMEA FINANCE AFRICA BANKER AWARDS

FBN Capital Asset Management recently emerged the 'Best Asset Manager in Nigeria' at the Africa Banking Awards 2014 organised by *EMEA Finance Magazine*, which took place on 4 December 2014 in London, United Kingdom. The company was recognised for its impressive performance in the period under review where assets under management experienced a double-digit increase. According to *EMEA Finance Magazine*, 'This award is in recognition of the milestones and accomplishments recorded by the company within the review period. What is particularly impressive is the 200% growth rate in assets under management (AUM) across the mutual funds.'

AFRICAN DEAL OF THE YEAR 2014

ISLAMIC FINANCE AWARDS

FBN Capital was the joint issuing house in 2013 in the Osun State Sukuk, African Deal of the Year as recognised by *Islamic Finance News*. Awarded in February 2014.

BEST LIFE INSURANCE COMPANY, NIGERIA 2014

***WORLD FINANCE* MAGAZINE**

This award is in recognition of the FBN Insurance Ltd's delivery on premium value and excellent service standards as well as designing products that are in consonance with deepening market penetration in the industry through innovation and creativity.

LAGOS STATE GOVERNMENT CORPORATE SOCIAL RESPONSIBILITY AWARDS 2014

LAGOS STATE GOVERNMENT AWARDS

The Lagos State Government at its Corporate Social Responsibility Awards 2014 honoured FirstBank in recognition of the Bank's partnership in the Lagos State Support Our Schools Initiative.

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OUR APPROACH

Our approach to long-term sustainability hinges on building a stronger, well-diversified financial services group. Key to achieving this goal is an efficient balance sheet and the ability to proactively manage Group-wide risks. With more than 9.7 million active customer accounts and a wide geographical spread, we contribute meaningfully to the communities in which we operate through collaborative partnerships and consistent delivery of the best value to our customers.

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OUR EVOLVING MARKETPLACE

GLOBAL ECONOMIC TRENDS

Global growth strengthened marginally last year, with recoveries in the United States and the United Kingdom leading the way. Sub-par growth in both Europe and China dampened eventual global growth numbers, while Japan continued to send mixed signals. Emerging markets came under twin pressures from softening commodity prices and a slowdown (and occasional reversals) in capital inflows. Nonetheless, the rush towards developed market equities (the safe haven consideration) slowed down considerably in the review period.

SUB-SAHARAN AFRICA: ECONOMIC TRENDS

Overall growth in Sub-Saharan African is expected to remain broadly stable at about 4.9% in 2015, a marginal difference over the emerging markets growth rate of 4.3% based on IMF estimates. Much of this is due to the decline in oil and other commodity export prices, which affects the foreign exchange earnings, terms of trade and the real incomes of many import-dependent, commodity-exporting African countries. While global GDP growth would receive a boost to 3.5% from lower oil prices, driven largely by higher oil supplies from new sources, the key economies to benefit materially from this growth will be the United States and the eurozone with growth rates improving from 2.4% to 3.6% and 0.8% to 1.2% respectively.

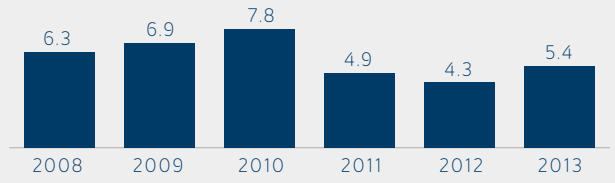
The potential impact of these economic trends will be felt greatly by the Commercial Banking group. These impacts include a fall in domestic consumption and business investment with obvious implications for the industry's build-up of credit risk and foreign currency exposure.

THE NIGERIAN ECONOMY

A number of monetary policy initiatives helped to support stability in the economy in 2014. According to the IMF, 'Real Gross Domestic Product (GDP) grew by 6.1% in the third quarter of 2014 (compared to the third quarter 2013), supported by robust performances in the non-oil economy (agriculture, trade and services)'. After falling for three consecutive months through to the end of November, inflation moved up to 8% year on year in December.

As oil prices declined in Q3 2014, the outlook for the economy moderated with huge implications for an increased budget deficit. With the Bonny Light crude oil price down to USD57 per barrel in December, and gross external reserves down to USD34.5 billion (5.4 months of imports of goods and services), the current account surplus is now projected to decline to about 3.0% of GDP by next year.

GDP growth (%, 2008-2013)



THE EFFECTS ON OUR MARKETS

Most oil-producing countries were adversely affected by falling oil prices, with Russia (which was also hit by economic sanctions), Venezuela and Nigeria being the worst affected. This decline in oil prices raises the chances of an increase in global economic growth, since oil-consuming nations are more likely to spend the price gains than are oil-exporting countries. Nevertheless, the oil price drop constitutes a major threat to the economy of oil producers.

As a result of the perceived excess liquidity in the system and as the demand pressure for foreign exchange (largely US dollars) increased in the wake of the fiscal challenges to the economy from falling oil prices and devaluation of currency, the Central Bank of Nigeria (CBN) tightened monetary conditions in stages, beginning with its decisions to raise the cash reserve requirement (CRR) on public sector deposits from 50% to 75% in January, and to raise the CRR on private sector deposits from 12% to 15% in March.

By sterilising what ordinarily should have been loanable funds, this eroded liquidity in the banking industry and forced rates up. Whereas higher yields on naira-denominated assets are necessary to support the domestic currency's external value, the net effect of this policy change was to push up banks' cost of funds, with obvious additional implications for growing profits.

With oil prices trending lower, and the unabated pressure on the naira, the CBN tightened monetary conditions further by year end; reduced the foreign exchange trading position of individual authorised dealers from 1% of the latter's shareholders' funds (unimpaired by losses) to zero; moved the policy rate (MPR) up from 12% to 13%; increased the cash reserve requirement (CRR) for private sector deposits from 15% to 20%; moved the midpoint of the official exchange rate peg from USD/₦155 to USD/₦168 to reflect market realities; and widened the official band around the midpoint of the exchange rate from +/-3% to +/-5%.

The combined effects of these decisions adversely affected the profitability of the banking industry, with only very few banks able to deliver economic profits after adjusting for the cost of capital.

Given that the majority of the restrictive regulations were targeted at preserving the stability of the foreign exchange market, the likely scenario is that the straitened regulatory environment with tight monetary policy will remain throughout 2015. Invariably, the cumulative impact of lower oil revenues and reduced real income for businesses is a higher probability of quantum leaps on non-performing loans.

The competitive environment will have the following effects on the future performance of the Commercial Banking group:

- strengthening relationships with our significant counterparties to mitigate the possibility of defaults, including recalibrating loan acceptance criteria going forward to keep abreast and ahead of developments at the macroeconomic level;
- seeking new sources of revenue growth; and
- defending market share by deepening the customer experience across the respective spectrum of the market.

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OUR EVOLVING MARKETPLACE

OUTLOOK FOR THE GROUP

Macroeconomic concerns will dominate conversation on the Nigerian economy over the next 12 months, aside from the traditional sub-themes of politics and security challenges in an election year. The multiplier effects of diminished government revenue on slower capital projects, and possible trickle-down effects on business contraction and muted household spending, are likely to have moderating effects on investment and corporate banking, as well as on the retail business.

The main challenge to the Commercial Banking group from lower consumer spending is how it impacts our counterparties. Especially for the fast-moving consumer goods and distributive trade sectors of the economy, a build-up of inventory as consumers rein in their spending could hurt our bottom line, while many analysts are of the view that the weight of multiple regulatory constraints on earnings in an era of slowing real income growth could trigger off some asset impairment in some banks.

Our approach as an international and diversified financial services group is to continue to strengthen the risk acceptance and risk management process to mitigate any adverse impacts on our asset portfolio, especially on the credit side. In 2014, we commenced the asset optimisation policy which, when seamlessly executed in 2015, will position us strongly in managing these vulnerabilities. As a key driver of shareholder returns in banking is its margin profile, itself a function of asset mix, asset pricing, funding structure and funding costs, our asset optimisation and credit portfolio rebalancing strategies, which began in 2014, will be followed through in 2015.

Global growth is expected to rise moderately, to 3.0% in 2015[4], and developed countries are likely to grow on the back of gradually recovering labour markets, and relatively low financing costs. In developing countries, as the domestic headwinds that held back growth in 2014 ease and the recovery is strengthened, growth is projected to gradually accelerate. In Nigeria, the 2015 outlook is influenced by the expected impact of the elections (most analysts predict a slowdown in market activity) as foreign institutional investors stay on the sidelines and local investors adopt a wait-and-see approach. Analysts also predict a potential further devaluation of the currency by the CBN and slow growth of the external reserve; equity and fixed income market segments are expected to experience modest growth. Notwithstanding, inflation is expected to rise but remain in the single-digit region and GDP is expected to grow by 5.3%[5]. Competition is set to intensify due to the influx of foreign players and the scramble for market share. We expect funding gaps across the power sector given the National Integrated Power Project asset privatisation and ongoing reforms in the sector. We also expect mergers and acquisitions in the oil and gas industry following dwindling revenue arising from the current low oil prices. The signing into law of the Petroleum Industry Bill will likely generate increased interest and result in enhanced investments in the energy sector.

In the financial services industry as well as from the public sector, we expect further funding/capital raising opportunities to support capital requirements and business growth as well as finance infrastructure projects.

These potential opportunities are expected to generate increased market activities especially for corporate and investment banking.

Following the full integration of our acquisition of Oasis Insurance Plc into FBN Insurance Limited, we foresee improvements on both our ranking and profitability in this sector as we move into 2015-2016. Our new product development, using alternative channels deployed over newer market segments, is set to ensure improved ranking of the composite insurance business. Again the fiscal policy tightening by the Federal Government on account of dwindling oil revenues and foreign exchange reserves might result in some form of rationalisation in public services which might slow down insurance policy purchases. As we expect contraction in revenue accruing to insurance companies in the coming years, the implementation of cost-effective business models as well as the deployment of flexible innovative products and the development of distribution channels will be the game changers.

Market outlooks in most of the other African markets in which we operate are positive, and we expect improvements in most of these geographies.

4 Source: www.worldbank.org/en/publication/global-economic-prospects
5 Source: FBN Capital Research – Economic Outlook (2014).

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Opportunities

TAKING ADVANTAGE OF A FLOURISHING DOMESTIC ECONOMY

Nigeria is now the largest economy in Africa and the 26th largest in the world with USD510 billion gross domestic product (GDP). Over the last decade, Nigeria has recorded consistently high GDP growth rates that averaged 7.8% year on year. As one of the frontier markets, Nigeria is attracting more and more investment due to its size and the potential of the economy.

Nigeria's GDP was recently rebased from about USD270 billion to USD510 billion in 2014. The increase of about 90% was attributed to new sectors of the economy such as telecommunications, movies and retail, which were previously not captured or were underreported. Economic growth remains strong at 6.3% in December 2014, driven by the non-oil sector.

The Central Bank of Nigeria (CBN) has maintained its continued focus on tight monetary policies to reduce liquidity and currency speculation. Following the current drop in the international oil price and the fall in foreign exchange reserves, the Monetary Policy Committee (MPC) raised the monetary policy rate by 100 bps to 13%. The MPC also decided to lower the band for the naira to ₦168 per USD from ₦155 per USD, setting a ±5% band instead of the previous band of ±3% in 2013. Also, the CBN closed the rDAS/wDAS foreign exchange window in a bid to stabilise foreign exchange. The inflation rate was maintained at a single-digit figure of 9.2% in June 2015. However, there are some economic risks that need to be mitigated to ensure growth is not stifled during the strategic plan period. These risks include increased oil theft and the potential outflow of funds from tapering of quantitative easing (QE), which could have an impact on liquidity in emerging markets in general and the falling price of crude oil in the international market. In spite of these risks, foreign investors still remain bullish towards the country, given its oil wealth, large consumer market and economic reforms, which are gradually being introduced by the Government.

Many Nigerians, for numerous reasons, are unbanked and lack access to formal financial services. According to statistics, access to financial services in Nigeria showed that 34.9 million adults, representing 39.7% of the adult population, are financially excluded. Only 28.6 million adults are banked, representing 32.5% of the adult population. Providing financial services to the low-income population presents significant business opportunities for Nigerian banks.

26th largest economy in the world*

9.2% single-digit inflation rate

EXPLOITING A SIGNIFICANT NEW CUSTOMER BASE

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

NEW CREDIT OPPORTUNITIES

The various economic reforms of the Government will allow banks to take advantage of significant credit opportunities in the real sector. Diversification of our loan portfolio, from the relative concentration on institutional and corporate clients to a more balanced mix of higher-yield commercial and retail clients, is under way. This is supported by a new mechanism that ensures appropriate pricing of all risk assets.

OPPORTUNITIES CREATED BY THE NEW GROUP STRUCTURE

Further to the New Banking Model introduced by the CBN in 2014, which enabled the holding company structure for banks, the CBN also released the Guidelines for Licensing and Regulation of Financial Holding Companies in Nigeria. Since the inception of the new holding company structure, the Group has experienced a steady transformation into a unified African Financial Services group, with various subsidiaries working together to deliver superior customer solutions. The Group is structured to enable a clear management focus and the capacity to optimise cross-selling potential. FBNHoldings harnesses these revenue synergies through increased cross sell between the various Strategic Business Units (SBUs) in the Bank and other FBNHoldings subsidiaries, providing both local and cross-border products and services to our customers. Increasingly, we are utilising our breadth of capabilities more effectively to capitalise on the opportunities we see in the market.

* United Nations ranking of Nigeria GDP post-rebasing.

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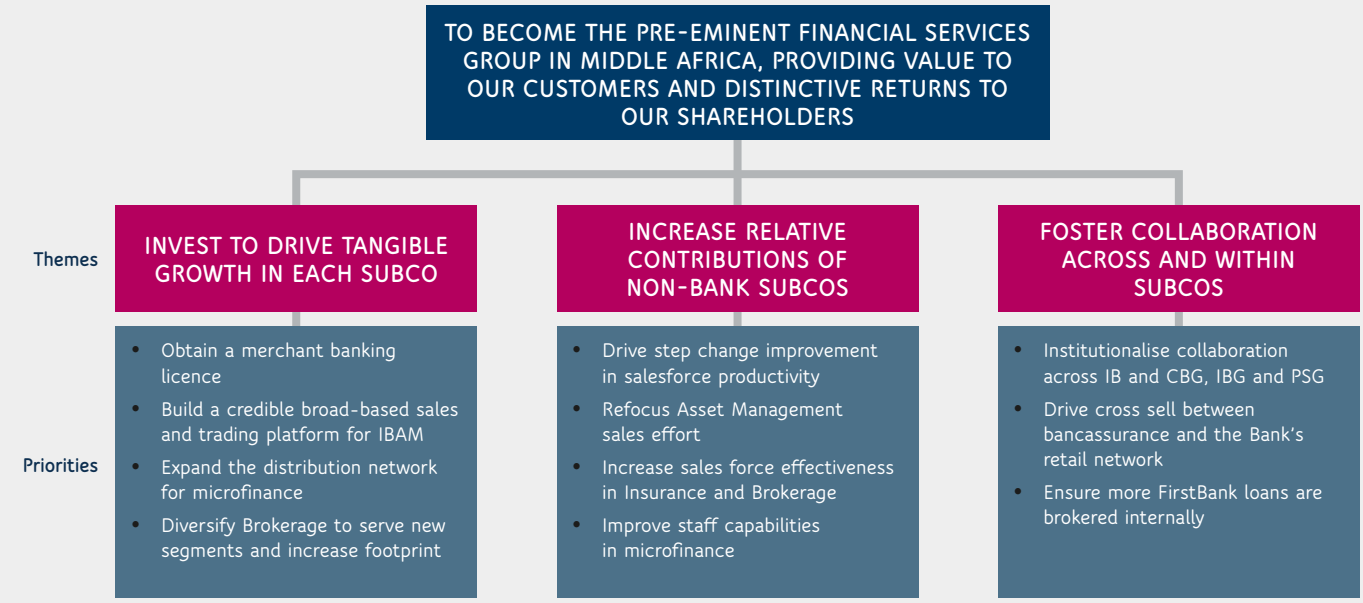
Our strategy

In line with our vision of becoming the pre-eminent financial services group in Middle Africa, providing value to our customers and distinctive returns to our shareholders, we launched our strategic plan for 2014-2016. The three-year plan is hinged on accelerating synergy realisation across the Group and improving operational efficiencies in each of our strategic business units.

Strategic themes and priorities for the Group in 2014-2016



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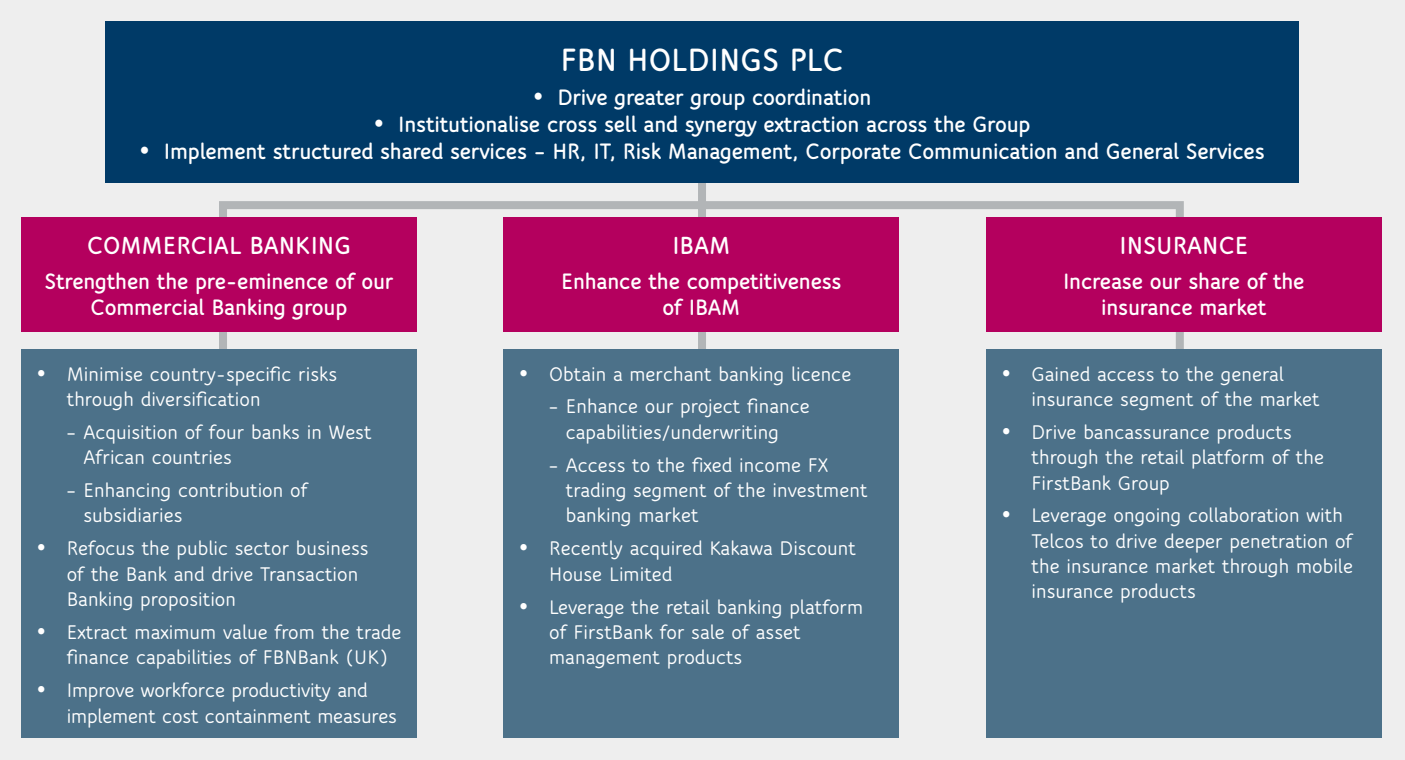
OUR STRATEGY

BUSINESS GROUPS' STRATEGIES

As a diversified group with complementary financial service businesses, our strategies for the business groups are as follows:



STRENGTHEN THE PRE-EMINENCE OF OUR COMMERCIAL BANKING GROUP

Our strategy of being the commercial bank of choice involves developing a more efficient service organisation with scale to serve a broader array of customers by providing consistently excellent service. This entails a refinement of our business model from an asset-led model to a service-led model helping customers through the entire value chain of their business, and also a credit portfolio rebalancing towards the commercial and retail segments.

Further to our plan of minimising country-specific risks through geographic diversification into West Africa and enhancing the contribution of our Congo subsidiary, our priority in 2014 was to deepen our share of trade and transaction banking while improving on workforce productivity. Specifically in 2015, our priorities are to:

1. Further grow non-interest revenues through the deployment of our cash management and transaction banking technology platforms.
2. Drive service delivery and relationship manager excellence through our branch transformation initiative targeted at optimising key branches into sales and service centres and not just transaction centres.
3. Enterprise-wide cost optimisation through procurement optimisation, NPL (non-performing loan) workout and risk-asset optimisation.
4. Improve market engagements.
5. Enhance salesforce productivity, which has commenced with the preliminary stage of our customer data analytics project to equip our sales teams with customer insight to focus on more profitable segments.

ENHANCE THE COMPETITIVENESS OF OUR INVESTMENT BANKING BUSINESS

In our pursuit of our goal of being the undisputed leader in the provision of financial services to our discerning customers in each market we serve, our Investment Banking and Asset Management (IBAM) business made remarkable progress towards strengthening its sales and trading platform to address the need of a broader clientele. During the year 2014 we acquired 100% of an associated company, Kakawa Discount House Limited and in 2015, we obtained a full merchant banking license. Acquisition of the merchant banking license would enable us provide end-to-end investment and financing solutions for our largest clients. Also, the license would enable us gain deeper specialisation in our focus segments, widen our structured finance and lending to financial institutions and also play actively in foreign exchange sales and trading.

In addition, we completed the deployment of a new sales and trading platform which affords us faster transaction processing and speedier customer response. Equally, in terms of skills, our IBAM business made a couple of high-profile strategic recruitment especially in the areas of deal and product structuring.

INCREASE OUR SHARE OF THE INSURANCE MARKET

As part of our strategy to deepen our play in insurance, the immediate priorities for the 2014-2016 period were three-fold:

- Gain access to the general insurance segment of the market through the acquisition of Oasis.
- Drive bancassurance products through the retail platform of the FirstBank Group.
- Leverage ongoing collaboration with Telcos to drive deeper penetration of the insurance market through alternative channels and mobile insurance products.

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OUR STRATEGY

FBN Insurance Limited is executing its broad-based alternative channel strategy, including bancassurance, in addition to enhancing the productivity of our fast-growing direct agent base. In 2015, FBN Insurance acquired Oasis Insurance to diversify its existing life insurance business with a range of general insurance products and services. With this acquisition, FBN Insurance will continue to leverage synergies across the Group to grow its businesses profitably and reinforce its leadership position, whilst driving the business forward.

STRATEGIC GOALS FOR 2014-2016

Our strategic focus for 2014-2016 is to deliver efficient, profitable growth. Our vision of becoming the pre-eminent financial services in middle Africa revolve around three big themes and underscored by seven strategic goals that run through all our operating companies. The Group's strategic aspirations for 2016 are to maintain and enhance its pursuit of the above goals. The Strategic Planning Process for the 2014-2016 vision primarily employs a bottom-up approach, with subsidiaries codifying their individual plans at Group level (though there will be some top-down refinement). Flowing out of this strategic position is an ambitious set of aspirations for the Group as a whole over the next three years. Supporting the Group aspiration over the next three years, individual subsidiaries have developed detailed strategies to achieve their own business aspirations, which together will ensure the Group delivers its overall corporate objective.

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

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

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OUR STRATEGY

ASSESSMENT OF THE 2014-2016 STRATEGIC GOALS

Strategic goal	Metric	Progress in 2014
Be the undisputed leader in every business we choose to participate in.	• Industry ranking (gross earnings, total assets and total deposits) • Local and international awards received across the business segments.	• Maintained our number one position in the Commercial Banking segment by total assets, total deposits and gross earnings • FirstBank was awarded the 'Best in E-Banking' category at the Nigeria Telecom Awards 2014 in recognition of our leadership position in the growth and development of electronic payment solutions in Nigeria • FBN Capital emerged the 'Best Asset Manager' in Nigeria at the Africa Banking Awards organised by EMEA finance magazine • Awarded the 'Best Life Insurance Company' in Nigeria by World Finance in 2014 • Awarded 'Best Private Bank' in Nigeria at the African Banking Awards in 2014 • Awarded the 'Best Mobile Operator' by EFIna.
Significantly grow our franchise within and beyond our borders.	• International and local presence • Contribution of international businesses to Group earnings.	• Completed the acquisition of International Commercial Bank, Senegal • Completed the acquisition of Oasis Insurance Plc and commenced general insurance business • Contribution of the international businesses to the Group earnings increased to 8.8% in the year • Completed the acquisition of Kakawa Discount House Limited and obtained final merchant banking license • Global footprint in The Gambia, Guinea, Sierra Leone Ghana and Democratic Republic of Congo, United Kingdom, China, France, UAE and South Africa • Within Nigeria, Africa and around the world, we would continually serve our customers globally with an African sensibility.
Significantly increase our appeal to the next generation of Nigerians.	• Number of subscribers on social media platforms • Market share of customers in the youth segment • Customer sign on through Kid First (0-12 years), Me First (13-17 years) and Xplore First (18-24 years) • Number of youth-based programmes organised in the year.	• Developed the Future First programmes, which partnered with junior achievement Nigeria (JAN) to drive awareness for the CBN Literacy Day among secondary students • FirstBank in collaboration with CNN designed a new programme aimed at the SME segment named 'African Start Up' • Launched a robust SME engagement programme tagged 'FirstBank SMEConnect' to provide business management resources and tools for use by SMEs • Significant increase in number of subscribers on our social media community • Silver Award for 'Best Impact by Corporate University on Implementation of Business Strategies' by Global Council of Corporate Universities • Continued to drive increase market share across the youth segment through our three youth products - Kids First (0-12 years), Me First (13-17 years) and Xplore First (18-24 years) • We would continuously aim to change perception, engage youths and encourage them to build business relationships with the Bank.
Delight our customers by providing unparalleled and innovative service.	• Number of customer centered awards won • Number of innovative products developed in the year.	• Strategic partnership with Paypal to deliver simplified and secure online payments. PayPal boosts our all-encompassing catalogue of e-payment solutions and cements the Bank's footprints as 'first' to deliver the e-payment alliance with the global e-payment giant • FirstBank was awarded Most Innovative Bank in Africa in 2014 at the Africa Banking Awards • Enrolments on the mobile banking solution 'Firstmonie' increased in the current year by 1.7 million new subscribers. Total number of subscribers on the platform stood at 2.2 million with over 500,000 customers being non-account holders • Significant growth of 81% in the number of successful transactions processed on the internet banking platform, transaction volume increased from ₦378 billion in 2013 to ₦685 billion in 2014.

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Strategic goal	Metric	Progress in 2014
Develop FirstBank into a hub for the best industry talent anywhere.	• Training hours achieved in the year • Number of programmes enrolled by First Academy • Attrition rate • Number of entry level graduates in the First Academy.	• Achieved 104% of the budgeted training hours in 2014: trained 98% of the staff • Instituted the FirstBank Sustainability Centre to help build capacity for FirstBank staff, our customers and other financial institutions who are signatories to the Nigeria Sustainable Banking Principles (NSBP). It is a platform that promotes best practice, learning and sharing on Sustainability in Nigeria • The Group maintained low staff attrition rate of 5.0% in 2014, the rate is in line with the overall target of the Group and is lower than the average attrition rate of tier 1 banks in Nigeria. Average attrition rate of tier 1 banks stood at 9.3% in 2014 • Training intervention based on job competency requirements, business needs and evolving business opportunities.
Hold ourselves to the highest standards of integrity and ethical conduct.	• Corporate governance rating system.	• One of the most compliant and industry-leading company structures • FBNHoldings recorded a 100% score in the director certification segment of the Corporate Governance Rating System (CGRS) • Our governance structure is unparalleled with Board and management appointments, including transitions at executive levels, made with ease and without business disruption • Regular sensitisation of employees on expected behavioural patterns through internal campaigns aimed at ensuring that our people operate in line with high ethical standards • Sustained our brand promise to always deliver the ultimate 'gold standard' of value and excellence.
Deliver superior returns to our shareholders.	• Gross earning • Earnings per share • Dividend per shares • Post-tax returns on equity.	• FBNHoldings achieved 21% growth in gross earnings to ₦480.6 billion. A post-tax return on equity of 16.7% and 18% growth in earnings per share to 255 kobo • A cash dividend of ₦0.10k per 50 kobo share and a scrip (bonus) issue of one share for every 10 shares held amounting to a total distribution of ₦1.05k per share.

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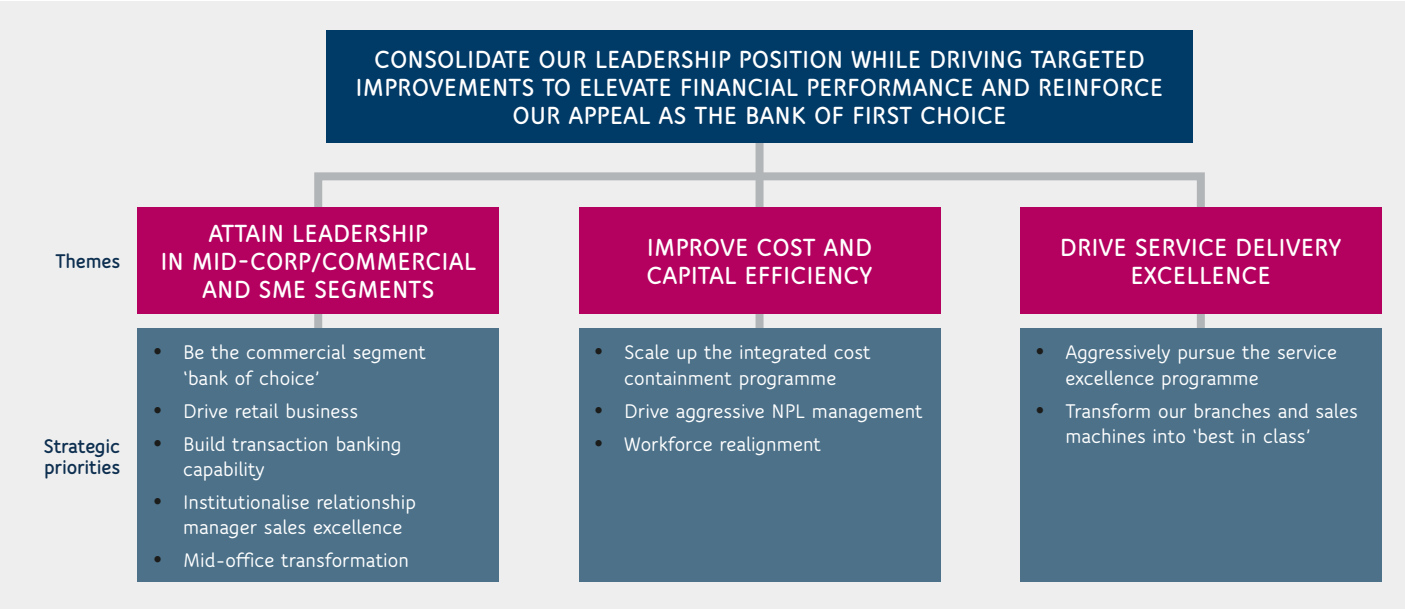
OUR STRATEGY

OUR STRATEGY: COMMERCIAL BANKING GROUP

As the primary subsidiary of FBNHoldings, our strategic approach is to implement initiatives that help the Bank leverage its strength in the retail market to fulfill its core function of mobilising deposits (leveraging our robust/extensive branch/ATM architecture) from our large retail client base and creating risk assets by channeling such funds to customers in various sectors of the economy.



STRATEGIC PRIORITIES

FirstBank has, over the last decade, adopted a comprehensive strategic planning approach to driving its business, staying competitive and maintaining its leadership position in the financial services industry. While most of the previous strategic initiatives remain relevant in driving the bank's performance going forward, the bank continues to recalibrate its strategy in light of notable changes/trends that have taken place within our internal and external business environment to ensure a sustained approach in driving growth and improving the Bank's performance for the near future.

To continue building on the Bank's strengths and successfully address challenges, the Bank has adopted a set of aspirations and targets to surpass analyst expectations over a three-year cycle (2014-2016). In support of these efforts, the Bank has also outlined a set of strategic themes and key enablers. The agreed strategic themes are:

- Attain leadership in mid-corporate/commercial and SME segments
- Improve cost and capital efficiency
- Drive service delivery excellence.

Thus far, we have implemented specific initiatives along each of these themes - in some cases we set up pilots and proof-of concepts; in others we executed some basic quick wins; and in some we have commenced a full roll-out.

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OUR STRATEGY

ATTAIN LEADERSHIP IN MID-CORPORATE/COMMERCIAL AND SME SEGMENTS

In recent times, the financial services industry in Nigeria experienced one of its most challenging periods in recent history with thinning margins, heightened regulatory interventions and increased competition. The Bank remains optimistic of its ability to continue to deliver exceptional returns to its shareholders and continues to drive initiatives to realise its financial goals.

		Description	Areas of impact
ATTAIN LEADERSHIP IN MID-CORPORATE/ COMMERCIAL AND SME SEGMENTS	Be the commercial segment 'bank of choice'	Become the commercial bank of choice in Nigeria, significantly increasing revenues and profits.	• Total revenue from commercial SBU • Commercial Banking trade volume
	Drive retail business	Significantly increase interest income from retail risk assets, maximise cross-selling. Increase non-interest revenue through e-products and grow foreign exchange and trade income.	• Interest income • Non-interest income • Cross sell ratio
	Build transaction banking capability	Build a distinctive transaction banking capability, becoming prefered provider of cash management, trade finance and payments in Nigeria.	• Non-interest income • Cross sell ratio • Product profitability
	Institutionalise RM sales excellence	Drive step by step change in relationship manager (RM) productivity, leading to a significant increase in sales per RM in our Institutional Banking and Corporate Banking segment.	• RM productivity • Customer concentration ratio • Customer conversion ratio
	Mid-office transformation	Working closely with the business groups, product engines and strategic resource functions to increase RM sales time and reduce NPL ratio.	• Loan processing TAT • Improved risk asset monitoring and collection

Be the commercial segment 'bank of choice' – we are developing a tailored value proposition for identified high-growth segments within Retail and Commercial Banking SBUs by developing/modifying specific products and services.

We have also focused on optimising coverage and distribution channels to balance revenue, cost and clients' needs. In addition, we have adopted a systematic approach to generating sales opportunities by leveraging on technology and cross selling, and continuing to develop competence and build in performance incentives. Customers' accounts base of Retail and Commercial Banking segments have grown by 11%, reflecting our focus on optimising coverage and distribution.

Drive retail business – we have focused on deriving more value from our retail customer base, increasing consumer lending and growing transaction income by continuously strengthening our transaction platforms to drive increased usage of our internet and mobile platforms. Retail loans increased by 11% from ₦266.0 million in 2013 to ₦295.7 million in 2014. We have also invested in increasing awareness of the ease and convenience of these platforms. Our subscriber base on Firstmobile (our mobile financial services platform) grew by 533% in 2014 to 2.2 million customers. Transaction volume on FirstOnline also increased, by 81% in 2014 to ₦685 billion.

Relationship management sales excellence programme – we are adopting a scientific approach to our sales and relationship model to the coverage model in order to increase the capability of our relationship managers to succeed in their roles. This programme incorporates the critical enablers required from lead generation framework to works tools, time management and performance management. In a pilot conducted across 10 teams, this system helped identify business opportunities, of which about 23% have been consummated.

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Our business model

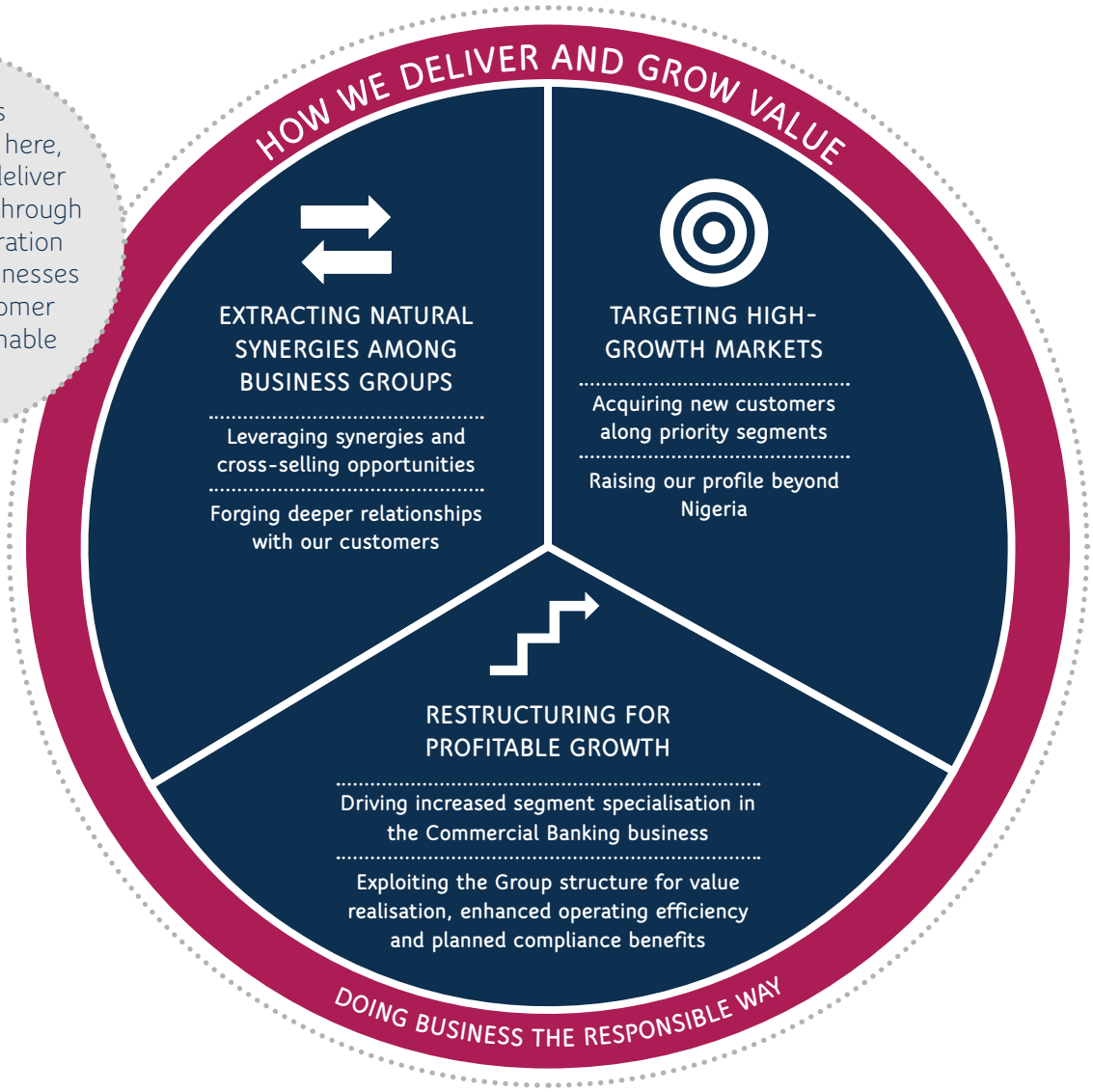
Our aspiration is to deliver growth by building a leading Sub-Saharan Africa financial services group. The sustainability of our business performance is driven by our structure, people and reach – giving us a true competitive advantage.

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

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

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

Our business model, as shown here, depicts how we deliver profitable growth through seamless collaboration among all our businesses and deliver customer value in a sustainable manner.



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OUR BUSINESS MODEL

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

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

As one of Sub-Saharan Africa's oldest and largest full-scale, diversified financial service institutions, FBNHoldings delivers value through the breadth of tested retail products across the customers' life-cycle, and business products across the entire value chain.

In our largest market, Nigeria, our unparalleled reach, with superior technology and a branch network across the country, affords us a low-cost competitive advantage to partner for growth with clients in our diverse locations.

Our largest business group, the Commercial Banking group, 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.

In delivering the fundamentals of banking – playing the financial intermediation – we have consistently tweaked the structure of our business to ensure it is aligned with the needs of our customers and how they hope to be served. Our business model is guided by the philosophy of continuously restructuring for growth, controlling and measuring this growth, and delivering business responsibly.

In the past five years, the Bank has achieved major milestones in driving sustainable growth by reworking its business model to achieve its strategic objectives. In 2010, we realigned our business structure from being organised by geography to being business-segment focused. This helped us develop critical competencies in specialised sectors, developed segment-focused products and services, and increase our share of wallet customers' businesses. We have migrated to a holding company structure over 2012-2013 and completed an acquisition in West Africa, in addition to growing our domestic franchise organically. This acquisition is in addition to our presence through subsidiaries in the UK and Republic of Congo as well as representative offices in South Africa and Abu Dhabi. We also recognise the need for sustainable growth, which has led to us embedding robust controls on risk and costs as evidenced by the ISO 2700022 certification we achieved in November 2013.

To ensure the Bank's business model is continuously optimised, we are creating two teams to enhance our customer engagement model: the transaction banking team and the middle office. The transaction banking team provides deep technical expertise in driving non-interest income across all our business segments to support the developments of products and the structuring business transactions for corporate clients. The middle office operations team will take on the operational responsibilities of relationship managers so they dedicate more business hours to sales-related activities. These two teams are critical to driving the effectiveness of the Bank's sales team.

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 the proper match of value proposition to customers' profiles. As a result, we further defined a small and medium enterprises (SME) subsegment 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 us to further deepen our foray into existing markets and to create new space within the high-growth customer markets.

To enable effective uptake and use of deposits generated by retail banking, the 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 FBNHoldings. To this end, delivering a superior value proposition and ensuring customer satisfaction remain our key model drivers.

How our business groups create value

BUSINESS GROUP	PRIMARY INCOME SOURCE	DESCRIPTION
Commercial Banking	Interest and fee income	We make a spread from the deposits received from customers and the funds lent. Fee income is made from transaction charges on funds lent and commissions made in facilitating other transactions.
Investment Banking and Asset Management	Fees and trading income	We arrange finance, provide investment advice and trade execution, manage funds and sell investment products for a fee and trading income.
Insurance	Premium, commission and investment income	We help customers manage risks by pooling and redistributing these risks for a stream of premium. In addition, income is made from investing the premiums collected. We also provide insurance brokerage services for commission.
Other Financial Services (Microfinance)	Interest and fee income	Like Commercial Banking, we make a spread from the deposits received from customers and the funds lent. Fee income is made from transaction charges on funds lent and commissions made in facilitating other transactions.

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OUR BUSINESS MODEL

EXTRACTING NATURAL SYNERGIES AMONG BUSINESS GROUPS

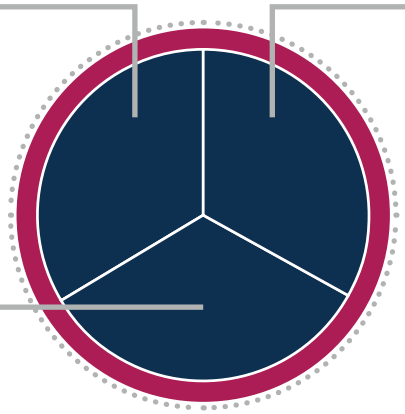
Strong natural synergies and cross-selling opportunities exist between the banking and other financial services sectors, and we have intensified efforts to leverage our unique offering to forge deeper relationships with our customers.

RESTRUCTURING FOR PROFITABLE GROWTH

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

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

In addition, we are consolidating several aspects of our operations into Group shared services and continually re-engineering key processes to optimise cycle times and increase operating efficiency.



TARGETING HIGH-GROWTH MARKETS AND SEGMENTS

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

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

INSURANCE

- Life assurance underwriting
- General insurance underwriting
- Insurance brokerage

COMMERCIAL BANKING

- Institutional banking
- Corporate banking
- Retail banking
- Public sector banking
- Private banking
- Commercial banking
- Pension Custodian
- Mortgages

INVESTMENT BANKING AND ASSET MANAGEMENT

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

OTHER FINANCIAL SERVICES

- Microfinance
- Investment management
- Securities trading

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WHAT MAKES OUR BUSINESS MODEL SUSTAINABLE?

OVERVIEW

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

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

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

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

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

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

As one of Sub-Saharan Africa's oldest and largest full-scale, diversified financial service institutions, FBNHoldings delivers value through the breadth of tested retail products across the customers' life-cycle, and business products across the entire value chain

In our largest market, Nigeria, our unparalleled reach, with superior technology and a branch network across the country, affords us a low-cost competitive advantage to partner for growth with clients in our diverse locations

Our business model, as shown earlier, depicts how we deliver profitable growth through seamless collaboration among all our businesses and deliver customer value in a sustainable manner.

There are key drivers that the Group has put in place to ensure our business model will deliver sustainable returns. A brief outline of these is as follows:

STRONG LEADERSHIP AND GOVERNANCE

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

To further deepen the oversight function and following the retirement of one of the non-executive directors, three new non-executive directors were appointed to fortify the Board. As such, the Board now comprises nine members: eight non-executive directors (NEDs) and a Chief Executive Officer (CEO). To ensure appropriate oversight function, the CEO sits on the Board of the key subsidiaries (business groups) of FBNHoldings.

For further information, see Governance on page 153.

EFFECTIVE RISK MANAGEMENT

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

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

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

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

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

RELATIONSHIPS AND RESPONSIBILITY

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

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

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

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

COMPLAINTS HANDLING

The Group, through its subsidiaries, has identified the achievement of service excellence as an important non-financial priority. Crucial to this is the enrichment of customers' experience through the proactive management of complaints and issues. We respond to requests 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), through the relationship managers or by walking into any branch to speak to a customer service officer. These are all channels through which customers can contact us. We also ensure customers are aware of our complaints channels by displaying them in all our branches. These include escalation channels for complaints that are not adequately resolved.To further protect customers, the Bank renders customers' 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; over 77,000 were reported in 2014 compared to 39,000 recorded in the previous year, as shown in the table opposite.

A complaint dashboard 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.

The use of the complaint dashboard has helped to identify recurring complaints, seasonal complaints and the source of these complaints, resulting in quick resolution while outstanding issues receive the required attention.

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

In First Pension Custodian however, complaints are lodged and logged with the relationship management team. In a bid to achieve effective and efficient turnaround time (TAT), which crescendos to a high customer experience, achievement of service excellence, of which complaint handling is a subset, remains an important priority across the Group.

For details of customer complaints received in 2014 please see page 62.

ETHICS AND COMPLIANCE

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

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

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

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

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LEADERSHIP AND GOVERNANCE

"As a Board, we shall remain steadfast in ensuring that our processes are continually improved upon..."

Over the years, our brand's perception has been steeped in the recognition of our Group's strong commitment to corporate values and governance. With good corporate practices having a positive effect on the way we run the Group, we ensured that the tone from the top is filtered down through the Group and dictates the manner our business is run at Group level and through all our subsidiaries.

During the course of the year, in underlining our commitment to running our business in compliance with best global practices, we were given recognition by the Central Bank of Nigeria (CBN) in its joint examination report with the Nigeria Deposit Insurance Corporation (NDIC) where it was noted that FBN Holdings Plc met and exceeded the corporate governance standards expected of a financial holding company despite the absence of regulations and guidelines.

Similarly, our commitment to good corporate governance practices was recognised at the announcement of results of the Nigerian Stock Exchange (NSE) Corporate Governance Rating System (CGRS).

Thirteen companies had volunteered for the pilot phase of the project; only eight passed the rigorous year-long process including FBNHoldings which was also the only financial holding company of the eight. Similarly, FBNHoldings recorded a 100% score in the director certification segment of the CGRS as all directors of our Board sat and passed a rigorous corporate governance test administered by the Centre for Business Integrity (CBI) and NSE.

We do not however think we have achieved perfection. We will not rest on our oars. We will continue to strive to improve on our strengths and reduce our shortfalls to ensure our shareholders get the best value for equity.

Across the Group, we shall continue to ensure that ethical practices are not substituted with sharp dealings and we will also remain unrelenting in upholding values while doing business. These practices not only keep us ahead of the competition, they also ensure the sustainability of our business.

As a Board, we shall remain steadfast in ensuring that our processes are continually improved upon and that the Board, management and employees internalise the highest standards of corporate governance practice as we bid to ensure the Group's long-term sustainability. In recognising the immense impact that good governance has on the performance and operations of the Group, we will remain unrelenting in ensuring the observance of good corporate governance practice at all levels across the Group.

"Our resolve to do business the 'proper' way remains unrelenting and persistent. This is because as a Board, we fully comprehend our responsibilities to clients, customers, staff, the communities in which we operate and the general public. Our pledge to our shareholders therefore is to always ensure that in the discharge of our duties, we shall endeavour to continue to meet and exceed the expectations of our stakeholders."

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LEADERSHIP AND GOVERNANCE

BOARD OF DIRECTORS

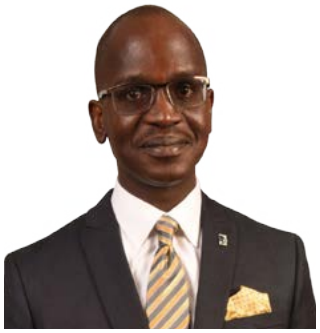
Dr Oba Otudeko, CFR
Group Chairman

Bello Maccido
Group Chief Executive Officer
BARAC BFIC

Oye Hassan-Odukale, MFR
Non-Executive Director
BFIC SAC

Bisi Onasanya
Non-Executive Director
BFIC

Abdullahi Mahmoud
Non-Executive Director
BGC SAC



Chidi Anya
Non-Executive Director
BGC BARAC SAC

Dr Hamza Wuro Bokki
Non-Executive Director
BARAC BFIC
Appointed August 2014

Adebola Osibogun
Non-Executive Director
BARAC
Appointed January 2015

Omatseyin Ayida
Non-Executive Director
BGC
Appointed January 2015

Tijjani Borodo
Company Secretary

Lt General Garba Duba, rtd
Retired August 2014

COMMITTEE MEMBERSHIP KEY:

BGC Board Governance Committee
BARAC Board Audit & Risk Assessment Committee
BFIC Board Finance & Investment Committee
SAC Statutory Audit Committee

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LEADERSHIP AND GOVERNANCE

FBNHOLDINGS MANAGEMENT

Bello Maccido
Group Chief Executive Officer

Tijjani Borodo
Company Secretary

Oyewale Ariyibi
Head, Finance

Folarin Alayande
Head, Strategy and Corporate Development

Oluyemisi Lanre-Phillips
Head, Investor Relations

Olu Adegbola
Head, Risk Management

OUR SUBSIDIARIES

COMMERCIAL BANKING:

Bisi Onasanya
GMD/CEO, First Bank of Nigeria Limited

Michael Barrett
Managing Director, FBNBank (UK) Limited

Cheikh Tidiane
Managing Director, FBNBank DRC Limited

Kunle Jinadu
Managing Director, First Pension Custodian Limited

Adenrele Oni
Managing Director, FBN Mortgages Limited

Seyi Oyefeso
Managing Director, FBNBank Ghana Limited

Akeem Oladele
Managing Director, FBNBank Guinea Limited

Nelson Akande
Managing Director, FBNBank Sierra Leone Limited

Uloma Olikagu
Managing Director, FBNBank Gambia Limited

Philippe Kpenou
Managing Director, International Commercial Bank Senegal

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LEADERSHIP AND GOVERNANCE

INVESTMENT BANKING AND ASSET MANAGEMENT:

Kayode Akinkugbe
Managing Director, FBN Capital Limited

Michael Oyebola
Managing Managing Director, FBN Capital Asset Management Limited

Adekunle Awojobi
Managing Director, FBN Trustees Limited

Abiola Adekoya
Managing Director, FBN Securities Limited

Nkiru Adekoya
Managing Director, FBN Funds Limited

INSURANCE

Valentine Ojumah
Managing Director, FBN Insurance Limited

Fidelis Ojeah
Managing Director, FBN Insurance Brokers Limited

OTHER FINANCIAL SERVICES

Adegboyega Fatoki
Acting Managing Director, Kakawa Discount House

Pauline Nsa
Managing Director, FBN Microfinance Bank Limited

STATUTORY AUDIT COMMITTEE MEMBERS

Job Onwuahara
Chairman

Abubakar Yahyah

Waheed Adegbite

Oye Hassan-Odukale, MFR

Abdullahi Mahmoud

Chidi Anya

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EFFECTIVE RISK MANAGEMENT

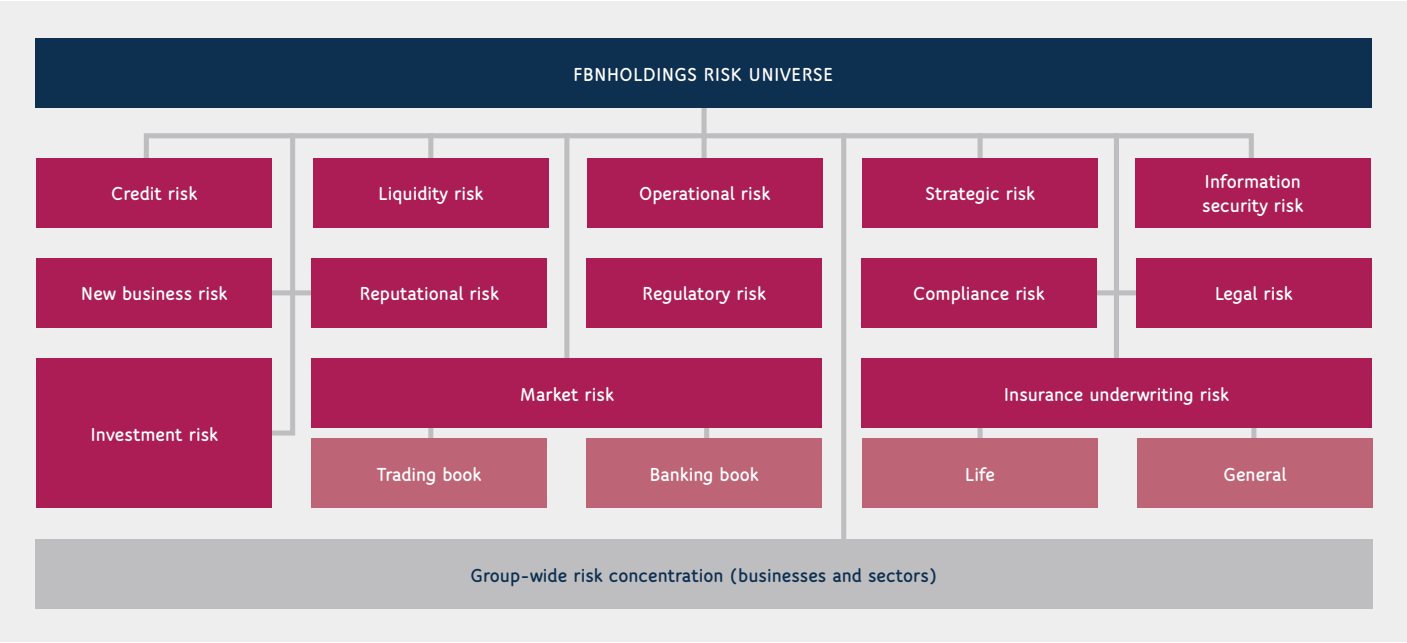
OVERVIEW

Effective risk management is fundamental to the business activities of the Group. At FBNHoldings, we promote a culture where risk management is everyone's business, from Board level down to risk owners and units across the Group.

Our approach to risk is supported by a robust framework and a strong risk management culture. This promotes accountability for risks at all levels across the Group. Our enterprise risk management framework ensures a consistent approach to risk management. The framework focuses on accountability, responsibility, independence, transparency and reporting. As a diversified financial institution, the Group is exposed to a variety of risks. The effective management of these risks through a consistent methodology that identifies, measures, assesses, controls and monitors risk across the Group through the deployment of state-of-the-art risk management technologies and through leading-practice risk management methodology is one of our major strategic differentiators.

ENTERPRISE-WIDE RISK

Below are the key risks which FBNHoldings is exposed to:



Each of the risks outlined above is managed using the three lines of defence governance model across the Group. This entails managing risks by business units/risk owners, the risk oversight departments and the internal audit department.

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EFFECTIVE RISK MANAGEMENT

RISK GOVERNANCE

Risk governance is maintained through the delegation of authority from the Board, down to management level, supported by committee structures both at the Board level and at management level. The delegation of risk management responsibilities across the Group is structured to ensure that decisions are enacted at the most appropriate level, in line with business objectives, subject to robust and effective review. Strategic business decisions are taken within a Board-approved risk appetite, with the executive and risk committees closely monitoring risk profiles against this appetite.

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

Furthermore, the Board risk control functions are supported by various management committees (Management Credit Committee, Asset & Liability Committee and Business Risk & Compliance Committee) that help it develop and implement various risk strategies. Management assurance processes are assessed by the Group's Internal Audit and the effectiveness of the Group's control framework is assessed by the Board Audit & Risk Assessment Committee.

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

Responsibility for risk management

PERFORMANCE IN 2014

The Banking group recorded a 23% growth in net loans and advances due to the availability of bankable transactions within prescribed risk appetite limits. The asset quality ratio for the period was 2.9% and is within the acceptable threshold of the Group and the regulatory limit of 5%. The Group maintained a strong liquidity position in spite of the distortion in the systemic liquidity. This was 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.

During the year, a leading risk consulting firm was engaged to review and validate the Group enterprise risk management framework (ERM) to ensure the framework meets international best practice. Although the review is still ongoing as at year end 2014, we believe the reviewed framework will go a long way to strengthening risk management practice across the Group.

We have developed a Group Whistleblowing Policy to encourage staff and other stakeholders to report perceived unethical or illegal conduct of employees, management, directors and other stakeholders across the Group to the appropriate authority without any fear of harassment, victimisation, intimidation or reprisal for raising the concern.

FBN Insurance Limited (FBNI) has consistently maintained strong operating results in the past five years. This performance has been anchored on best and acceptable ethical practices, regulatory compliance and strict compliance with the Insurance group's risk appetite.

The risk management priorities across the Group in 2015 will be:

- improvement in asset quality and reduction in impairment;
- proactive management of concentration risk in the portfolio;
- adherence to target market/risk acceptance criteria (RAC) in the selection of credits;
- creation of low- to medium-risk assets in order to boost the risk profile of the portfolio;
- moderate credit risk capital consumption as it relates to Basel II capital requirements;
- ensuring the appropriate response to all regulations, and maintaining a business-like approach to regulatory compliance across the Group; and
- further strengthening risk governance through training to revitalise the risk culture and consciousness across the Group.

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EFFECTIVE RISK MANAGEMENT

RISK FACTORS OVERVIEW

Presented in the table below is a further analysis of the major type of risks the Group is exposed to, their potential impact and the respective mitigating measures.

CREDIT RISKS

CREDIT RISK

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

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

Potential impacts on business

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

Mitigating measures

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

PORTFOLIO LIMIT RISK

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

Potential impacts on business

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

Mitigating measures

Adherence to portfolio limits and regulatory requirements.

RESPONSIBILITY

Strategic business units (SBUs), Risk Management and Chief Risk Officer.

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EFFECTIVE RISK MANAGEMENT

MARKET AND LIQUIDITY RISKS

INTEREST RATE RISK

- Repricing risk
- Yield curve risk
- Basis risk
- Optionality risk.

Potential impacts on business

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

Mitigating measures

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

FOREIGN EXCHANGE RISK

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

- credit risk;
- interest rate risk;
- country risk; and
- settlement risk (time zone).

Potential impacts on business

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

Mitigating measures

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

INVESTMENT RISK

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

Potential impacts on business

Could lead to the diminution in the value of investments.

Mitigating measures

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

COUNTERPARTY RISK

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

Potential impacts on business

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

Mitigating measures

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

LIQUIDITY RISK

- Funding liquidity
- Trading liquidity.

Potential impacts on business

Could lead to insolvency and eventual reputational risk.

Mitigating measures

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

RESPONSIBILITY

Treasury unit, product groups trading desk, market and liquidity risk unit and the Chief Risk Officer.

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EFFECTIVE RISK MANAGEMENT

OPERATIONAL RISKS

PEOPLE RISK

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

Potential impacts on business

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

Mitigating measures

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

OPERATIONS RISK

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

Potential impacts on business

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

Mitigating measures

- A comprehensive control administrative and accounting procedure (CAAP) manual put in place to guide operational activities and processes of the Group
- The establishment of a central processing centre specialising in various operation areas, and the migration of some activities which were hitherto handled at the branches
- The introduction of a functional reporting structure to the operations job families to allow for effective supervisory control of the operations of the Group
- The development policies and frameworks: related party and conflict of interests; outsourcing policy; operational loss recording, accounting and reporting policy
- Continuous deployment of a self-assessment programme to allow process owners to identify control weaknesses with a view to taking proactive remedial actions
- Automation and re-engineering of our processes
- Putting in place robust business continuity planning and disaster recovery programmes
- Stepping up operational risk awareness training and programmes
- Monitoring and managing key risk indicators (KRIs) in processes, products and activities.

SYSTEM OR TECHNOLOGY RISK

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

Potential impacts on business

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

Mitigating measures

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

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EFFECTIVE RISK MANAGEMENT

OPERATIONAL RISKS continued

EXTERNAL EVENTS AND THIRD-PARTY RISK

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

Potential impacts on business

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

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

Mitigating measures

- Hedging against external events with adequate insurance cover
- A robust business continuity management system that has passed the ISO 22301 recertification to improve the Group's resilience
- Regular monitoring and review of all outsourcing arrangements in the Group
- Strict adherence to the Group's outsourcing policy
- Enforcement of SLA and sanctions for breach of contracts
- Real-time reporting of high-risk incidents or exposure
- A physical security and personal and business protection policy to mitigate internal and external threats.

REGULATORY AND COMPLIANCE RISK

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

Potential impacts on business

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

Mitigating measures

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

RESPONSIBILITY

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

INFORMATION SECURITY RISKS

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

Potential impacts on business

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

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

Mitigating measures

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

RESPONSIBILITY

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

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EFFECTIVE RISK MANAGEMENT

LEGAL RISKS

LITIGATION AND ADVERSE CLAIMS

Potential impacts on business

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

Mitigating measures

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

ASSET SECURITY COVER RISK

Potential impacts on business

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

Mitigating measures

- Thorough and experienced credit proposal reviews
- Use of independent experts for asset valuations
- Conducting due diligence on security of assets
- Watertight and legally defensible documentation to protect the Group's security interests
- Use of result-oriented solicitors for end-to-end perfection exercises
- Effective and proactive monitoring of credits.

CONTRACTUAL PERFORMANCE RISK

Potential impacts on business

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

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

Mitigating measures

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

RESPONSIBILITY

Litigation and adverse claims – Heads, Legal Services.

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

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

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EFFECTIVE RISK MANAGEMENT

INSURANCE RISKS

Insurance risk is the risk of loss due to actual experience being different from that assumed when an insurance product was designed and priced.

It generally entails inherent unpredictability that can arise from assuming long-term policy liabilities or from the uncertainty of future events. Insurance risk exists in all our insurance businesses, including annuities and life, accident and sickness, and creditor insurance, as well as our reinsurance business.

Insurance risk consists of:

- Claims risk – the risk that the actual magnitude or frequency of claims will differ from the levels assumed in the pricing or underwriting process. Claims risk includes mortality risk, morbidity risk, longevity risk and catastrophe risk;
- Policyholder behaviour risk – the risk that the behaviour of policyholders relating to premium payments, withdrawals or loans, policy lapses and surrenders and other voluntary terminations will differ from the behaviour assumed in the pricing calculations; and
- Expense risk – the risk that actual expenses associated with acquiring and administering policies and claims processing will exceed the expected expenses assumed in pricing calculations.

Potential impacts on business

- Financial loss due to actual claim from budgeted
- Possibly leading to impairment of shareholders' funds.

Mitigating measures

- A robust product approval process is a cornerstone for identifying, assessing and mitigating risks associated with new insurance products or changes to existing products
- This process, combined with guidelines and practices for underwriting and claims management promotes the effective identification, measurement and management of insurance risk
- Reinsurance, which involves transactions that transfer insurance risk to independent reinsurance companies, is also used to manage our exposure to insurance risk by diversifying risk and limiting claims.

RESPONSIBILITY

Strategic business units, Risk Management and Chief Risk Officer.

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EFFECTIVE RISK MANAGEMENT

COMPLIANCE RISKS

REGULATORY RISK

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

Potential impacts on business

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

Mitigating measures

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

REPUTATIONAL RISK

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

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

Potential impacts on business

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

Mitigating measures

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

RESPONSIBILITY

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

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RELATIONSHIPS AND RESPONSIBILITY

For 120 years, we have remained a leading financial institution in Sub-Saharan Africa. Our evolution has been all-encompassing: from good corporate governance to well-tailored financial solutions; and innovative processes and systems to a highly empowered workforce. One key reason for this commendable feat is the significance we place on building and enhancing mutually beneficial relationships with our stakeholders.

OUR CORPORATE RESPONSIBILITY AND SUSTAINABILITY APPROACH

Building strong relationships remains a key element of our responsible approach to doing business, which we call citizenship. Citizenship means that in making business decisions, we consider the opinions and suggestions of our stakeholders, including customers, employees, NGOs, regulators and the communities where we live and work. It's about our commitment to conducting business transparently and dependably by managing our business processes to ensure an inclusive, positive impact on society. It is also about operating ethically and sustainably in our dealings with all stakeholders, as well as empowering the communities where we operate. Such an approach enhances the Group's reputation, contributes to customer loyalty, boosts employee morale and broadens our scope to operate.

Our responsible approach to doing business also requires that we consciously embed sustainability within the Group to, amongst other things, minimise risks, drive efficiency and increase revenue both in the short and the long term.

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

- **Driving sustainable finance** – we constantly seek responsible ways to provide products and services to meet our customers' 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 nurturing an ethical workforce, providing opportunities and the appropriate environment and culture for personal and organisational development. This is why we have established the FirstBank Sustainability Centre as a hub for knowledge creation, dissemination and application. It is also a capacity-building centre for staff of FirstBank and other financial institutions.
- **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. We constantly listen to members of our host communities and are there for them at their high and low moments.
- **Contributing to environmental sustainability** – we have a dedicated team of experts who evaluate potential environmental and social risk associated with certain corporate lending, debt and equity underwriting, and advisory transactions. In some cases, these efforts involve engagement with clients to discuss industry best practices and ways to strengthen performance. We are also committed to avoiding or minimising environmental impacts beyond our responsible lending efforts.

EMPLOYEE EMPOWERMENT, ENGAGEMENT AND INCLUSIVE WORKPLACE

Our responsibility to our employees includes the commitment to build capacity and engage them, as well as provide an enabling environment for interaction and the exchange of ideas. Therefore, in line with the Group's aspiration of becoming a hub for the best industry talent, much premium is placed on developing and implementing best-in-class people management strategies and practices. To this end, First Academy, in partnership with major educational institutions such as INSEAD, Michigan Ross, China Europe International Business School/Wharton Business School and Cornell University (Johnson School of Management), achieved over 100% of the target for staff training hours with a cumulative approximate cost of ₦2.468 billion in 2014.

To further sustain improved employee productivity, the engagement team visited over 282 branches in 2014 to carry out career counselling and address issues on structure, poor staff attitude and poor staff knowledge. Beyond the policies put in place, employee engagement has also become a veritable platform to drive inclusivity. This has seen us set aside a Diversity & Inclusion Day to create awareness and ensure an inclusive workplace and work culture. To this end, and as part of our yearly event, the FirstBank 2014 Diversity & Inclusion Day was organised with the theme Leveraging Diversity for Business Success. The event was held simultaneously across all locations within the Group.

PROMOTING FINANCIAL INCLUSION: PUTTING OUR CUSTOMERS FIRST

A lot of people in the country do not have access to the basic financial tools, so our responsible approach involves creating opportunities for those people to participate in the economy. To achieve this we have developed products, services, corporate responsibility and consumer education programmes tailored to meet the needs of the unbanked and under-banked; enhancing their livelihoods as well as those of their families and communities.

To this end, we partnered with Osun State Government to promote entrepreneurial development and skills acquisition in Nigeria by empowering 3,000 youths under the Osun Youth Empowerment Scheme (OYES) as Firstmonie agents. Firstmonie is a mobile money service provided by FirstBank which enables customers to access financial and other value-added services on their mobile phones.

In addition, to ensure we continually put our customers first, we have expanded our customer engagement framework through our segment-based customer engagement sessions. These include our Voice of the Customer sessions, three of which were held for our affluent retail customers in Lagos, Ibadan and Enugu.

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IMPROVING THE RELIABILITY OF ONLINE BANKING

Leveraging our competitive advantage, and to consolidate on our leadership position within the industry, we have focused on ensuring the reliability and stability of our alternate channels. With improved channel monitoring in 2014, and with over 2,597 functional ATMs nationwide, we processed over 200 million transactions on our machines, equating to almost ₦3 trillion.

With the launch of our enhanced online banking platform, we processed a total of 5.07 million transactions with a total value of ₦684.42 billion. To gauge user experience on the online banking platform and ensure issues around the platform are properly highlighted and addressed, we utilised an instant feedback survey. A total of 7,094 users provided feedback on their online banking user experience in 2014 and all issues such as network down time were some of the issues identified from the survey have been addressed.

SUPPORTING OUR COMMUNITIES

We have a responsibility to the communities where we live and work. Our success story cannot be told without the contributions of these communities. This fact has continually driven us to supporting our communities beyond providing employment and contributing to the growth of the economy. In 2014, we spent about ₦900 million on community support programmes under the banners of education, health and welfare, economic empowerment and the environment. These included our FirstBank endowment, Future First, infrastructure development, youth development and leadership, Hope Rising and educational endowment programmes, all of which are designed to be continuous.

THE JOURNEY OF EMBEDDING SUSTAINABILITY WITHIN THE GROUP

To effectively drive responsible lending and mitigate the associated environmental, social and governance risks, the environmental, social and governance management system (ESGMS) document was developed in partnership with the management experts, Accenture. The ESGMS consists of our environmental, social and governance policy, procedures for conducting ESG due diligence on potential transactions, guidance on how the Bank can monitor performance and maintain ESGMS records, and an overview of the types of roles and responsibilities for implementing the Bank's ESGMS as well as other relevant information. This document has been reviewed and signed by relevant stakeholders in the Bank including the Chief Risk Officer, Group Executive, Institutional Banking, the Head, Compliance, the Head, HCMD, the Heads, Legal, and the GMD/CEO.

The ESGMS document and the relevant implementation documents such as the environmental, social and governance risks screening checklist (which is to be completed by a relationship manager and verified by an analyst against the EIA report) have also been approved by the Management Committee (MANCO). We hope to begin full implementation of the ESGMS in 2015.

As part of the strategy of embedding sustainability within the Group and in line with Group corporate responsibility and sustainability policy and approach, the process of implementing the opportunities identified for subsidiaries such as FBN Capital, FBN Micro Finance and FBN Insurance has started. The respective management committees of the subsidiaries have been engaged and they have approved the implementation road map of the opportunities identified.

In addition, staff training on sustainability has commenced. Apart from the Board of Directors, over 500 staff have been trained on modules/requirements recommended for employees in partnership with First Academy, Accenture and the FirstBank Sustainability Centre. The modules are designed to provide employees with the right knowledge, skills, attitudes and behaviours. These include NSBP-specific requirements for employee training on sustainability such as sustainable banking training and reporting. These are structured for the MANCO/executive, HOD/HOUs/sustainability champions/experts, and all other employees. The goal for 2015 is to ensure that all key staff are trained on sustainability as well as 70% of other employees.

To help deliver the sustainability strategy, a clear approach to customer education as part of the stakeholder engagement has been crafted. A key aspect of this is the partnership between the Lagos Business School and the FirstBank Sustainability Centre as a vehicle for customer and wider stakeholder engagement. The partnership has delivered programmes through workshops, seminars and conferences. Apart from students in LBS, the Centre has focused on customers and stakeholders in the oil and gas, financial, power, agricultural and telecommunications sectors with priority for SMEs.

Sustainability performance management and reporting is a key component of the sustainability strategy. It enables the Group to effectively measure, manage and report its sustainability performance and also meet its NSBP obligations to report a wide range of metrics. To this end, we have partnered with Accenture in the provision of performance management, reporting and implementation software. The sustainability performance management and reporting process is made up of seven steps, which consist of planning and delivery. We are currently at the last stage of planning.

THE SUSTAINABILITY GOVERNANCE STRUCTURE

To ensure sustainability becomes embedded throughout FirstBank with strong leadership and support, the newly recommended sustainability governance structure has been approved by MANCO, but Board approval is awaited. The governance structure has as its lead the Board Audit and Risk Assessment Committee; MANCO and Sustainability Committee. The Board Audit and Risk Assessment Committee provides an oversight role and direction; MANCO provides leadership and sponsorship while the Sustainability Committee is responsible for operational delivery and engagement. The other levels, delivery and enabling, are driven by the strategic business units and departments and the corporate responsibility and sustainability unit respectively.

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OUR CUSTOMER-FOCUSED APPROACH

In 2014 we focused on ensuring fast and efficient service delivery to our customers by strengthening our alternate channels i.e., ATMs, mobile and online banking platforms, point-of-sale (POS) terminals, website, electronic payments systems, etc., reducing queues at our locations, enhancing product innovation and streamlining the management of complaints relating to our products and services.

With renewed commitment to ensuring the provision of fast and efficient services to our diverse customer base under the Group, our strategic focus in 2014 was on the following:

- deployment of alternate and self-service options for use by our customers;
- migration of customers to our alternate banking channels;
- improved availability and stability of our IT infrastructure and payment and collections platforms;
- expansion of the scope of the independent customer satisfaction surveys to promptly identify service failures as well as areas of customer dissatisfaction;
- building closer engagement and feedback strategies with various customer segments;
- driving product innovation and expected service level within the Group;
- continuous tracking and measurement of service performance; and
- improving our complaints handling framework as well as encouraging the proactive management of complaints.

In 2014, the Group continued to focus on ensuring improved service delivery by concentrating on the key satisfaction themes: customer care; convenience; system and infrastructure; process efficiency; and products and services. Consequently, concerted efforts were targeted at ensuring the timely achievement of the initiatives supporting the achievement of the desired level of customer satisfaction. During this period, the Service Steering Committee (chaired by the GMD/CEO) continued to support the Group's service goals through the provision of a monthly platform where service issues are discussed extensively.

In addition, the customer (internal and external) engagement framework was expanded and further strengthened to ensure that the 'Voice of the Customer' continues to play an integral role in the Group's service improvement efforts. Periodic customer engagement sessions moderated by executive staff were held to serve as an avenue to acquaint customers with activities within the organisation. This helped to ensure a closer relationship with the customers. In 2014, customer engagement sessions held in Lagos, Ibadan and Enugu with over 80 customers present at each session. Some of the service issues highlighted by customers at the session include issues with online banking setup and token activation, IT network connectivity resulting in delayed service delivery, long queues at branches, etc. Following the receipt of this feedback, concerted service improvement efforts were targeted at addressing the issues and commendable improvements have been recorded in all the areas highlighted.

SERVICE IMPROVEMENT INITIATIVES UNDERTAKEN BY THE SUBSIDIARIES IN 2014

- Launch of the CRM FirstCustomer Solution to ensure the achievement of a 360-degree view of the customer's interaction, and further assist with effective complaints handling
- Introduction of the SMS banking services as a self-service channel for obtaining account balances as well as mini or full statement of accounts by texting the word 'HELP' to 08076664444
- Launch of the mini Security Operating Centre (SOC) under the Internal Control Anti-Fraud Automated System ICAFAS project which has delivered 43 fraud rules, to date, for managing fraud events on Finacle. The project recently implemented additional rule engines specifically for monitoring customer behaviour on the internet banking platform
- Deployment of the cash drop box initiative under the Branch as a Sales and Service Centre (BASSC) project. Customers visiting the branches to deposit sums below ₦40,000 are provided with a fast track channel for consummating their transactions by enclosing the cash in an envelope and dropping it in the cash drop box with the customer's account being credited within one hour
- Introduction of the FirstExpress solution to provide a paperless fast and easy channel for depositing, withdrawing or transferring money within FirstBank
- Introduction of the beneficiary management services on the FirstOnline platform (FPL+)
- Roll-out of the 'My daily savings' product by FBN Microfinance to enable customers save money on a daily basis from the convenience of their homes or offices
- Reorganisation of the marketing teams for FBN Mortgages to ensure improved service delivery. In addition, real estate and mortgage advisory services were introduced as a value added service
- Introduction of abridged account opening packages to reduce the time spent on filling the forms without compromising on the regulatory requirement
- Deployment of the new custody software by the Group for improved convenience and customer satisfaction.

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STRENGTHENING THE SERVICE EXCELLENCE LOOP

The most valuable resource for any organisation is its people – the employees who interface directly or indirectly with the customers. With this knowledge well rooted across the subsidiaries, coupled with a strong desire to keep the employees motivated, the service rewards and recognition scheme was retained and expanded in 2014. The scheme is targeted at recognising and rewarding groups and individuals who advance the Group's service goals and aspirations. To support staff, a service excellence handbook was developed to provide hands-on tips for handling difficult situations and achieving service delivery excellence.

Gift presentation to the Service Gem (Non-core).
L-R Samson Olagbami, Branch Service Manager, Benin King Square, Ajiyen Tejiro Gladys (winner of the non-core category of the Service Gems Award) being presented with a 15.6" laptop by her ASM (Sunday Moses Oroge) and other staff.

Gift presentation to the Service Gem (Non-core-Security Officer).
L-R Oladeinde Tokosi (ASM Lagos Island), Sunday Adamu (winner of the non-core security officers' category of the Service Gems Award, Lagos region) being presented with a 32" inch TV, and Head, Security Services Clement Attah.

To ensure service issues capable of hindering the achievement of service excellence are brought to the fore, Voice of the Employee (VoE) sessions are held periodically across the regions with visible executive management participation. These sessions serve as avenues for staff to collectively address the highlighted service pain points and agree improvement plans. Critical service enablers/providers from select Head Office departments are present at the sessions to provide on-the-spot solutions to the service issues raised by staff, which include staff welfare issues, job rotation requirements, manning constraints, delayed response to service requests by head office departments, etc. All the issues raised have been dealt with by relevant stakeholders. Also, the service excellence learning curriculum was rolled out as a customised service training programme for staff depending on the specific role they play in the service delivery excellence chain. The training was rolled out Bank-wide with over 885 staff trained, taking into cognisance the specific roles (front or back office) they occupy. In addition, the Service Excellence video, which covers service expectations across all touch points, was developed as part of the visual learning aids employed by First Academy in deploying the service excellence learning curriculum Bank-wide.

On the other hand, to ensure that staff embrace the zero tolerance policy regarding service failures and guarantee a balance between rewards for exceptional service performance and the application of sanctions for service infractions, the Service Monitoring Committee (SMC) was created to serve as a Service Disciplinary Committee to manage observed service infraction identified Bank-wide. The Service Disciplinary Committee is usually made up of the regional service manager or area service manager (depending on whether the matter is being managed on an area or regional level) and representatives from the human capital, legal services and service delivery excellence teams. This Service Disciplinary Committee, which sits periodically to determine the management of reported service infractions across the Bank, is empowered to apply sanctions for the highlighted infractions in line with the approved FirstBank sanctions grid.

GAUGING OUR SERVICE PERFORMANCE

Through the subsidiaries, the Group continuously monitors customers' satisfaction levels with the quality of service delivery and product offerings. In 2014, over 2,832 corporate and retail customers were interviewed and feedback from the survey indicates that relationship between FirstBank and its customers is strong across the customer segments. Mystery shopping visits were also made to all the branches on a quarterly basis to ensure that we walk in the customers' shoes and identify all bottlenecks in the customers' journey. Spot checks were conducted to ensure adherence to set service standards and provide on-the-spot resolution to some of the observed service gaps.

PROVIDING FAST EFFICIENT AND SECURE SERVICES TO OUR CUSTOMERS

At FBNHoldings, we realise that customers are more discerning, desiring fast, efficient and secure means of transacting their business all the time. Therefore, we are focused on providing safe and secure alternative means of banking, with robust self-service options that fast-track our movement away from the bricks and mortar of traditional banking systems. With our customer migration drive, we introduced the SMS banking services to ensure customers can access their mini or full statement of accounts without visiting the branches. Also, 2569 ATMs were deployed across the country to ensure the service is available 24 hours/seven days a week. To ensure the time spent by customers in our banking halls is further reduced, we launched the FirstXpress solution, a product designed to allow customers complete cash payments, cash withdrawals and fund transfers (intra-bank) without filling out forms. With this solution, transaction details are put on to a machine (Pin-Pad) by the customer using their existing Verve or Naira MasterCard. The differentiating factor of the product is the ability to consummate transactions without going through a third party switching system. Key benefits to the customers include faster turnaround time (TAT), enhanced efficiency, increased flexibility and improved system availability and reliability.

We have enjoyed sustained improvement in the availability of Finacle 10, (our core banking application) to branches. The observed improvements have been due to a number of proactive steps undertaken which have also helped to improve the availability of our ATM/POS channels as these channels are connected to the Finacle platform. Some of the initiatives adopted include:

- introduction of additional monitoring tools and dedicated personnel to monitor the performance of Finacle 10 services at all times;
- regular performance tuning of Finacle 10 servers with the support of our technical partners (Infosys); and
- implementation of additional infrastructure capacity to sustain the rate of growth of transactions due to upturn in the customer transactions.

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Additional collaborative process improvement and management efforts between the IT teams and the rest of the business helped to improve the ATMs uptime to 94% in 2014.

OUR 2015 SERVICE FOCUS

Following feedback from varied sources, including the external customer satisfaction surveys, customer engagement sessions, customer-focused visits, etc., the 2015 Service Focus Areas has been articulated and ratified by the Service Steering Committee (SSC). Consequently, there will be systematic focus on the following broad areas:

- reducing the number of failed transactions on our alternate channels;
- improving the quality of staff interaction with customers and overall service attitude;
- improving the stability and availability of our Electronic Payment Systems (EPS);
- improving our complaints handling process by entrenching a standard complaints handling framework whilst also leveraging on the recently deployed FirstCustomer CRM solution and ensuring adherence to the laid-down complaints handling standards;
- improving staff knowledge levels of the customers' industry and business as well as the Group's products and services; and
- reducing wait time and queues at branches.

However, specific focus will be on improving service delivery along the following customer segments.

CORPORATE CUSTOMERS

Corporate online banking solution: to ensure the specific banking needs of the corporate customers are properly addressed, focus will be on expediting the deployment of the new corporate online banking solution as well as ensuring the availability and stability of the online banking platform. Special consideration will be placed on the security as well as the user friendliness of the platform.

Customer care: focus here will be on defining a holistic complaints handling framework for the corporate customers as well as improving the speed and accuracy of processing key distributors' transactions.

Electronic Payment Systems (EPS): in this area, the Bank's focus will be on ensuring improved stability and availability of the EPS as well as enhancing the functionality of the solution to better suit the customers' business requirements.

Industry knowledge: the Bank will focus on building the knowledge base and capacity of the relationship managers to ensure they develop a deeper understanding of the corporate customers' business and specific industry peculiarities.

RETAIL AND SME CUSTOMERS

Crowd management: for the retail and SME customers, focus will be on reducing the transaction wait and service time as well as eliminating the crowd issues at branches.

Retail online banking solution: the retail online banking solution focus will be on reducing fraud incidences recorded on the platform, reducing the number of failed transactions reported by users, and implementing the FPL+ (value added services), as well as improving the look and feel of the platform.

Complaints handling: concerted efforts will be made on reducing the number of complaints per product/channel, ensuring improved adherence to stipulated issue resolution, TAT, as well as improved satisfaction levels with the developed complaints handling process.

Product knowledge: stakeholders will work towards ensuring improvements in the level of staff knowledge of the Bank's products and services.

Staff attitude: efforts will be channeled towards ensuring improved working relationships between the front and back office. As we improve the relationship between the business units and branch banking services Group focus will also be on deploying strategies targeted at ensuring that staff display the desired service behaviours.

ALTERNATE CHANNELS

For improved customer satisfaction, the Bank will focus on ensuring the reliability and availability of our alternate transaction channels including the POS terminals and the FirstMonie platform, as well as the contact centre. Efforts will also be channeled towards ensuring the improved ATM uptime and performance is maintained and enhanced.

COMPLAINT HANDLING

IMPROVING OUR COMPLAINT HANDLING FRAMEWORK

As part of the Group's service automation efforts, and to institutionalise a world-class complaints management framework, the Group embarked on an extensive review of its complaints handling process in 2014. Consequently, the CRM FirstCustomer solution was deployed in 2014 to provide an end-to-end view of the customers' complaints lifecycle, i.e., from the initial log-on stage to the point of final resolution. With the deployment of the FirstCustomer solution, customers now receive periodic updates regarding the resolution of their complaints and are afforded an opportunity to state their satisfaction levels with the timeliness and quality of the resolution. One of the major benefits of the enterprise-wide CRM tool is increased visibility of customer interactions across the Group's channels. This is evidenced in the 94% increase in the number of complaints received since 2013.

Currently, a detailed gap analysis of the existing complaints management framework/structure, the complaints handling processes and inter-departmental dependencies is being conducted in conjunction with Messrs Ernst & Young. Through this exercise, the Group will articulate a holistic complaints management/handling model that supports our customer experience aspirations as well as regulatory requirements. The Bank is currently working on achieving the British Standards Institution (BSI) ISO 10002:2004 certification for implementing a best-in-class complaints management system, which will enhance customer satisfaction by creating a customer-focused environment that is open to feedback, resolving any complaints received, and enhancing FirstBank's ability to improve its products and customer service.

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A breakdown of our complaints handled in 2014 compared to 2013, as well as the financial implications on the Bank, is shown below.

Description	2014 Number	2013 Number	2014 Amount claimed ₦	2013 Amount claimed ₦	2014 Amount refunded ₦	2013 Amount refunded ₦
Pending complaints B/F	670	386	5,295,753,038.34	1,316,965,049.90	123,561,481.28	
Received complaints	77,185	39,785	18,222,117,149.71	15,933,790,532.48	1,270,519,125.13	
Resolved complaints	68,328	39,509	21,101,788,635.74	2,145,283,016.39	1,270,519,125.13	
Unresolved complaints escalated to CBN for intervention	0	0	0	0	0	0
Unresolved complaints pending with the bank C/F	9,527	670	2,416,081,552.31	5,295,753,038.34	0	123,561,481.28

The increase in number of complaints in 2014 is attributed mainly to the awareness campaign on the availability of various complaints channels and the deployment of the CRM tool to automate complaints handling as a single platform for customer complaints resolution.

Note: the increase in the number of complaints received in 2014 can be attributed to increased visibility on complaints owing to the enterprise-wide deployment of the FirstCustomer CRM in which all complaints received across all touch points are lodged.

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CUSTOMERS – INNOVATIVE BANKING SERVICES

GROWING SERVICE THROUGH ELECTRONIC PLATFORMS

As a group that always puts customers first, we are continuing to focus on 24/7 self-service banking. We encourage our customers to embrace our various electronic platforms for convenient banking at their fingertips. Customers are increasingly using these platforms, and transaction volumes across these channels grew by 33% over the previous year. FirstBank's first internet banking channel, FirstOnline, has witnessed tremendous growth since 2013.

The revamped internet banking solution, which was launched in November 2013, provided a more responsive, easy-to-use online banking portal for our customers. This was evidenced by the significant growth of 81% in the number of successful transactions processed, growing from ₦378 billion in 2013 to ₦685 billion in 2014. Transaction volumes on our mobile money platform, Firstmonie, also witnessed remarkable growth in excess of 700% in 2014. Through these platforms, we provide cheaper, faster and more convenient alternatives for our customers to carry out their transactions.

STRENGTHENING OUR ATM SERVICE

In a bid to keep improving our ATM service and ensure customer satisfaction, a total of 450 ATM terminals were deployed in the course of the year, 337 of which were replacements of older terminals. As the bank with the largest ATM network in Nigeria, with more than 2,597 ATMs across our branch network, we continue to employ effective monitoring tools to ensure service availability on our ATMs for both our customers and those of other banks.

The strength of our ATM service is also evident in that we processed about 35% of the total industry transaction volume as at December 2014. Our ATMs dispensed more than ₦2.1 trillion to both customers (₦1.5 trillion) and non-customers (₦0.6 trillion) compared to ₦1.7 trillion in 2013 – this represents 24% growth. Also, in line with the cashless Nigeria initiative, we have been promoting non-cash ATM transactions through a lot of awareness-raising. Currently customers can perform various non-cash transactions on any of our ATMs, such as mobile phone airtime top-ups, bill payments and fund transfers to FirstBank or other bank accounts. The fund transfer functionality now includes an additional feature of 'name validation'. It should improve customer experience by confirming the actual account the fund is being transferred to before the transaction is completed. This certainty adds a level of comfort to customers and increases their confidence in using ATMs for non-cash transactions.

PROMOTING FINANCIAL INCLUSION

Since November 2013, when Firstmonie was launched, we have provided mobile financial services to more than 2.2 million Nigerians, with in excess of 500,000 customers being non-account holders. Firstmonie has a network of 12,951 agents to cater for the needs of our large customer base, particularly those in remote areas with limited access to our branches. In 2014, we processed more than ₦35 billion in 6.5 million transactions.

In 2015, we will focus on developing strategic partnerships to better serve our customers, as well as expanding our agent network for increased accessibility. Our vision is to become the most used mobile money service in Nigeria by growing our subscriber base to more than 4.6 million, attaining 5,000 merchant/acceptance points and widening our nationwide agent network coverage to include at least 5,000 agents. Today, Firstmonie provides the convenience of banking right from our customers' mobile phones; or through a Firstmonie agent, customers are able to perform transactions such as money transfers, bill payments and mobile phone airtime recharges in the comfort of their own homes or on the go. This has encouraged financial inclusion in the country, as the previously unbanked population now has easy access to banking services without the entry barrier of obtaining a bank account.

PARTNERING WITH PAYPAL TO ACCELERATE E-COMMERCE GROWTH

To offer convenient online payment services across the world to our customers, we established an alliance with PayPal as its only official partner in Nigeria. PayPal is at the forefront of the digital payments revolution, giving people direct control over their money. PayPal serves more than 148 million active accounts in 26 currencies and across 203 markets, processing more than nine million payments daily. The service gives people simpler ways to send money without sharing financial information, and the flexibility to pay using their account balances, bank accounts or credit cards.

In view of the limitations usually encountered by Nigerian cardholders when performing international transactions, we partnered with PayPal in order to offer convenience to our customers. This partnership allows our customers to sign on to PayPal from FirstOnline, our internet banking platform, and be verified immediately. Customers who register for PayPal through FirstOnline enjoy higher spending limits than those who register for PayPal in any other way, as well as priority treatment as a FirstBank customer.

Other benefits include secure transactions – as customers shop on merchant sites with only their email address rather than inputting card details – 100% buyer protection and exclusive PayPal deals from international merchants among others.

In time, we will also be launching a feature that will allow our customers (both individuals and businesses) to transfer funds from their PayPal account directly to their bank account through FirstOnline, and make withdrawals from any FirstBank branch nationwide.

GIVING OUR DIVERSE CUSTOMERS THE POWER TO CHOOSE

In recognition of the rich diversity of our customer base, we provide our customers with a choice of service channels and cards suitable to their various lifestyles. This is reflected in our array of card variants that cater to the needs of the average account holder, who requires minimum banking services, to the top executives of multinational corporations, who require more sophisticated services.

Our debit card gives customers 24/7 access to their bank account anywhere in the world. Our credit card (Naira Credit Card) offers a line of credit for a rainy day (with an interest-free period), while our Prepaid Cards (local or international) provide all the benefits of the debit card without direct access to an actual bank account – this provides an added layer of protection for the customer.

In order to address the particular needs of the youth, we also designed 'Expressions', a MasterCard debit card, and the MeFirst prepaid card to allow our customers to creatively reflect their individuality by customising their card design or selecting from an array of designs available.

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LOOKING FORWARD

In the coming year, we are committed to putting our customers first through excellent service delivery that will result from an increased focus on operational efficiency and by listening to, and acting on, the voice of our customers.

As a group, we are focused on innovatively solving real problems for our customers using our electronic platforms, thereby making payments faster, simpler and more intuitive. We will continue to focus on deepening the usage of existing products through incentives and strategic partnerships for the convenience of our customers.

We will also continue to drive the change in the behaviour of our customers from using ATMs for only the withdrawal of cash to performing other value-added services such as bill payments, mobile phone airtime purchases and fund transfers, while also encouraging the use of our other electronic channels, such as point of sale, internet banking and mobile banking.

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CUSTOMERS - OUR SOCIAL ROLE

OVERVIEW

At FBNHoldings, to live up to our promise of 'YOU First', we design products and services to support personal, family and business needs. Our products – cards, channels, transfer services, loans and advances, deposit products, guarantees, distributorship financing, cash management and foreign trade service – create convenience for customers' transactions, empower businesses and offer flexibility of choice.

The above is evidenced by the features and behaviours of products launched into the market. For example, the special overdraft, a variant of the Traders' Solution, was launched to encourage traders with less collateral capability to be able to access loans, which they ordinarily are unable to access due to collateral constraints.

We create solutions that help schools provide top-notch services to the teeming population of Nigerian youths. FirstEdu loan and Private Tertiary Institution finance contribute to the development of the educational sector by helping schools meet their working capital and expansion needs without collateral burden.

Our youth products, particularly the MeFirst product, enhances financial inclusion through the usage of prepaid cards by minors under the supervision of their parents/guardians while the XploreFirst product allows young adults in tertiary institutions to independently commence banking relationships to manage their finances.

Not leaving out artisans, drivers, house helps and other members of the lower mass market segments, FirstInstant Savings account has been creating financial inclusion for this segment and thus gradually changing the perception that deposit money banks are not meant for them.

ENSURING SMOOTH OPERATIONS OF THE EDUCATION SECTOR

Realising the importance of making education available to the millions of Nigerian youths, FBNHoldings actively supports private providers of education across the tiers – pre-primary, primary, secondary and tertiary. This offers access to convenient and flexible funding for the upgrading of school facilities, including short-term loans to meet funding gaps pending the receipt of school fees. The ease of payback has also been adequately taken care of as this is from the school collections.

MADE A LEKKI LANDLORD

As we celebrated our 120 years of banking services in Nigeria, the Bank considered it worthy to reward our loyal customers in a special and unique way – by offering them the opportunity to become a Lekki landlord. We gave away a completed four-bedroom terraced house worth ₦50 million, located in the upmarket area of Lekki in Lagos to Mr Kelechukwu Uchenna Frank (a customer of our Umuahia Market branch), who was the Grand Prize winner of the 120th Anniversary edition of our Big Splash promotion.

FIRSTBANK SAVINGS BONANZA

The Bank designed a savings reward scheme to encourage the savings culture of the average Nigerian. The promotion, which ended in February 2015, rewarded 1,452 savings customers with cash and gift prizes. Prizes included 32" LED television sets, home theatre systems, Android phones and a brand new Hyundai Elantra saloon car.

CREATING MORE SUCCESSFUL SMES

SMEs are at the heart of national development. The Group, through its SMEConnect programme, has clearly identified the need to provide support through engendering creativity, improving capacity and providing capital. The Group supports new and growing businesses by providing products and services that are adding meaning to the lives of Nigerians.

WORKING TO MAKE BUSINESSES DELIGHT THEIR CUSTOMERS

Through its array of products and services, the Group creates solutions that ensure businesses delight their customers. We are committed to fulfilling our mission of setting the 'gold standard' of customer experience and excellence in financial solutions across Sub-Saharan Africa. Highlighted below are some of the solutions we have implemented to support SMEs:

LPO finance: SMEs no longer have to worry about delays in meeting their supply orders. LPO finance is a short-term loan for business owners that supply consumables like stationery, diesel, toiletries, etc.

Operational vehicle loan: ensures businesses can own their operational vehicles. It offers part-finance for the acquisition of new vehicles to be used for the day-to-day running of the business.

Contract finance facility: this enables customers to experience the peace of mind that comes with timely execution of contracts.

Commercial mortgage: gives the opportunity for organisations to own their business premises. It offers the flexibility of financing the acquisition of landed property for commercial purposes.

Invoice discounting finance: ensures SMEs stay ahead of business opportunities by having access to funds while awaiting payment for jobs executed.

Secured overdraft: ensures organisations do not run out of working capital. Secured overdraft provides instant access to funds to meet short-term obligations and keeps day-to-day processes running smoothly.

First domestic transfers (FDT): this leverages our nationwide branch network to send and receive money electronically within the country. Beneficiaries can receive transfers via bank cheques, ATM or cash with or without a bank account.

FirstCurrent business account: helps business owners and individuals to manage their current accounts efficiently without paying commission on turnover (COT). It is a fee-based current account that increases business potentials, particularly for start-ups, through the advantage of reduced transaction costs. The fixed monthly fee is as low as ₦2,000, subject to defined turnover limits. There are three variants – Premium, Silver and Gold.

FirstSavings Plus: a savings account variant with convenient features of a current account that allows customers to earn attractive interest on deposits and drive business transactions without COT charges. FirstSavings Plus allows clearing cheques/dividend warrants lodgment as well as third-party withdrawals with customised cheques.

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CUSTOMERS - OUR SOCIAL ROLE

FUNDING OIL AND GAS SECTOR DESPITE FALLING OIL PRICES

Despite the tough economic terrain and implications for the banking sector, the Bank continues to deliver on its aspirations of providing finance to key sectors and players. The oil and gas product bouquet developed to finance the business value-chain of the oil and gas sector recorded an increase in volume year on year. The performance in the last quarter of 2014 however was hampered as a result of changes in the money market against a backdrop of falling international oil prices with a huge impact on the oil and gas industry. The Bank will, however, continue to provide services to the sector especially, under the various contractor finance schemes.

ENHANCING PRODUCTS DISTRIBUTION

To ensure that manufacturers achieve a smooth distribution of their products, FirstBank offers Key Distributorship finance products for the FMCG industry and cement sector, this recorded notable growth. The performance of these products was a result of various initiatives to partner with the principals in providing funding at flexible terms to their key distributors for effective distribution and sales of their products. The Bank will continue to prioritise this business segment by providing products with high-value proposition to further impact the real sector of the economy. Though the effect of the current economic and money market trend is being felt in all sectors of the economy, the Bank will take into consideration the shrinking margins of the distributors while reviewing the terms and conditions of financing in a guided manner.

PROVIDING COMFORT FOR INSTITUTIONS

We facilitate all the processes involved in the award and execution of contracts that enable companies to meet their business objectives and the Government to provide basic infrastructure for the development of society. To attest to the value we are contributing in this space, our bonds and guarantees (B&G) recorded impressive growth. The growth recorded in the year is attributed to various projects awarded by Government at all levels and private/foreign investments in infrastructural development during the year.

CREATING MORE BUSINESS SUCCESS OPPORTUNITIES

Due to the increasing need to provide finance and specialised services in the education, aviation and financial sectors, the Group has product guidelines for funding private tertiary institutions and travel agencies, and for providing third-party cheque clearing services to microfinance banks. This will diversify the Bank's loans portfolio, grow deposits and revenue lines, and have a positive impact on the businesses of our customers by granting them easy access to financing and cheque clearing services.

INCREASING CONVENIENCE FOR MONEY TRANSFER

In order to make it more convenient for Nigerians to receive and send funds to loved ones, FirstBank has maintained its leadership position in the remittance space in Nigeria, with over 40% market share cumulatively. The outbound service, approved by CBN in the last quarter of last year, has indeed witnessed high patronage especially with Western Union. Other money transfer operators (MoneyGram and Ria) introduced the bank deposit option, which Nigerians embraced enthusiastically. With the CBN's cashless policy and the Nigerian law on money laundering, this option is the future of remittances.

IMPROVING ACCESS TO FUNDING

In 2014, FirstBank launched the following products to improve access to funding for individuals and business owners:

Salary account overdraft (SODA) – a flexible borrowing mechanism designed to meet the short-term needs of salary account holders within FBNHoldings. This product is available in two variants: One-off overdraft and revolving overdraft.

FirstExclusive current account (FFSA) – a hybrid liability product designed to offer improved benefits of a current account at a reduced transaction cost to customers.

FirstTrader solution – a retail asset product to cater for the needs of small-scale businesses with minimal collateral base.

In view of the CBN's cashlite policy and the Nigerian law on money laundering, the focus in 2015 will be to encourage consumers to embrace the accounts option, through the introduction of more alternative delivery channels such as ATMs, Mobile Money, etc.

L-R: Director General/CEO, National Lottery Regulatory Commission, Chief Adolphus Joe-Ekpe; Executive Director, Lagos & West, FirstBank, Gbenga Shobo; FirstBank Big Splash Promo Grand Prize winner, Kelechukwu Uchenna Frank; Honourable Commissioner of Housing, Lagos State, Bosun Jeje; and Executive Director, South, FirstBank, UK Eke at the presentation of the four bedroom detached duplex grand prize to the winner in Lekki Lagos.

The FirstBank Big Splash Promo Grand Prize – a completed, fully detached four bedroom duplex which was presented to the FirstBank Big Splash Promo Grand Prize winner, Kelechukwu Uchenna Frank in Lekki Lagos.

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COLLEAGUES

INTRODUCTION

As with all modern organisations, human capital is a key driver of competitive advantage for the Group. With an aspiration of 'becoming a hub for the best industry talent', premium is placed on developing and implementing best in class people management strategies and practices across the Group. Our Human Capital Management and Development (HCMD) practices align people management strategies with the business strategies and sit at the core of our ability to meet these demands. It requires us to focus greatly on attracting and retaining the best industry talents.

During the year, HCMD undertook the following activities to ensure the attraction and retention of talents within the Group:

1. The Group HR Operating Committee (HROC) was inaugurated with a mandate to standardise HR/people management function across the board. The Committee was empowered to define and monitor the implementation of HR standards with additional responsibility for the following:
   - implementing Group HR policies and standards;
   - knowledge sharing and competency development across the Group;
   - achievement of HR synergies within the Group; and
   - monitoring and tracking non-compliance of HR policies and standards and ensure implementation of remedial actions.
2. Our talent management and learning and development initiatives are best in class. In 2014, First Academy continued to deliver top notch programmes in partnership with both local and international training providers, including Ivy League institutions. The following Ivy League institutions partnered with the Bank to train FBNHoldings staff:
   - INSEAD;
   - Michigan Ross;
   - China Europe International Business School/ Wharton Business School; and
   - Cornell University (Johnson School of Management).

Overall, percentage achievement on training (training hours) was above 104% with a cumulative approximate cost of ₦2.468 billion. Several other innovative talent management initiatives were implemented to ensure that FBNHoldings' workforce remained engaged and motivated. This included job rotation/employee mobility, workforce segmentation, FAMA (FirstBank Annual Merit Award), competency frameworks, career track system, and coaching and mentoring programmes as well as a robust succession planning framework.

Leadership capacity building was also considered key, hence several efforts went into honing of leadership skills through various initiatives including storytelling, case study initiatives, regular classroom training as well as job shadowing.

Other initiatives that HCMD drove in 2014 included fostering collaboration among the respective companies in the Group and ensuring the achievement of organisational goals. These further included:

STAFF ASSIGNMENT AND REPATRIATION FRAMEWORK

This framework was designed to support staff across the Group throughout their cross posting and other related assignment cycle. The approved framework outlines the terms and conditions applicable throughout the assignment period (pre-assignment, assignment, and repatriation). The framework has ensured that:

- Staff are well prepared for the assignment and are clear about their roles and responsibilities.
- Staff are assisted to quickly adapt to their new environment.
- Improved reintegration strategies are implemented.

COMPETENCY FRAMEWORK/CATALOGUE FOR FBNHOLDINGS

The competency catalogue for the Group reflects the competencies required by all staff of FBNHoldings from both a functional and behavioural perspective.

STAFF CAPACITY BUILDING

Capacity building sits at the heart of our Group HR strategy and continues to be of strategic importance across the Group. We contributed significantly to the Group's expansion drive by implementing the following capacity building initiatives:

- **Designed and implemented a framework for exchange programme**
  Through this framework, staff from other subsidiaries are sent to FirstBank for hands-on training to bridge technical gaps. Twenty staff participated in this programme between March and July 2014 in functions such as IT audit, internal audit, financial control, business performance monitoring and HCMD; for cumulative training hours of 3,720 hours and average training hours per employee of 186 hours.
- **Designed and launched the FBNHoldings cultural orientation programme**
  The programme was designed to promote inclusiveness in the workplace, appreciate cultural diversity and to fully develop cross-cultural competencies.
- **Strengthened Leadership capacity**
  HCMD was able to achieve this feat across local and global FirstBank subsidiaries through the INSEAD blue ocean strategy programme offered as part of the First Academy Leadership School.
- Contributed towards building FirstBank's internal francophone capabilities through intensive **French language certification training** (involving classroom training, on-the-job assignments and an immersive excursion) for members of staff involved in the global expansion programme.
- **Training needs analysis for staff on assignments across our representative offices and foreign subsidiaries**
  This was with the aim of sustaining the learning and development culture, whilst ensuring that staff (irrespective of their location) are adequately equipped to perform optimally on the job.
- **Group monitoring and reporting framework**
  This framework was designed in 2014 to put in place a structure that will drive accountability and facilitate better coordination of HR activities across the Group. It was equally important to have this platform in order to aid clear understanding of expectations in terms of people management, which is key to achieving employee engagement. Overall, one of the fundamental ways of keeping our people engaged has been to offer absolute clarity at every stage by putting the right structures in place.
- **Campaigns on 'jerk behavior' and staff attitude**
  Campaigns on 'jerk behavior' led to a marked reduction in these incidences. It is now institutionalised that it is unacceptable for an individual to behave like a 'jerk'. Our campaigns on staff attitude are also yielding positive results.

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PERFORMANCE MANAGEMENT

We have been able to put in place the right policies, frameworks and practices that now form the bedrock of a successful performance management system. Our achievements in the year include:

- alignment of our talent management framework with the performance management system;
- successful review of all strategic resource function and Strategic Business Unit scorecards;
- Key Performance Indicators (KPIs) cascaded and aligned down to all individuals;
- creation of a zonal approach to aspects of performance management to encourage understanding of the different business segments, and improve flexibility; and
- identification of change requirements, including the upgrade of the appraisal process.

EMPLOYEE ENGAGEMENT

In crafting our 2014 HR strategy, one of the things we aimed to achieve was sustained and improved employee productivity through collaboration, synergy and team work. This inspired our 2014 strategy theme, 'As-one'. However, in order to achieve this it was imperative that our talents remained engaged and committed. Over the course of 2014, we did notice some critical people transformation issues impacting employee engagement. These issues include:

- structure;
- poor staff attitude;
- poor staff knowledge; and
- poor employee engagement.

Initiatives we embarked on to drive employee engagement include:

- Work-life balance enforcement across all head office departments and branches. This was achieved by enforcing 'lights out' in head office departments after 8pm of every weekday and restricting staff across the branch network from accessing the Finacle banking platform after 6pm of every weekday.
- Welcome, birthday, and anniversary messages to staff, including periodic telephone calls to employees.
- Visits to approximately 282 branches where we carried out counselling on identified staff.

DIVERSITY AND INCLUSION

We have a diverse workforce across the Group. It is therefore important for us to create and sustain an environment that makes it possible for the business to leverage its diversity for success. As a Group, we pride ourselves on being an equal opportunity employer and have integrated diversity and inclusion policies and awareness into our practices. The following are highlights where we have incorporated this:

- In furtherance of our aim to entrench diversity and inclusion, and women's economic empowerment and career growth; we, HCMD, launched the women's network, which serves as a platform for women to share information, experience, best practice and education in order to engender personal and career growth.
- We have a diversity team responsible for ensuring the Group 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. In the team, we have a visually impaired member of the Bank staff as one of our diversity champions (key driver of diversity initiatives). We have also set aside a Diversity & Inclusion Day to create awareness and ensure an inclusive workplace and work culture. To this end, and as part of our yearly event, the FirstBank 2014 Diversity & Inclusion Day was organised with the theme, 'Leveraging Diversity for Business Success'. This event was held simultaneously across all locations within the Group.
- Create a working environment where the various workforce generations will thrive. We have also reviewed the gender policies and demographics.
- We have profiled the various generations at work and preferred a value proposition to engage them.

The diversity and inclusion objective of the Bank is to be a recognised industry leader in workforce diversity, and one which leverages diversity for its growth and the success of the customers and communities it serves.

Employees at the FirstBank 2014 Diversity & Inclusion Day – Bisi Onasanya (GMD/CEO) speaking on diversity and inclusion.

HEALTH, SAFETY AND WELLBEING

Our approach to employee health, safety and wellbeing is built on the underlying philosophy of driving productivity by maintaining a healthy workforce. The health, safety and wellbeing of employees across the Group have long become a vital element of our entire HR strategy. In view of this, the following achievements were recorded in 2014:

- We continued our periodic health screening exercises, one of which was conducted on World Health Day. The aim was to pick up undiagnosed cases of chronic and preventive illnesses and treat them promptly.
- We conducted free eye screening for staff.
- Recreational clubs and activities such as dance/salsa club and aerobics also continued.
- Human capital management and development facilitated a successful 'FirstBank 2014 Health Walk and Novelty Match', where staff were treated to aerobics, health walk and a novelty football match between the various workforce generations (veterans vs. millennials) in the organisation.

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CONCLUSION

The Group HR function is focused on cross-functional initiatives required to support the achievement of overall Group aspirations. This was the primary focus of HCMD in 2014 and indeed as we approach the implementation of our activities for 2015, we will hinge each of them on our Group HR Strategy which will be aligned with overall Group Strategy. In 2015, our key focus areas will cut across the following activities:

- Institutionalise overarching policies and monitoring framework at the Group level that would drive people management practices. To this end, we aim to ensure seamless coordination of HR activities within the Group to ensure achievement of predefined goals and objectives.
- Drive collaboration and synergy across the Group by actively driving and encouraging the use of online meeting platforms, social media and collaboration portal to drive interaction across the Group. In view of this, we aspire to establish an optimal and efficient organisational structure devoid of role duplicity that ultimately facilitates achievement of business results.
- Implement our Group talent management framework. Our goal is to develop and drive an institutionalised talent management framework that not only drives learning and development, talent resourcing, performance and reward management, compensation and benefits, succession planning and workforce planning but also links to the execution of business strategy.

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SUPPORTING OUR COMMUNITIES

The communities where we live and work have been instrumental to our success. It's been a relationship based on mutual trust, respect and support. Stakeholder engagement with our communities in education, health and welfare, economic empowerment and the environment are important in FBNHoldings' support of the community.

The major programmes under these platforms include FirstBank endowment programme, Future First programme, infrastructure development programme, youth and development leadership programme, Hope Rising programme and educational endowment programme. These programmes are continuous and have impacted lives in the communities where we operate.

INFRASTRUCTURE DEVELOPMENT PROGRAMME

FirstBank infrastructure development programme is aimed at promoting infrastructure development under its identified areas of support. This includes providing infrastructure facilities in schools, hospitals and environmental infrastructure projects. This is in recognition of the importance of these facilities in improving the quality of life.

Some of the support projects under this purview include Faculty of Arts building in University of Port Harcourt, the Entrepreneur Centre in University of Abuja, sports pavilion for Queens College and squash court for Kings College, Administrative Block for Jesuit Memorial College, a Red Cross Clinic in Ibadan and the Bank's Ivory Park in Banana Island.

In 2014, as in previous years, we have carried out maintenance exercises on most of the infrastructure projects. In addition, the Bank commissioned the Langbasa potable water projects for staff and students of Langbasa Primary School and its host Community in Eti Osa local government area of Lagos State, built a 500-seater lecture theatre for the Federal University of Technology Akure, renewed partnership with the officials of Banana Island in the development of the Ivory Park as well as partnered with the City of David Church in the building of a solar Lightening Project in Kirikiri Town Apapa, Lagos.

Lecture Theatre Obafemi Awolowo University Ile Ife – donated by the Bank.

500-seat Lecture Theatre donated by the Bank to the Federal University of Technology Akure.

Administrative building of Jesuit Memorial College Port Harcourt – donated by the Bank.

Ivory Park, Banana Island, Lagos.

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HOPE RISING PROGRAMME

Hope Rising initiative is one of the key programmes of the Group designed to empower people living with disabilities. Its key objective is engendering inclusivity and diversity through education, advocacy and enlightenment; skills acquisition through training; as well as inclusive events. Some of the initiatives we have supported under this programme include:

- Support to Patrick Speech and Languages Centre in the sixth Talent in Autism Concert, designed to seek outstanding talents amongst children with autism.
- The Bank continued its support for Folawiyo Jimoh Adisa, a para-badminton champion to attend para-badminton tournaments across Europe.
- Scholarships to Abdulateef Alani Azeez, a hearing impaired student of the Osun State Polytechnic for his HND II academic session having supported him for his HND I academic session in the same higher institution.
- In addition, the Bank supported two visually impaired final year law students of the University of Lagos, Fadiya Babatunde Samuel and Oluwaseun Adeeko Solomon to further their education to the Nigerian Law School in Lagos and Abuja.
- The Bank also partnered with the Golden Hearts Touching Lives initiative, an NGO, to provide medical outreach for less privileged persons in Obalende Ikoyi Community of Lagos State.
- Partnered with the Tristate Cardiovascular Institute to provide medical intervention for two eight year old children with holes in their hearts.

Our main focus is creating awareness on Down syndrome and how to live with Down syndrome. In 2014, awareness creation and advocacy for the Down syndrome disorder has been enhanced by the Hope Rising drama series which focuses on highlighting the challenges of Down syndrome and exploring efforts at combating the disorder while also providing the platform for advocacy and public enlightenment. Over ten million people were reached through the programme and 300,000 post-reach on our social media platforms.

Blue House celebrating victory at the 2014 Down Syndrome Foundation Inter-house Sports competition.

Medical outreach to less privileged persons in Obalende, Ikoyi axis, Lagos supported by the Bank.

Adeeko Oluwaseun Solomon and Fadiya Babatunde Samuel – visually impaired final year law students of the University of Lagos, who received support from the Bank to proceed to Law School.

FUTURE FIRST

DRIVING CAREER COUNSELLING AND FINANCIAL LITERACY FOR YOUNG ONES

Future First programme is designed to empower students of secondary schools between the ages of 13 and 17 years old in JSS3 to SSS2 in line with the youth strategy of FirstBank. The programme offers two legs, as shown below.

One of the expressions of Future First is career counselling. The key objective is to help build fulfilling careers for students.

Future First programme was launched in partnership with Lagos Empowerment and Resource Network (LEARN) and Junior Achievement Nigeria (JAN).

The second leg is financial literacy. Future First, through Financial Literacy, focuses on empowering secondary school students between the ages of 13 and 17 years old in JSS3 to SSS2. One of the key objectives is to better equip students with the tools and knowledge for long-term financial independence.

In partnership with Junior Achievement Nigeria, one of the partners of Future First, FirstBank has been promoting financial literacy for young ones. As with all our programmes, Future First is also implemented through a structured employee volunteering scheme (EVS). This involves our employees offering their time and knowledge in enlightening high school students on career counselling and financial literacy.

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In 2014, FirstBank has continued to support JAN in driving financial literacy. As a Board member of JAN, the Bank did not only pay its dues, it has strongly contributed to the different programmes of JAN. For example, FirstBank was a key driver in organising the 15th anniversary of JAN in 2014.

In addition, FirstBank has played active roles in the support of other JAN programmes such as the Company programme which aims to provide senior secondary school students with practical business experience through the organisation and operation of an after school business enterprise. Amongst other objectives, the Company programme aims to provide an experiential supplement to the business and economics educations of high school students; help them to better understand how businesses are organised and operated; help students develop critical thinking, speaking, and leadership skills; and demonstrate the rewards of the free enterprise system. In 2014, through the Bank's support, the programme was held in different regions in the country.

In 2015, our target is to reach over 10,000 students in about 25 schools across different parts of the country beginning from Lagos, Port Harcourt and Enugu then onto the other regions.

YOUTH LEADERSHIP AND DEVELOPMENT PROGRAMME

The youth leadership and development programme is designed by the Bank for young people between the ages of 14 and 35 years old. The key objectives of the programme are to provide a platform for the youth to imbibe a deeper understanding of the necessary but rewarding sacrifices and qualities of great leadership, equip them with the relevant tools and skills to become great leaders, create opportunities for youth participation in developing the country through sustainable community development programmes, mentorship for the youth and value based leadership. Presently, the Bank partners with the Nigeria Leadership Initiative (NLI), JAN and LEAP (Leadership, Effectiveness, Accountability and Professionalism) Africa to implement this initiative.

PARTNERSHIP WITH NIGERIA LEADERSHIP INITIATIVE

The Bank has partnered with the Nigeria Leadership initiative since 2008. Since the commencement of the Bank's partnership with NLI, about 350 NLI associates have been trained and mentored as future leaders. Through the Annual Future Leaders seminar which sees the Bank nominating two outstanding staff to participate alongside other Nigerians outstanding in their different professions across the globe all under the age of 35 years old, both the Future Leaders seminar and Guest Speaker forum serve as platforms for promoting value-based leadership amongst Nigerians through seminars, workshops, leadership projects and essay competitions designed to increase engagement between the citizenry and leadership.

PARTNERSHIP WITH LEAP AFRICA

In 2014, the Bank also partnered with LEAP Africa in implementing the youth development training programme (YDTP). The youth development training programme focuses on ensuring that youths become socially responsible, responsive and strategically positioned to achieve life goals while effecting positive change in their local communities across Nigeria through the inculcation of knowledge on leadership, ethics and civics. The initiative has a volunteering leg to it which saw staff volunteers from the Bank who went through a 'training of trainers' exercise, teaching students different subjects such as the 'Act and Art of Leadership', building self-confidence, connecting to your inner self, etc. A total of five schools in Lagos State were reached through this exercise and this featured 10 volunteers with a total of 5,000 hours expended.

Also, the Bank partners with LEAP Africa to promote the social innovators programme. The social innovators programme entails a year-long fellowship where 20 youths between the ages of 18 and 35 years old are selected based on predetermined criteria which include initiator/co-founder of projects and enterprises to undergo workshops and trainings, which would equip them with the skills, knowledge and tools required to run successful and sustainable social enterprises; while creating a measurable impact towards Nigeria's development.

The Bank also partnered with Junior Achievement Nigeria in 2014 to implement several youth-oriented programmes. Amongst these are the financial literacy programme to Caro Favoured School Ajegunle on the Eve of Children's Day, the Monopoly Bus Tour, which featured a tour of famous streets and neighbourhood in Lagos State by children sourced from the Slum to School project and Junior Achievement Nigeria. The purpose of the tour event is to educate the children on the significance of the historical monuments, famous streets and neighbourhoods as well as landmarks found in the City of Lagos Monopoly Board Game.

One of the Bank's volunteer teaching students about financial literacy in a secondary school in Lagos.

The Head, Corporate Responsibility and Sustainability, FirstBank volunteers and students at the Future First financial literacy training session at a Secondary School in Lagos State.

Participants at the 2014 Future Leaders seminar.

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EDUCATIONAL ENDOWMENT PROGRAMME

EMPOWERING THE YOUTH AND STAKEHOLDERS 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 the total endowments worth over ₦440 million. The most active endowment programmes include University of Lagos - business ethics, Federal University of Technology, Akure – computer science and the FirstBank Sustainability Centre.

FIRSTBANK FUTA ENDOWMENT PROGRAMME

The FirstBank Federal University of Technology, Akure endowment fund in computer science was initiated in 1997 in recognition of the vital role research plays in development and innovation especially in the present digital age. Annually, the FUTA endowment fund receives grants from the Bank to carry our research in information and communication technology-related issues. With the aid of the annual grant, the Professorial Chair occupant carries out research activities which have contributed to knowledge creation and dissemination and have served as solutions to existing peculiar concerns. Examples of the research work carried out includes:

- Security Issues in Nigeria; getting ready for the digital challenge.
- DGM approach to network attacker and defender strategies, which was presented at the 8th International Conference for Internet Technology and Secured Transaction in London. The paper for which beat a whopping 1,241 papers received from 96 countries to emerge the overall best paper according to the panel of assessors.

Also in 2014, a risk assessment and management system was developed for managing cybercrime in Nigeria. The main objectives of the research paper are to:

i. Design an information risk assessment and management system in the Nigeria business environment.
ii. Design an internet users' identity module to track the activities of cyber criminals in Nigeria.
iii. Design of a digital rights management system.
iv. Design a graphical password system for online business in Nigeria.
v. Carry out pilot implementation schemes for the above designs.

Some of the research findings will be published in 2015.

FIRSTBANK SUSTAINABILITY CENTRE

DRIVING SUSTAINABILITY: ENHANCING KNOWLEDGE

We recently launched the FirstBank Sustainability Centre, to show our ongoing commitment to corporate citizenship and sustainable business practices within the Group.

- The FirstBank Sustainability Centre is a specialised centre that focuses on sustainability and related areas. It drives sustainability through knowledge creation, knowledge dissemination and knowledge application. These are achieved through relevant applied research in specified areas of interest.
- Open and in-company seminars, workshops and international and local conferences for the cross-fertilisation and exchange of ideas on sustainability.

It is designed to empower staff of the Group and other financial institutions who are signatories to the Nigeria Sustainable Banking Principles (NSBP), FBNHoldings customers and other stakeholders, a few of which include NGOs, media practitioners, SME operators, staff in the energy, and oil and gas sectors.

From second left – Professor David Grayson of Cranfied University, UK; GMD/CEO of FirstBank, Bisi Onasanya; Dean LBS Dr Enase Okonedo; senior fellow LBS Kayode Omoregie and Paul Gurney Head of Sustainability, Accenture, at the International Conference on sustainability organised by the FirstBank Sustainability Centre.

The following programmes were held at the FirstBank Sustainability Centre in 2014:

Implementing sustainable strategy in the oil and gas industries

This is an executive programme that sought to embed sustainability thinking in the strategies of the energy and extractive industries. This is because a well-articulated and engrained sustainability strategy enhances organisational adaptability in complex environments. The programme featured local and foreign sustainability experts who proffered knowledge on how the oil and gas industries can competitively minimise their negative impacts and enhance their positive impacts on society, the environment and economy without compromising their bottom line.

Sustainability workshop for NGOs and corporate organisations

The workshop sought to provide capacity building training for NGOs who want to partner with businesses on their sustainability programmes. The workshop provided in-depth insight on how corporations and NGOs can build mutually beneficial partnerships that will increase capacity, sustainability and deliver service to the community.

Participants at the seminar for Women in SMEs organised by the FirstBank Sustainability Centre.

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Seminar for women in SMEs – 'The New Growth Strategy for Women-Owned SMEs'

The seminar focused on navigating sustainable entrepreneurship and providing a roadmap for women entrepreneurs to contribute as strategic partners to socioeconomic national development. It expounds key issues and challenges that women-owned SMEs could possibly encounter and how these challenges can be overcome while embedding sustainability practices into their businesses.

International conference on leading a sustainable business

The conference sought to espouse the need to adopt sustainability principles as key components of business development and continuity. Sustainability experts from Nigeria and the United Kingdom offered practical insights on minimising business risks, reducing cost, increasing revenues and enhancing brand reputation for businesses. Participants included CEOs and top executives of corporations, institutional investors, academia, directors/heads of foundations, government agencies and NGOs as well as business regulators and top executives responsible for CSR and sustainability functions.

Participants at the executive programme on implementing sustainable strategies in the energy and extractive industries.

EMPLOYEE GIVING AND VOLUNTEERING

MAKING A DIFFERENCE

The employee giving and volunteering scheme is a platform, enabling and encouraging staff to give back. The platform sits within the employee volunteerism engagement strategy and allows staff to give back through various CR initiatives. It is an integral element of the Group's corporate culture.

This approach complements business goals and values as it builds the morale of our workforce. It creates an enabling environment for team building and leadership activities and opportunities. More importantly helps to alleviate community development challenges, as our employee-inspired initiatives are mutually beneficial.

These employee-driven programmes, executed in fun ways, connect the FirstBank family with the community while addressing pressing social issues. This then creates room for partnerships through access to valuable resources and skills. It generates a platform for new ideas, talents and concepts. This approach also leads to open and clear communication between the different sectors of the community and the Bank.

The volunteering programme has a two-pronged approach. Staff visits to less privileged homes and orphanages, and secondly, the aspect that ties in with all key CSR programmes of the Group. On a quarterly basis staff, of the Group, visit care homes in different regions of the country. In 2014, there was an EVS visit to a care home in Port Harcourt and to the Down Syndrome Foundation Resource Centre in Lagos. Also, staff volunteers of Future First, youth leadership and development and Hope Rising programmes have engaged in empowering students in different schools within Nigeria. Over 5,200 students benefitted from the programme and about 10,450 volunteering hours were recorded.

Employee volunteering visit to a care home in Port Harcourt.

Employee volunteering visit to the Down Syndrome Foundation Resource Centre.

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FBN CAPITAL: BUILDING CAPACITY THROUGH STRATEGIC PARTNERSHIPS

FBN Capital has identified strategic partnerships intended to achieve and enhance capacity building. On this basis, FBN Capital has partnered with Pan Atlantic University (LBS) to deliver the following initiatives.

LBS BLOOMBERG ROOM

The Bloomberg Terminal is one of the industry's most widely used sources for real-time financial data. To help students in relevant disciplines gain access and exposure to the tool, FBN Capital delivered two Bloomberg Terminals to the LBS to help students in relevant disciplines gain access and exposure to the tool.

FBN CAPITAL INTERNSHIP SCHEME

As one of the leading industry players, FBN Capital, offer aspiring finance graduates of the LBS a unique opportunity to experience the real world of investment banking and asset management through its internship programme by committing to admit three interns per year on three-month programmes.

LBS INDUSTRY DAYS

In support of the LBS industry day's initiative, FBN Capital currently provide resources towards the development and delivery of an investment banking and asset management industry day, as well as other relevant financial services industry.

SCORECARD

Supporting communities: our performance in 2014	This year's accomplishments	Measures	2014 Targets	2015 Targets
1. Infrastructure development programme				
Promoting and supporting infrastructure development in schools and the society	Langbasa water project	Number of projects and number of people that benefited from the projects	Three projects executed Over 800 people (staff and students) of school benefitted Over 5,000 residents of Langbasa Community benefited from the Langbasa water project	Two projects
	Provision of solar lighting project in KiriKiri Town Ajegunle		2,000 Residents of Kirikiri Town benefited from the solar lighting project	
	Computers for Aje Comp. School project		About 900 students benefited from the use of the computers	
2. Hope Rising initiative				
Engender inclusivity and diversity through education, advocacy and skills acquisition	Radio drama series in partnership with Down Syndrome Foundation Nigeria	Number of people reached	A 13-episode radio drama series Drama reached over 10 million people	Drama to reach about 20 million people
	Support Annual Awareness Week, talent hunts competition and Children's Day		Reached over 10,000 residents in Ikeja and environs	15,000 people
	Support to Nigeria Society for the Blind fund raising event		Donated 150 white canes to the NAB	500 white canes to be donated.
	Support to Para-Badminton Sports and visually impaired law students			

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Supporting communities: our performance in 2014	This year's accomplishments	Measures	2014 Targets	2015 Targets	
3. Youth leadership and development initiative					
Provide platform and relevant tools for youth to imbibe qualities of great leadership	Partnership with NLI: Future Leaders seminar	% of positive feedback from participants. Number of youths that participated in the different youths initiatives	About 300 associates inducted as NLI fellows	90%	95%
	Partnership with LEAP Africa: youth leadership development programme		Over 1,000 students impacted through the LEAP Africa programme	92%	100%
4. Future First programme					
Ensure financial literacy and career counseling for young ones	Partnership with JAN on financial literacy	Number of students impacted	Partnership with JAN impacted 7,200 students	Five schools in Lagos State	To impact 10,000 students
5. Educational endowment programme					
Enhance sustainability and academic excellence towards the long-term development of Nigeria	FUTA endowment	Number of people impacted	FUTA endowment programme expected to impact 6,000 people	To conclude project	
	FirstBank Sustainability Centre		Enrich the lives of over 1,000 people	3,000 people	
6. Employee giving and volunteering					
Provide a platform for employee giving, volunteering and engagement	Volunteering on Future First, youth leadership programme	Number of volunteering hours	25,000 hours	34,500 hours	
	EVS visit to Lagos and Port Harcourt				

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BUILDING SUPPLIER RELATIONSHIPS

OUR SOURCING GOAL

At FBNHoldings, when we purchase goods and services, we want to participate in a professional collaboration that creates long-term value for our Group as well as our suppliers. We want to base our collaboration on trust and mutual interest. Quite recently, we have made significant progress towards achieving this goal, restructuring and enhancing our procurement functions and reporting lines with a view to developing a coherent plan that covers all aspects of our sourcing activities across the Group.

The reorganisation, which evolves and expands our current approach, was approved recently by our Board of Directors. It addresses sourcing activities across the Group, using our existing sourcing policy as a starting point, along with supplier standards through the creation of a Group sourcing policy.

HOW WE EVALUATE OUR SUPPLIERS

We believe that the way we manage our suppliers makes a huge difference in our performance, profitability, and the continuity/resilience of our Group. At FBNHoldings, we have gone way beyond only chasing the lowest price to looking at the total cost across the Group, managing risks and outcomes, improving supplier performance, and getting more value out of the treasure trove of spend data we are sitting on.

We are constantly making efforts to put better programmes in place to manage our interactions with suppliers of goods and/or services to our organisation. This helps to maximise the value of those relationships. Overall, we intend to create closer, more collaborative relationships with our vendors, which will eventually result in more efficient service delivery to our customers.

We regularly check to see whether our supplier demands are being met on an ongoing basis. This is not just a yearly activity or a yearly assessment of the contractual provisions, but a continuous reassessment of our suppliers. The supplier reassessments include more upfront due diligence and a thorough assessment of suppliers well before verbal agreements are made or contracts are entered into; taking into account the state of the supplier's current (and future) financial position, its geographic location, its reputation as well as its risk management programme. Of course, we conduct more extensive due diligence when a supplier relationship involves critical activities.

Quite recently, we proactively took a tour of the facility of one of the companies licensed by the Central Bank of Nigeria for the production of cheque books and other security instruments. Our objective was to assess the capability and readiness of the Company to undertake such specialised functions. This upfront due diligence better positions our organisation to take informed decisions on the award of contracts whenever the need arises.

In addition to the upfront due diligence, developing a contract that clearly defines responsibilities of the third party helps to ensure the contract's enforceability and limit our liability. Beyond great contracts and terrific procedures and policies, we are continuously checking on suppliers over the course of our relationships. We take cognisance of the fact that performing ongoing monitoring, once the contract is in place, is essential to the Group's ability to manage risk of the third-party relationship. We equally evaluate our suppliers based on agreed SLAs (service level agreements), with particular focus on exceeding set targets within the overall objectives of improving performance standards.

CONSOLIDATING OUR SUPPLIER RELATIONSHIP

Effective supplier relationship management is the best way to ensure optimal supplier performance. We are actively taking steps to build relationships with our suppliers thereby creating solid partnerships; and we are proud of the strong relationships we have built with some of our suppliers, many of whom have been working with us for years.

We constantly seek suppliers who support our strategic goals and objectives while continually looking for ways to manage our costs. We equally keep our communication lines open by inviting our suppliers to strategy sessions aimed at enabling them to gain an understand of the importance in making and meeting commitments, and delivering the highest quality services. In view of the fact that our business environment is competitive, we help our suppliers to understand this dynamic and to be agile and flexible in responding to our changing business conditions. In return, we constantly remind ourselves that our suppliers have their business to run and as such we have constantly paid our bills on time, which has earned us respect from our suppliers.

Rather than having too many vendors, which is overwhelming, inefficient, and leads to higher administrative costs, we are constantly creating significant savings by using the suppliers that give us their best and eliminating those that negatively impact our bottom line. For instance, we are constantly exploring ways to consolidate multiple orders under one supplier in order to receive a bulk discount rather than using three or four suppliers to manage smaller orders. We have taken further steps to ensure we extract maximum value from our supplier relationships by engaging suppliers that are prime movers in their industry thereby ensuring that we not only get the best services but we are properly positioned to take full advantage of any new ideas and technology.

In the new year, we will optimally leverage technology in managing our supplier relationships by placing more emphasis on software and automation. We will equally ensure we put adequate systems in place to monitor and track key performance indicators effectively.

Overall, we remain committed to perfectly aligning our supply chain with business strategy thereby creating the competitive advantage we need to stay ahead of competition. We will further ensure that our investments are tied directly with our business value statements.

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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 FBNHoldings, is a technical partner in the Nigerian adoption process, '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 2014 report would be ISO 26000-based after the adoption ceremony, which took place in the fourth quarter of 2013. Unfortunately, this has not been possible as our sustainability performance process is still being completed. Once this has been finalised, our reports will be aligned with the ISO 26000 standard.

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).

With support from the FMO Entrepreneurial Development Bank, the International Finance Corporation (IFC) and an independent adviser, the SSWG was instituted to work under the Bankers' Sub-Committee on Economic Development and Sustainability.

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.

The table below sets out the NSBP's and how the Group has met the requirements.

NIGERIA SUSTAINABLE BANKING PRINCIPLES UPDATE

Principles	Requirements	Status update
Principle 1: Our Business Activities: Environmental and Social Risk Management:		
To integrate environmental and social considerations into decision-making processes relating to our business activities to avoid, minimise or offset negative impacts	• Development of appropriate environmental and social (E&S) policies • Development of appropriate E&S procedures • Development and customisation of E&S due diligence procedures • Articulation of E&S governance and approval authority measures • Monitoring E&S risks and reviewing E&S 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) document has been developed. This covers all requirements except last two • The document has been signed by all relevant stakeholders within the Bank and has been approved by the Bank's Management Committee • Update on progress of implementation sent to the Bank's Board of Directors • The ESGMS document has been sent to the Board for approval.

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Principles	Requirements	Status update
Principle 2: Our Business Operations: Environmental and Social Footprint:		
We will avoid, minimise or offset the negative impacts of our business operations on the environment and local communities in which we operate and, where possible, promote positive impacts	• Development of an environmental management programme with facilities management. This should address climate change and greenhouse gas emissions reduction, water efficiency, waste management and environmentally friendly facilities, construction and management • Compliance with relevant labour and social standards • Implementation of a community investment programme • Application of E&S standards to relevant party	• The Bank is presently implementing the print optimisation programme that helps in reducing paper use and carbon footprints • Several community development programmes have been implemented and are still currently being implemented by the Bank. These programmes promote positive impacts in our host communities. They include: infrastructural development programmes, Future First; Hope Rising and youth development programmes.
Principle 3: Human Rights:		
We will respect human rights in our business operations and 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	• The corporate responsibility and sustainability policy encompasses the respect for human rights in our business operations and activities.
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	• Commitment to women economic empowerment is reflected in the Bank's sustainability policy • The Bank has a market share of 26% under the Federal Government's Growth Enhancement Support Scheme designed for SMEs and half of this is made of women. Currently, over 3000 SMEs run by women get support from FirstBank • FirstBank's Board composition consists of four women out of 19, representing 21% of the Board • Partners with Women of West Africa Entrepreneurs (WoWE) and Women in Management Business (WIMBIZ) on women's development • Developed a diversity policy for promoting inclusion and diversity • The Bank regularly holds seminars and workshops for women in SMEs through the FirstBank Sustainability Centre.

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Principles	Requirements	Status update
Principle 5: Financial inclusion:		
We will promote financial inclusion, seeking to provide financial services to individuals and communities who 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	• Financial inclusion is part of the Group's corporate responsibility and sustainability policy • Provided financial services including loans for about 200,000 SMEs • Provided financial services for over 478,000 unbanked through Firstmonie and First Instant • Promoting financial literacy through Future First financial literacy programmes for youths, and other initiatives.
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 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 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 have been trained • Partnering with NSBP and IFC in training key staff • Plans within Group to ensure every staff member is trained in sustainability by December 2015 • Established the FirstBank Sustainability Centre as a centre for knowledge creation, dissemination and application on sustainability-related issues. Through the Centre, the Bank has held workshops and seminars on leading sustainable businesses.
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 NSBP Steering Committee • Participate in industry-wide workshops • Member of UNGC; signatory to ISO 26000 • Partners with organisations such as JA Nigeria, LEAP Africa, Nigeria Conservation Foundation etc., for sustainable initiatives designed to empower youths and conserve the environment.

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Principles	Requirements	Status update
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: yearly. FBNHoldings Citizenship Report completed and circulated to stakeholders.

THE UN GLOBAL COMPACT

The UN Global Compact (UNGC) is currently the highest body for corporate citizenship in the world today. The UNGC was 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. To date it has successfully attracted and mobilised over 7,000 businesses in more than 130 countries across the world to become members.

Membership of the UNGC implies an organisation's willingness to align with the UN's values and support initiatives that advance the UN's goals as contained in the Millennium Development Goals (MDGs). Participants simply commit to align their strategies and operations with ten 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.

The Bank has continued its partnership role in 2014 and has been actively involved in the local network of the UNGC.

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STAKEHOLDER ENGAGEMENT

Stakeholders are those who affect or are affected by an organisation. Our key stakeholders include employees, customers, investors/shareholders, communities and regulators.

	REASONS FOR THE ENGAGEMENT	TYPES OF ENGAGEMENT
EMPLOYEES	• To ensure that the FBNHoldings Group remains a great place to work by providing a secure, positive and inspiring working environment • Listening, understanding and responding to staff needs and concerns • To ensure all staff are aware of the Group's vision and activities and the role they are required to play	• These include focus groups; knowledge sharing sessions, roadshows, engagement surveys, emails, 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, customer engagement forums, social media, surveys and marketing and advertising activities.
INVESTORS/SHAREHOLDERS	• To provide the necessary information to current and future shareholders • To improve the market's understanding of the Company's investment proposition towards achieving a fair valuation	• 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 license to operate	• Meetings • Statutory reporting.
COMMUNITIES	• To develop and sustain mutually beneficial, trusting and meaningful relationships with our communities, focusing on the Group's corporate responsibility goals • To obtain inputs from communities regarding the Group's corporate responsibility programs and how their needs can be better met • To partner with NGOs in ensuring that the Group's activities and operations are conducted responsibly • To create awareness of the Group's corporate responsibility initiatives	• Citizenship approach - ongoing support of projects and interaction with a wide variety of NGOs and government organisations • Sustainability and corporate responsibility partnerships with Global Compact, LEAP Africa and Junior Achievement Nigeria • Steering Committee – Sustainability Champions of Nigeria Sustainable Banking Principles (NSBP).

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OUR PERFORMANCE

In this section, we provide an overview of the Group's performance in 2014 with a breakdown of performance against strategy and the progress made in relation to Key Performance Indicators (KPIs). Our operational risks, opportunities, key priorities and the outlook for the business groups are all discussed in detail.

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PERFORMANCE SUMMARY

GROSS EARNINGS

2014	₦480.6bn
2013	₦396.2bn

21.3% growth supported by a 66.1% increase in non-interest income to ₦111.8 billion, followed by a 12% rise in interest income to ₦362.6 billion.

NET INTEREST INCOME

2014	₦243.9bn
2013	₦230.1bn

Net interest income increased by 6.0%, supported by repricing and reallocation of assets and investments to the shorter end of the curve given the increasing interest rate environment.

NON-INTEREST INCOME

2014	₦111.8bn
2013	₦67.3bn

Non-interest income grew strongly by 66.1% driven primarily by a 12.8% growth in fees and commission (F&C) income from ₦59.4 billion in 2013 to ₦67.0 billion. In addition, foreign exchange income rose to ₦44.9 billion from ₦6.7 billion in 2013 on the back of enhanced treasury activities, increased volume of trade business and a favourable exchange rate.

PROFIT BEFORE TAX

2014	₦92.9bn
2013	₦91.3bn

Improved profitability and commendable key performance indicators buoyed by the complementary performance of our non-bank subsidiaries in spite of the highly challenging operating environment.

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GROUP PERFORMANCE

CUSTOMER DEPOSITS

2014	₦3,050.9bn
2013	₦2,929.1bn

Customer deposits grew by 4.2% as the Group continues to enjoy access to low-cost deposits, which ensures cheap and sustainable deposits to support the business.

CUSTOMER LOANS AND ADVANCES

2014	₦2,179.0bn
2013	₦1,769.1bn

Customer loans and advances grew by 23.2% with the general commerce, construction, oil and gas, as well as power sectors driving loan growth.

RETURN ON AVERAGE EQUITY*

2014	16.7%
2013	15.5%

Return on average equity improved 120bps owing to the Group's increased profitability over a healthy equity position.

RETURN ON AVERAGE ASSETS*

2014	2.0%
2013	2.0%

Return on average assets remained flat as post-tax profit increased by 17.3% and average assets by 15.7%.

EARNINGS PER SHARE (EPS)*

2014	₦2.55
2013	₦2.16

Earnings per share (EPS) improved 180bps on the back of increased profitability.

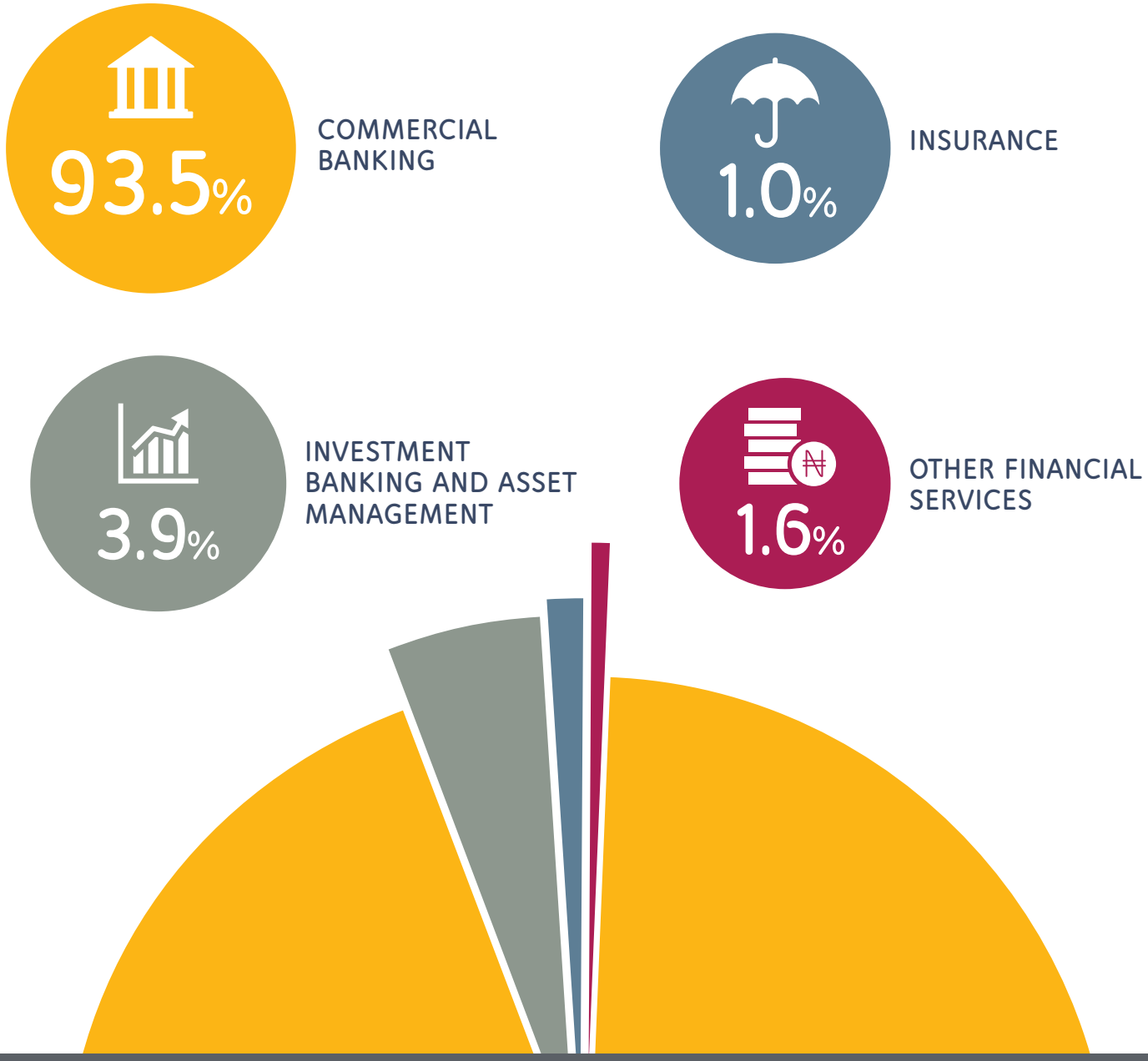
* Post-tax returns.

GROUP PERFORMANCE

FINANCIAL REVIEW

FBN Holdings Plc is the most diversified financial services Group in Nigeria. The subsidiaries of FBNHoldings offer a broad range of products and services across commercial banking, investment banking and asset management, insurance and microfinance business in 12 countries: Lagos, Nigeria; London, United Kingdom; Paris, France; Johannesburg, South Africa; Beijing, China; Abu Dhabi, UAE; Kinshasa, Democratic Republic of Congo; Accra, Ghana; Banjul, The Gambia; Conakry, Guinea; Freetown, Sierra Leone; and Dakar, Senegal.

Fig 1: Gross earnings breakdown by contribution from business groups (%)



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FINANCIAL REVIEW

FBNHoldings, employing over 10,464 staff, has about 9.7 million active customer accounts, through more than 892 business locations and over 2,597 ATMs. The Group boasts of an excellent corporate governance structure underpinned by strong institutional processes, systems and controls. FBN Holdings Plc is structured under four business groups, namely: Commercial Banking, Investment Banking and Asset Management, Insurance, and Other Financial Services.

The Group's principal subsidiary is First Bank of Nigeria Limited (FirstBank), a commercial bank with operations in 12 countries. Other subsidiaries are FBN Capital Limited, a leading investment banking and asset management company; FBN Insurance Limited, a risk underwriter and FBN Microfinance Bank Limited, which offers microfinance services and most recently, Kakawa Discount House Limited.

FBN Holdings Plc is the premier and largest financial services group in Nigeria by total assets, gross earnings, deposits, and loans and advances to customers. The holding company emerged from the erstwhile FirstBank Group in November 2012 and maintains a strong capital position with shareholders' equity at ₦522.9 billion, a 10.8% growth from ₦471.8 billion in 2013.

The Commercial Banking business group is our core business, providing both individual and corporate clients with financial intermediation functions. In addition, we have two non-banking financial services i.e. a pension fund custodian and a primary mortgage institution. All of our global banking subsidiaries and representative offices also fall under the Commercial Banking group. The group comprises First Bank of Nigeria Limited, FBNBank (UK) Limited, FBN Mortgages Limited, First Pension Custodian Nigeria Limited, and FBNBank DRC, FBNBank Ghana, FBNBank Gambia, FBNBank Guinea, FBNBank Sierra Leone and FBNBank Senegal.

The Investment Banking and Asset Management business group is the investment banking arm of the Group providing advisory, asset management, market, and private equity services primarily to an institutional (corporations and governments) clientele. It is made up of FBN Capital Limited, FBN Securities Limited, FBN Funds Limited, FBN Trustees Limited and FBN Capital Asset Management Limited.

We have leveraged on our broad range of clients in the Commercial Bank and have turned every risk in commercial banking to opportunities for the Investment Bank while we build the capacity to strengthen and broaden the suite of services provided by the investment banks.

The Insurance business group includes both our legacy insurance brokerage business and FBN Insurance, a full underwriting business previously known as FBN Life Assurance. The underwriting business is performed by FBN Insurance Limited, a partnership with South African-based Sanlam Group. While the CBN's circular to review bancassurance slowed down our activities in this area, we are still confident that our strategic approach and implementation will yield beneficial long-term results.

The Other Financial Services business group, which serves as an incubator for our smaller non-bank financial services business, is principally made up of FBN Microfinance Bank Limited and Kakawa Discount House Limited.

FBNHOLDINGS PERFORMANCE

Despite the tough operating environment, FBNHoldings continues to deliver resilient level of profitability, with profit before tax of ₦92.9 billion, which represents an increase of 1.8% year on year. Gross earnings also increased by 21.3% year on year to ₦480.6 billion.

The macroeconomic and regulatory environment remained challenging in 2014. The tough investment climate saw the market capitalisation of the Nigerian Stock Exchange (NSE) drop by ₦1.7 trillion to ₦11.5 trillion as at 31 December 2014. Similarly, the NSE All-share Index (ASI) dropped by 6,672.04 points or 16.14%, from 41,329.19 points as at 31 December 2013. The negative trend of the bourse in the past 12 months was attributed to the exit of Foreign Direct Investments (FDI) due to the increasing security and political risk in the country, in addition to the weakening global developments including the tapering of the United States' quantitative easing programme and the declining crude prices.

FBNHoldings remains committed to enhancing shareholder returns by ensuring improved contribution from our subsidiaries and leveraging on opportunities across the Group to drive revenue generation, particularly in non-interest income. We will continue to drive efficiencies across our businesses and expect improvement on this front in the short to medium term. Furthermore, we remain focused and confident in ensuring the businesses remain well-funded and adequately capitalised to support our growth initiatives.

Our diversification strategy to increase non-banking subsidiaries' performance and synergy extraction has translated in improved growth for IBAM. Of over ₦5.5 billion total customer synergies realised in 2014, over 60% of this was driven by IBAM transactions resulting in a year-on-year 8.7% revenue growth to ₦23.5 billion.

Performance of the Insurance business was driven by increased business volumes following the inclusion of the acquired general insurance business (Oasis Insurance). This underscores the increased drive to capture more market share while ensuring that good insurance businesses are underwritten in generating sustainable profitability. In addition, a retail focused strategy was adopted towards the mass market where insurance penetration is at its lowest supported by increased distribution channels. This produced improved contribution and market share as the general insurance business was fully integrated.

Gross earnings increased by 21.3% year on year to ₦480.6 billion, supported by strong growth in non-interest income at ₦111.8 billion (+66.1% year-on-year), followed by a 12% year-on-year growth in interest income to ₦362.6 billion. The growth in non-interest income was driven primarily by growth in foreign exchange income as well as fees and commission income. Overall, gross earnings have been supported by increased business volume as well as enhanced treasury management activities.

Net interest income increased 6.0% year on year to ₦243.9 billion (Dec 2013: ₦230.1 billion) despite 27.0% year-on-year increase in interest expense. Net interest income grew by ₦67.4 billion in the last quarter, slightly stronger than the earlier quarters, primarily due to +6.9% year-on-year increase in income from investment securities, followed by a 10.3% year-on-year increase in interest on loans and advances to banks as FirstBank benefits from being a net placer in the interbank market. Income on loans and advances to customers grew 14.2% year on year to ₦251.2 billion. Interest income was supported by repricing and reallocation of assets and investments to the shorter end of the curve given the increasing interest rate environment. The composition of interest on customers' loans and advances to interest income was sustained at 69.3%, income from securities at 25.4%, followed by income from loans and advances to banks at 5.3%.

Interest expenses grew 27.0% year on year to ₦118.7 billion, reflecting a higher interest rate environment driven by increased cash reserve requirements on public and private sector deposits, heighted competition for deposits among financial institutions as well as monetary policy rate (MPR) review in the last quarter of the year from 12% to 13%. The increase in MPR also led to an increase in the minimum savings deposit rate (30% of MPR) to 3.9% from 3.6%, further impacting our interest expense. Additionally, pressure on interest expenses is attributable to the increased use of LC issuance lines from corresponding banks, full year impact of the interest payment on the $300 million subordinated debt issued in 2013, interest payment on the $450 million subordinated tier 2 debt issued in the international markets in July 2014, as well as other borrowings. Interest expenses on customers' deposit, constituting 82.6% of total interest and similar expense, grew 23.3% year on year and 8% quarter-on-quarter to ₦98.0 billion with interest on borrowings, which is 15.2% of total interest expense, increasing by 58.1% year on year to ₦18.0 billion.

Expectedly, increased interest expenses resulted in higher cost of funds at 3.5% (Dec 2013: 3.3%). Yields on bank loans, customers' loans and investment securities were 4.3%, 12.7% and 11.8% respectively with an overall blended average yield on interest earning assets at 11.3% (Dec 2013: 11.2%). Consequently, **net interest margins** closed at 7.6% (Dec 2013: 8.0%).

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Non-interest income (NII) grew strongly by 66.1% year on year to ₦111.8 billion (Dec 2013: ₦67.0 billion); driven primarily by a 12.8% year-on-year growth in fees and commission (F&C) income to ₦67.0 billion (Dec 2013: ₦59.4 billion). Net fees and commission income make up 54.4% of the non-interest revenue. In addition, foreign exchange income rose to ₦44.9 billion (Dec 2013: ₦6.7 billion) on the back of enhanced treasury activities, increased volume of trade business and favourable exchange rate.

The increase in F&C income reflects the growing effectiveness of the various strategic initiatives put in place to enhance non-funded income across the Group. Commission on turnover (COT) remains the highest component of non-interest income contributing 22.8% (Dec 2013: 29.7%). COT declined as a result of the implementation of the CBN directive on reduction in COT charges from ₦3/mille in 2013 to ₦2/mille in 2014. Notwithstanding the 33% regulatory reduction, COT income only declined 13.2% year on year to ₦15.3 billion (Dec 2013: ₦17.6 billion) reflecting enhanced monitoring of covenants tied to business volumes. We are focussed on broadening non-interest income. This is demonstrated through improved year-on-year growth in our electronic banking fees, +49.9% to ₦11.5 billion; remittance fees, +50.1% to ₦5.1 billion; letters of credit commission and fees, +21.3% to ₦6.6 billion and other fees and commission, which include contributions and commissions received from our non-banking subsidiaries, +52.0% to ₦9.7 billion.

The contribution of non-interest income to net revenue improved to 31.4% (Dec 2013: 22.6%). This is a result of some of the initiatives developed, implemented and executed towards driving increased business generation and enhancement of non-interest income. These include:

- monitoring and enforcing transaction covenants to ensure appropriate COT is charged;
- increasing focus on banking the value chain within the public sector and the institutional banking space;
- driving the mobile banking business through focused financial inclusion/banking convenience awareness and increasing the number of customers, agents and transaction value;
- reviewing the Bank's operating model in line with the evolving business environment to ensure strategic realignment and optimal use of available resources;
- increasing the contribution of treasury management;
- focusing and deepening transaction banking services to improve collections;
- growing low-cost deposits;
- retaining funds through offering effective e-payment and liquidity management solutions;
- creating an integrated middle office to boost the productivity of relationship managers through a sustainable engagement that engenders excellent customer service experience to drive repeat sales; and
- sustaining awareness and drive to enhance cross sell initiatives, improve performance and returns from other subsidiaries to provide diversified and sustainable revenue for the Group.

Operating expenses increased by 27.5% year on year to ₦236.8 billion (Dec 2013: ₦185.8 billion) driven primarily by staff cost +21.3% year on year to ₦79.8 billion, regulatory cost (+21.0%) to ₦30.2 billion and advert and corporate promotions +52.7% year on year to ₦12.7 billion. Staff cost which make up 33.9% (Dec 2013: 35.5%) of operating expenses grew 21.3% as a result of an increase (+641 staff) in the number of staff across the Group and following the acquisition of Oasis (+34), Kakawa Discount House (+73) and FBN Senegal (+68), aligning the compensation structure of the acquired West African subsidiaries with that of the FirstBank Group as well as promotion of staff across the FirstBank Group legacy businesses. There were no increases in staff salaries during the year. Headcount across the Group closed at 10,464 with 94% of personnel allocated to the Banking Group. 87.8% of the global staff work from Nigeria, 5.4% from the DRC, 1.5% from Europe and the balance of 5.3% from the West African subsidiaries including the representative offices across the globe. We are critically reviewing staff cost with the aim of increasing the efficiency and productivity per staff. We are realigning the proportion of market facing to back office personnel; ensuring appropriate manning levels for all functions; and, re-evaluating the required number of staff to carry out various tasks across the Group.

Regulatory costs[6], which are 12.8% of total operating expenses, increased by 21.0% year on year to ₦30.2 billion (Dec 2013: ₦24.9 billion). Of this amount, AMCON resolution cost grew faster at 23.7% year on year to ₦17.1 billion on the back of increased total assets while deposit insurance premium increased by 17.7% to ₦13.0 billion due to increased customer deposits. In an attempt to drive increased awareness of the refreshed brand and the products and services offered as well as other business related costs towards generating increased sustainable business volumes locally, in the newly acquired jurisdictions and globally, advert and corporate promotion closed at ₦12.8 billion. Due to the full year consolidation of subsidiaries acquired in late November 2013 as well as the relative proportion of those acquired in 2014 (ICB Senegal, Oasis Insurance and Kakawa Discount House), in addition to progress on integration of these businesses, communication, lights and power costs rose by 102.5% year-on-year to ₦6.2 billion.

Given the above dynamics, **cost-to-income ratio** closed at 66.7% (Dec 2013: 62.7%). We expect to see some improvement in the costs profile of the Group in the medium term as we continue to implement some of the initiatives we have put in place to drive efficiencies, including but not limited to:

- reorganising the procurement process for greater focus and monitoring;
- improving the workforce productivity and realignment/optimisation of organisation structure (including rejuvenation of the work force);
- deploying IT solutions in head office middle and back offices to improve efficiency and effectiveness but ultimately to reduce the FTE[7] deployed to those sections of the Bank;
- expanding the central processing centre to further improve automation;
- slowing down branch expansion and continuous appraisal of branch performance as well as closing non-performing branches; and
- migrating additional transactions to e-banking platforms and other touch points.

Net impairment charge on credit losses grew by 27.7% year on year to ₦25.9 billion (Dec 2013: ₦20.3 billion). This was essentially driven by recognition of impairment in some small- to medium-sized exposures to fast track remedial action in line with the delinquency management/loan workout process to prevent future deterioration in some already impaired accounts. As such, the proportion of collective impairment on the impairment on loans to customers moved up to 14.9% from 5.0% in 2013.

Consequently, **cost of risk** increased marginally to 1.3% (Dec 2013: 1.2%). We are focusing on being more selective and on having tighter risk acceptance criteria. We have put in place a more proactive document administration, collateral management, credit monitoring and collection support through our newly created middle office, portfolio tracking for prompt identification of early warning signs of deterioration in the portfolio, revamped remedial and recovery process with increased senior management involvement, in addition to reinstituting a more conscious risk environment through training, coaching and stricter sanctions for non-performance.

NPL ratio declined marginally to 2.9% (Dec 2013: 3.0%). Adequate provisions have been made on the impaired assets with coverage ratio being 137.9%[8] (Dec 2013: 97.7%). We will continue to reinforce loan growth within our preferred sectors and defined risk appetite as well as proactively manage and drive efficiency within our portfolio.

6 Regulatory costs are computed based on the previous year closing balances.
7 Full-time equivalent.
8 Including statutory credit reserve.

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Profit before tax stood at ₦92.9 billion (Dec 2013: ₦91.3 billion), up 1.7% year-on-year. Income tax expense for the year was ₦10.0 billion (Dec 2013: ₦20.7 billion). This improved the effective tax rate to 10.8% from 22.7%. This was primarily driven by an increase in the tax exempt income from utilising available capital allowances. This performance translates into **pre-tax return on average equity** of 18.7% (Dec 2013: 20.0%) and **post-tax return on average equity** of 16.7% (Dec 2013:15.5%).

Earnings per share closed at ₦2.55 (Dec 2013: ₦2.16).

Total assets increased by 12.2% year on year to ₦4.3 trillion driven by growth in lending activities. Interest earning assets grew by 11.4% to ₦3.4 billion. Notwithstanding, as a proportion of total assets, interest earning assets were flat at 78.0% in spite of growth in total assets. This was largely due to a 65% growth in mandatory reserve deposits, closing at ₦564.0 billion (Dec 2013: ₦341.0 billion) following increased cash reserve ratios during the year.

Total customer deposits grew by 4.2% year on year to ₦3.1 trillion (Dec 2013: ₦2.9 trillion). During the year, public sector deposits (current and domiciliary) decreased by 39.6% to ₦424.2 billion due to a strategic and concerted effort to re-price these deposits to reflect the actual impact on our business as well as increased operational use of the funds by underlying beneficiaries. Public sector deposits now represent 16.6% of total deposits (Dec 2013: 27.5%). The need to re-price public sector deposits follows the increase in the cash reserve ratio on public sector funds in addition to implementation of the planned Treasury Single Account (TSA). Retail deposits, up 17.8% to ₦1.5 trillion at year end, now constitute 57.3% (Dec 2013: 48.7%) of the Bank's total customer deposits, while deposits from corporate and institutional customers make up 19.6%.

Savings deposits continue to grow steadily, constituting 23.9% (Dec 2013: 22.7%) of total deposits, closing at ₦728.7 billion (+9.5% year on year), while foreign currency deposits represent 16.9% (₦515.5 billion) of the Group's total deposits (Dec 2013: 21.0%) but 20.1% (Dec 2013: 24.0%) of the Bank's deposits.

The Group continues to enjoy access to low-cost deposits which ensures cheap and sustainable deposits to support the business. Low-cost deposits constitute 75.9% of FirstBank deposits and 65.3% of total Group's deposits. Our overall strategic intent is to have an efficiently balanced deposit mix, in line with the evolving business environment, to ensure optimal use of available resources. Thus, we have deepened coverage in our retail business.

The CRR impact within FirstBank at year end was 22.0% (₦560 billion) of customer deposits, with private sector CRR constituting 72% of total sterilised deposits. CRR represents 18.4% of total customer deposits across the Group.

Cost of funds inched up to 3.5% from 3.3% following increased cash reserve requirements on public and private sector deposits, heightened competition for deposits among financial institutions and the tight monetary policy environment which culminated in a rate review in the last quarter of the year from 12% to 13%. In addition, interest payments on borrowings have contributed to the additional funding costs. We expect funding costs to be stable, and potentially slightly higher, given the increasingly tight liquidity in the market and as impact from the implementation of the TSA by the Government. Overall, we expect heightened competition. Given our strong franchise, distribution network, improving service as well as our focus on transaction banking services, workforce realignment towards the front office to enhance customer touch points and deepen revenue generation, we will continue to grow our deposits liabilities in a sustainable manner to support business growth.

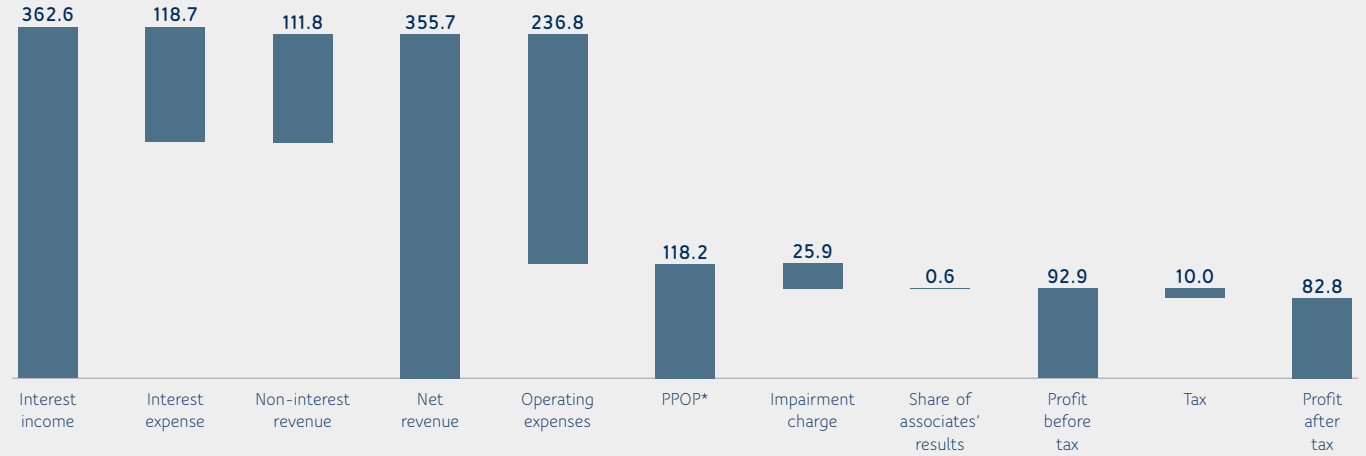
Total loans and advances to customers (net) grew by 23.2% year on year to ₦2.2 trillion (Dec 2013: ₦1.8 trillion), driven largely by loan growth in FirstBank - Nigeria only at (+21.7%). Sectors driving loan growth on a year-on-year basis were the general commerce, construction, oil and gas and power. Corporate and institutional banking customers constitute 70% of the loan book with retail loans at 16.1%. In line with our strategic intent on focusing on assets that will generate higher yields, loans to Commercial Banking customers now constitute 6.4% (Dec 2013: 2.2%) of the loan book.

Given the recent devaluation of the naira and the oil price decline, the impact on the Group's portfolio is reasonably covered, in view of the structure of most of the transactions. Generally, FX loans are backed by FX cashflows to provide a natural hedge against currency volatility. In addition, the risk from the falling oil price, especially on the upstream sector, is moderated as the cashflows of the obligors financed have been rigorously stress-tested for low crude price at $40 per barrel, the outcome of which suggests there will be need for tenor elongation between one and two years in order for their cashflows to meet repayment obligations, while the normal operating activities of the corporates continues. Furthermore, forward and hedged contracts, as well as off-take agreements, are in place to moderate risks.

In the downstream sector, a greater proportion of the Bank's exposures are short-term/self-liquidating trade transactions. Moreover, the country runs a regulated regime where customers are guaranteed payment under the subsidy scheme once delivery is verified by government agencies.

In oil and gas services, loans financed are based on confirmed invoices from major international oil companies to contractors that have proven track records of performance, as detailed in our target market and risk acceptance criteria, strong cash flows and healthy margins stress-tested to cover payment delays.

Fig 2: Evolution of FY 2014 profit after tax



* PPOP: pre-provision operating profit; computed as profit before tax - share of associate results + credit impairments.

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A weaker currency had a 560bps impact on the loan book, indicating real net loan growth of about 17.5%. We continue to be highly selective about the customers granted credit facilities. The focus in coming periods is to further diversify the loan book by reducing the exposure to the oil and gas sector via a combination of reducing credit lines to outright cancellation. Most of our customers are large companies with capacity to absorb higher operating cost arising from the currency shock or with ability to pass through same to their customers. Enhanced portfolio monitoring and proactive remediation strategies are also in place for retail/consumer exposures that are vulnerable to naira devaluation. Overall, the foreign currency component of the loan book is about 54.3% (Dec 2013: 33.3%).

Shareholders' equity closed at ₦522.9 billion, up 10.8% year on year (Dec 2013: ₦471.8 billion).

The Commercial Banking group achieved a Basel 2 **capital adequacy ratio** of 16.7%[9] (Dec 2013: 13.6%), tier 1 ratio of 12.5% (Dec 2013: 11.6%). As a result of increased capital requirements by the regulator, occasioned by the adoption of Basel 2 Capital Accord, First Bank of Nigeria Limited has reduced its pay-out ratio and retained a substantial portion of its profit to boost capital. This has impacted the capacity of FBN Holdings Plc to pay dividends; hence the proposed cash dividend of ₦0.10k per share and a scrip issue of one for every ten shares held, translating to a retention of ₦79.6 billion. We are confident that, following the retention, the capital adequacy ratio of FirstBank is adequate for its business in the short to medium term. As such, FBN Holdings Plc has no immediate plans for any capital raising exercise especially given the currently depressed prices in the capital market.

The Group remains resilient to the volatility of the operating environment through sound and effective management and continues to generate strong results. We are committed to driving enhanced profitability through improved revenue generation, cost optimisation and increasing efficiencies.

On a consolidated bases, the Commercial Banking group contributed 93.5% (₦448.7 billion; 2013: 93.7%, ₦370.2 billion) of the Holding company's gross earnings and 97.0% (₦90.1 billion; 2013: 92.6%, ₦84.6 billion) of profit before tax for the 2014 financial year. The other business groups contributed 6.5% and 3.0% in gross earnings and profit before tax respectively. The Investment Banking and Asset Management group delivered gross earnings of ₦18.8 billion (2013: ₦20.3 billion) and a profit before tax of ₦3.5 billion (2013: ₦8.0 billion). The Investment Banking and Asset Management group has been able to harness the inert opportunities within the Group thereby increasing the volume of business and performance as a stand-alone. The Insurance group contributed ₦4.7 billion and ₦0.7 billion to the Group's gross earnings and pretax profit respectively. Performance of the Insurance business was driven by increased business volumes following the inclusion of the acquired general insurance business (Oasis Insurance). In addition, a retail focused strategy adopted to deepen penetration through increased distribution. This underscores the increased drive to capture more market share while ensuring that good insurance businesses are underwritten in generating sustainable profitability. The Other Financial Services group contributed ₦5.4 billion and ₦0.4 billion to the Group's gross earnings and profit before tax following the acquisition of Kakawa Discount House Limited.

PERFORMANCE BY BUSINESS GROUPS

Growth in Sub-Saharan Africa is projected to increase to 5.8% in 2014 growing by over 6% in 2015 – assuming favourable economic conditions. The percentage of people living below the poverty line has dropped to 41% and is expected to continue to decline with a burgeoning middle class being created. These provide huge potential for the future of Africa. Economic, social and political conditions will also play a big part in the development of the continent. Furthermore unforeseen events will always affect progress such as the Ebola virus disease (EVD) outbreak in West Africa. We believe there are still vast amounts of untapped resources – both human and natural – to attract growth so long as existing challenges continue to be ameliorated.

COMMERCIAL BANKING

The Commercial Banking business group is responsible for offering banking services to both individual and corporate clients in Nigeria and internationally. The Commercial banking business recorded decent revenues despite the difficult operating environment the Group faced in the year under review. Whilst the operating environment was difficult, particularly with a number of far-reaching regulatory changes such as the huge increase in Cash Reserve Ratio (CRR) on public sector funds from 12% to 75%, increased interest on savings accounts and reduction of Commission on Turnover on banking transactions, the Group still increased profits in excess of 10% with a higher contribution from its subsidiaries particularly FBNBank (UK) and FBNBank DRC.

We expect our policy of deepening the customer experience across the spectrums of the market in which we play, to place us in good stead to leverage growth opportunities.

Our short term goal will include leveraging on our distribution reach, improving productivity, and strengthening our existing international business locations to deliver strong and sustainable financial performance optimally pricing our assets portfolio, managing our overall costs more efficiently, guarding against any deterioration in the quality of our assets, active treasury businesses, deepening transaction banking and improving services through alternative channels.

The Commercial Banking business group grew gross earnings by 22.1% to ₦455.4 billion on the back of a 9.9% year-on-year increase in fee and commission income to ₦58.5 billion and Interest income (+12.6%) to ₦349.3 billion. Net interest margin declined to 7.7% attributable to the increased reserve requirement which led to the reduction (-50.4%), in investment securities mainly treasury bills. Furthermore, net interest income increased by 7.0% to ₦239.6 billion (Dec 2013: ₦223.8 billion) owing to the 12.6% increase in interest income but muted by a rise (+27.0%) in interest expense over the period, driven by the need to replace public sector deposits with private deposits following the increase in CRR on public sector deposits from 12% to 75% and interest on savings deposit rate from 1% to 3.6% and then to 3.9% late in the year. Operating expenses increased by 26.4% year on year to ₦218.2 billion (Dec 2013: ₦172.7 billion) driven primarily by staff cost +20.3% year on year to ₦72.7 billion, regulatory cost (+21.0%) to ₦29.8 billion and advert and corporate promotions +55.6% year on year to ₦11.6 billion. Staff cost which make up 33.3% (Dec 2013: 34.9%) of operating expenses grew 20.3% as a result of the Senegal acquisition (+68), aligning the compensation structure of the acquired West African subsidiaries with that of the Bank as well as promotion of staff across the FBNHoldings Group legacy businesses. Profit before tax was ₦94.5 billion (2013: ₦88.6 billion), while profit after tax increased by 27.7% to ₦84.8 billion (2013: ₦66.5 billion).

Total assets grew by 10.3% year on year to ₦4.1 trillion (2013: ₦3.7 trillion). Customer deposits grew 1.6% to ₦2.99 trillion (2013: ₦2.94 trillion) which in turn generated a 22.0% growth in loans and advances to customers to ₦2.2 trillion (2013: ₦1.8 trillion) supporting the balance sheet growth. The growth in loans resulted from lending activities to manufacturing, oil and gas as well as increased retail segments. Cash and balances with the CBN increased by 17.4% to ₦697.6 billion (2013: ₦594.0 billion) due to an increase in cash reserve ratio on public sector deposits from 12% to 50% then to 75% and an introduction of the private sector cash reserve requirement of 15% with a subsequent increase to 20% in the fourth quarter of the year under review. Cost of risk currently at 1.3% with adequate provision made to maintain asset quality.

9 Following the devaluation, there was a probable 67bps impact on the capital adequacy ratio, implying Basel 2 CAR would have been estimated at 17.2%.

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Fig 3: Net revenue (₦ billion)

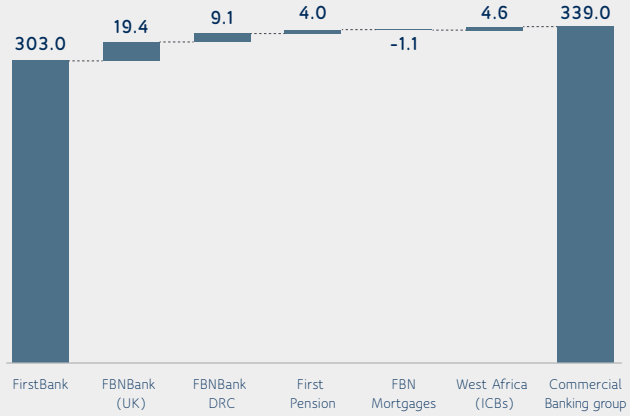
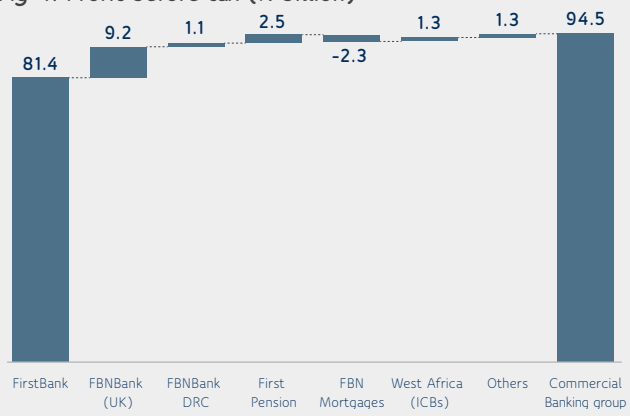


Fig 4: Profit before tax (₦ billion)



FIRST BANK OF NIGERIA LIMITED

Gross earnings of FirstBank rose 21.0% year on year to ₦410.6 billion in 2014, driven largely by an increase in interest income of 9.0% to ₦309.9 billion but muted by the 21.6% rise in interest expense to ₦94.5 billion (2013: ₦77.7 billion) as a result of the increase in minimum interest rate on savings deposit (to 3.9%), interest on borrowings particularly the additional interest from the recently issued $450 million Eurobond and continued intense competition for deposits. The increase in operating expenses which closed at ₦200.7 billion (2013: ₦159.1 billion) largely reflected the impact of increased staff costs, regulatory costs, as well as corporate and advert promotions due to the rebranding exercise. Cost to income ratio stood at 66.2%.

Profit before tax increased to ₦81.4 billion (2013: ₦76.9 billion) while return on average equity and average assets stood at 20.5% and 2.4% respectively.

Groans loans, on the other hand, grew by 20.9% to ₦1.8 trillion (2013: ₦1.5 trillion) notably from increased exposure to the oil and gas sector buoyed by the devaluation of the naira as well as increased exposure in construction and general commerce.

The Commercial Banking SBU, representing 6% of the loan book recorded an Impressive 254.5% year-on-year increase in loan growth to ₦109.9 billion; while the retail business deepened coverage and grew 6.5% year on year from ₦278.0 billion to ₦296.0 billion as we reallocate our portfolio and optimise the existing retail infrastructure.

FirstBank's gross loan book increased by 20.9% year on year to ₦1.8 trillion in 2014 (2013: ₦1.5 trillion), while the net loan book also recorded a growth 22.2% year on year to ₦1.8 trillion (2013: ₦1.5 trillion). Loan growth across the business segments was driven by the growth in Corporate Banking SBU to ₦517.0 billion Commercial Banking SBU loans to ₦115.5 billion (2013: ₦54.4 billion) and Retail Banking SBU by 6.5%. Commercial, Retail and Institutional Banking SBUs make up 61% of the Bank's loan book. Public Sector, Private and Corporate Banking make up the remaining 39%.

In the year, 1.2% (₦21.8 billion) of FirstBank's gross loans was restructured mainly to realign business cashflows with loan repayments; the short- to medium-term target of the oil and gas sector is 30% (FY 2014: 40%).

The Bank closed with NPLs of ₦60.3 billion (2013: ₦46.9 billion). Our strategic focus is to grow retail and trade finance business to enhance liquidity, yield and optimise portfolio mix.

Total assets increased 7.5% year on year to ₦3.5 trillion (2013: ₦3.3 trillion), largely from the growth in loans and advances. Deposit liabilities constitute 73.4% of funding[10] (2013: 80.0%) as equity and long-term borrowings respectively represent 12.2% and 10.9%, while other liabilities made up 3.0%. Funding and liquidity positions have been strong throughout the period as the Bank continued to attract low-cost deposits, while the capital resource remains adequate to support lending activities. Cost of funds stood at 3.9% (2013: 3.0%) reflecting the high interest rate environment, increased interest rate on savings accounts and intense competition for deposits.

The decline in the deposit liabilities portfolio year on year by 0.8% to ₦2.55 trillion (2013: ₦2.57 trillion) is a strategic and deliberate move to shed off public sector deposits following the increased reserve requirement. This saw current accounts recording a 16.2% decline as CASA[11], which constitutes 76% of FirstBank's deposits declined by 8.3%. The term deposits account for the balance of 24% deposit liabilities recorded a 34% growth to ₦614.0 billion (2013: ₦457.8 billion) as we shore up liquidity in an attempt to replace public sector deposits in addition to a number of current and savings account customers that migrated to the term deposits to benefit from the high interest rate. The Bank's focus is to deepen existing relationships and increase penetration in the various customer segments to further harness possible opportunities and enhance service delivery and offerings.

The Bank's operating model was reviewed in line with the evolving business environment to ensure strategic realignment and optimal use of available resources. Primarily, existing Public Sector and Retail Banking groups are now split along regional lines, Lagos & West, North and South Region, to enhance penetration across those regions. Corporate and Commercial Banking groups retain portfolio focus and continue to exploit latent opportunities in primary locations. There is also no change to the Institutional and Private Banking groups.

While our focus remained on increasing penetration in each of our customer segments, especially retail and commercial, and leveraging our extensive retail platform with the goal of diversifying our deposit base, the retail banking unit currently accounts for 57% (2013: 49%) of the deposit liabilities. Growth in deposit liabilities was primarily due to increased focus on transaction banking services and review of the operating model to stimulate improved collections, grow low-cost deposits, and retain funds through offering effective e-payment and liquidity management solutions and also driving the mobile banking business through focused financial inclusion/increasing awareness as well as growing the number of customers, agents and transaction value.

10 Funding comprises deposits from banks and customers, other liabilities, borrowings and equity.
11 CASA – Current account, savings account.

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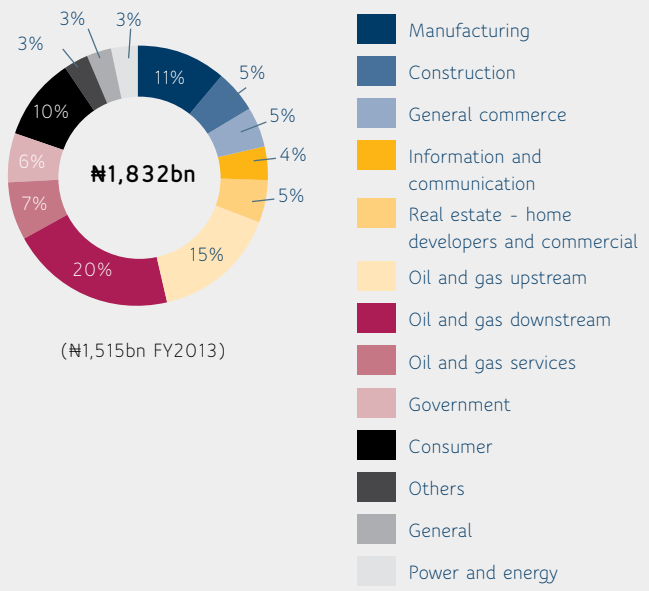
Contributing 27.4% of the Bank's deposit base, current accounts still remains significant at ₦698.8 billion in spite of its 16.2% year-on-year decline from ₦833.9 billion due to the increased cash reserve requirements particularly on public sector funds since these are in current accounts resulting in the Bank's decision to de-emphasise these type of funds. Savings accounts, representing 28.0% of deposit liabilities, grew by 9.2% year on year primarily due to increased focus on harnessing opportunities from our extensive distribution platform. The Firstmonie platform also contributed to this growth as the number of customers grew from 500,000 to c.2,200,000 impacting growth in transaction volume and value.

To read more on the FirstBank performance please go to the FirstBank of Nigeria Limited Annual Report.

Fig 5: Gross loans breakdown by sectors



FBNBANK (UK)[12]

The UK economic recovery continued to gather pace with increasingly positive data emerging for the service, manufacturing and construction sectors. There was also a surge in both construction and manufacturing sectors confirming this recovery especially with the improvement in the labour market.

We continued to follow our customers' trade flows, as we expand our footprint in 2014. This year has also seen us deepen our expertise in key business areas. This mix has provided for strong deal flow and better service offerings to customers. There are an increasing number of Nigerian banks with growing operations in the UK. Notwithstanding, we are confident that given our market experience, excellent staff and product offerings FBNBank (UK) will continue being the first choice - amongst our peers - for banking in Africa.

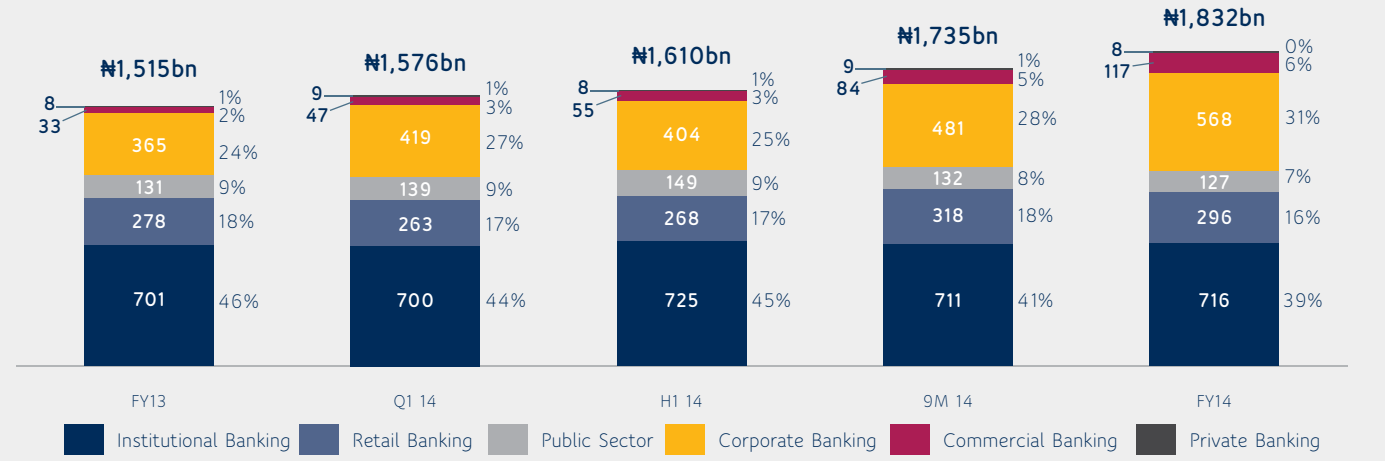
FBNBank (UK) grew gross earnings by 20.6% year on year to ₦26.9 billion (Dec 2013: ₦22.4 billion) resulting from general business expansion, improved asset mix and enhanced asset yield in spite of the challenging operating environment. Net interest income grew 27.8% to ₦16.1 billion resulting from increased interest income (+20.6%) driven by a combination of increased customer lending activities in oil and gas, finance and insurance. Net fee and commission income was ₦2.3 billion recording a 40.4% year-on-year increase attributable to the growing business transactions.

Operating expenses increased by 28.2% to ₦7.4 billion (2013: ₦5.8 billion) as operational infrastructures and resources expanded to support business growth. However, FBNBank (UK) posted profit before tax of ₦9.2 billion, a 21.0% year-on-year increase (2013: ₦7.6 billion).

Total assets rose by 23.1% to ₦659.7 billion (2013: ₦535.9 billion), driven by increase in customer deposits (+40.0%) generated to support increased lending activities. Loans to customers increased by 27.5% to ₦369.7 billion (2013: ₦291.1 billion). NPL ratio remained low at 0.1% and was fully provisioned net of collateral.

Customer deposits grew 40.0% year on year to close at ₦413.9 billion (2013: ₦295.7 billion) and this was strategically driven through wholesale and retail deposit liabilities to achieve an optimal funding mix. Funding and liquidity positions were strong throughout the period as the Bank continued to attract deposits. The Bank achieved an improved deposit tenor profile, as its deposit liabilities were composed more of tenored funds to add duration to the deposit profile compared to the previous year.

Fig 6: Gross loans breakdown by SBUs



12 Prior year's performance translated at prior year's exchange rate.

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Total shareholders' equity increased by 20.1% to ₦62.8 billion (2013: ₦52.3 billion), resulting from a combination of high profit retention and reduction in revaluation reserve account. Return on shareholders' equity increased to 12.4% (2013: 12.1%) while return on assets remained flat year on year at 1.2% (2013: 1.2%).

FBNBank (UK) recorded a capital adequacy ratio of 18.6% (2013: 18.2%) with a core tier 1 capital ratio of 14.9% (2013: 14.3%), reflecting the contribution from a high percentage profit retention and optimal balance sheet management. The capital ratios were in excess of regulatory requirements as at the reporting date and demonstrated the strong capital position of FBNBank (UK).

It is expected that FBNBank (UK)'s strategic plan to extend leadership position as the foremost Nigerian-owned bank in the UK, continuing to be the first African bank in the UK, will continue to strategically position her to take advantage of opportunities and mitigate risks resulting from changes in global economic and regulatory changes. FBN UK has built core competence in financial solutions for mid-tier to large corporates, operating specifically within or with the African market.

It is anticipated that 2015 will be challenging for FBN UK, particularly as fallen commodity prices remained low, the economic situation remains below full recovery and the regulatory environment continues to operate harder rules. Nevertheless, we look forward with optimism and confidence to identify and execute viable business opportunities, which in turn should produce excellent financial performance.

FBNBANK DRC

FBNBank DRC continues on a growth path despite the tough operating environment. Gross earnings increased by 16.0% to ₦9.7 billion (Dec 2013: ₦8.4 billion) with profit before tax down to ₦1.0 billion (Dec 2013: ₦1.4 billion). Notwithstanding the decline in profitability, FBNBank DRC leads the pack on pre-tax returns on equity. Retail and corporate banking constitute 82.9% of the loan book driven by general commerce, retail and SME as well as government sectors. Funding is primarily from equity and deposit at 86.9%. Risk assets remains largely concentrated in the capital - Kinshasa.

Total assets grew by 19.0% to ₦63.8 billion (Dec 2013: ₦53.6 billion). Net loans to customers increased 35.9% to ₦32.3 billion while customer deposits closed at (+21.6%) ₦52.5 billion (Dec 2013: ₦43.2 billion).

FIRST PENSION CUSTODIAN NIGERIA LIMITED

The 2014 financial year was challenging for the Company, in terms of operational activities and competition. The entire investment horizon, right from the beginning of the year 2014, started on a cautious note and this reflected in the negative price movement experienced by many active stocks on the Nigerian Stock Exchange. The capital market experienced myriads of highs and lows in 2014.

The last quarter of the year witnessed falling crude oil prices in the international market and slide in the value of the country's currency against major foreign currencies, which negatively impacted capital market activities. Given the macroeconomic conditions, the market has witnessed noticeable exit by foreign portfolio investors. All of these have grave implications, both for the country and the pension industry.

Regulatory framework continued to evolve with the signing into law of the Pension Reform Act 2014, which repealed the previous Pension Reform Act 2004. The major thrust of the Act is the upward review of the minimum rate of pension contribution from 15% to 18%. The provisions of the Act also expanded the pension base as it revised the obligatory criteria by bringing organisations with as few as three employees into the contributory pension scheme.

With the driving force to deliver sustainable growth year on year, First Pension Custodian Nigeria Limited (FPCNL) recorded a 22.5% growth in gross earnings to ₦4.0 billion (2013: ₦3.3 billion) and a 23.9% increase in profit before tax to ₦2.5 billion (2013: ₦2.0 billion).

Assets under custody (pension and non-pension assets) increased 25.5% to ₦1.82 trillion (2013: ₦1.5 trillion) due to newly won non-proprietary businesses resulting in a 23.5% rise in fee income. Equally, total interest income increased by 52.4% to ₦506.0 million driven by growth in the investible funds. Operating expenses, due to continued investment in infrastructure and other operational expenses grew 22.2% to ₦1.5 billion while cost to income ratio reduced to 37.0% (2013: 38.0%), aided by the continuous costs containment initiatives. Balance sheet size increased to close at ₦7.1 billion driven by the 17.0% growth in earning assets at ₦5.3 billion.

FBN MORTGAGES

FBN Mortgages is transitioning into a fully fledged mortgage-focused institution in line with the major policy thrust of the Central Bank of Nigeria that all Primary Mortgage Banks (PMBs) divest from real estate investment. Hence, the principal activity of the Company is to provide integrated mortgage solutions by providing mortgage funding to individuals and property investors.

The Bank's target markets are a mix of high-end to middle class income earners as well as carefully screened and qualified self-employed customers. These customer classes represent about 60%-70% of the Nigerian population and provide enormous opportunities for the Bank.

Offering risk assets, savings and deposits, the Bank is a market leader in the primary mortgage banking sector of the financial industry with a customer base of about 5,468, deposit base of ₦11.3 billion and an asset base of ₦14.2 billion leveraging on the top-notch brand of FBNHoldings in the market place, robust information technology (IT) and highly seasoned personnel for its cutting edge operations and service delivery.

Operating costs increased 41.6% year on year to ₦2.3 billion (2013: ₦1.6 billion); total assets declined by 9.0% to ₦14.2 billion (2013: ₦15.6 billion) principally from disposal of the real estate properties.

The profitability of the Company was impacted negatively as a result of the real estate investment disposal losses taking losses up to ₦2.3 billion (2013: ₦1.3 billion) reflecting the 11.9% decline in gross earnings as well at ₦985.9 million (2013: ₦1.1 billion).

Though access to long-term, low-cost funding continues to create a major challenge for mortgage financing in Nigeria, the Bank will persistently strive to increase its risk asset portfolio with a focus to increase the ratio of risk assets to total assets. The Bank is already forming strategic partnership with some reputable development financial institutions (DFIs), which will provide the Bank with cheap long term funding. In pursuit of our loan creation priorities, we will seek to improve our credit processes by deploying new initiatives and optimising the efficiency of the processes. We are focusing on strategies, processes and controls around our credit processes to ensure incidences of loans losses are reduced and kept below 5%. In addition, in improving our credit processes, we are enhancing customer service delivery to provide excellent and creative services to our esteemed customers in a timely manner.

WEST AFRICA OPERATIONS

Subsequent to the completion of the acquisition of the four International Commercial Banks (ICB): ICB Ghana, ICB Gambia, ICB Guinea and ICB Sierra Leone, in the preceding year, ICB Senegal's acquisition was finalised on 27 May 2014 resulting in FirstBank gaining control of the operations of all five entities.

The acquisition of ICB Senegal is in line with the long-term objectives of our international expansion, especially the main goals of reducing country specific risk, diversifying our earnings base and continuing to support our customers' trade requirements.

Senegal's business climate is conducive to a proven record for attracting large foreign direct investments. The country's low banking penetration, strong prospects for economic growth and political stability are its strongest selling points.

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These five subsidiaries are tier 3 banks in their respective markets, offering a number of financial services and products to their customers comprising retail, corporate, SMEs and the public sector, with their operations classified into business and consumer banking. The integration of the five West African subsidiaries are being concluded in areas of structure, name change, rebranding and branch upgrades. We are also focused on extracting revenue opportunities through product innovation and extension, aligning the Group's corporate governance standards and optimising the processes and policies as well as the core banking applications.

The five West African subsidiaries i.e. FBNBank Ghana, FBNBank Gambia, FBNBank Guinea, FBNBank Sierra Leone and ICB Senegal[13] are now being integrated into the FBN structure to capture the desired value that informed the acquisitions.

The total assets of the five ICB West Africa banking operations was ₦47.4 billion a 25.8% rise from 2013 at ₦37.7 billion, partly as a result of the addition of ICB Bank Senegal. The West Africa operations accounts for 1.1% of the Banking Group's assets. Gross earnings were ₦5.7 billion (2013: ₦1.1 billion) demonstrating a quadruple turnover although this follows the complete incorporation of the ICB Banks into the FBN structure as the 2013 financial statements incorporated only the fourth quarter (Q4) of the ICBs. The ICBs returned a profit before tax of ₦1.3 billion (2013: ₦0.4 bllion).

INVESTMENT BANKING AND ASSET MANAGEMENT (IBAM)

IBAM is organised into five Strategic Business Units - Investment Banking, Markets, Asset Management, Trust Services and Alternative Investments. IBAM arranges finance, provides strategic advice, trades securities, administers assets, manages funds and invests capital, for both institutional and individual clients.

The operating environment in 2014 was challenging, particularly the last quarter due to the declining oil prices, currency weakness, and uncertainty in the political terrain increased market volatility. Notwithstanding the headwinds, IBAM recorded a strong performance. Year-on-year gross revenues and PBT grew by 6.8% to ₦23.5 billion (2013: ₦21.7 billion) and 17% to ₦6.2 billion (2013: ₦5.3 billion) respectively. This was driven by a strong and sustained underlying performance across most of our businesses. Key contributors include; the Investment Banking business, particularly the structured finance and syndicated loan market, and the Asset Management business.

Our cost-to-income ratio rose slightly from 43% to 44% while ROE grew to 19% (2013: 16%), this demonstrates growth in value to shareholders. Total assets under management (AUM) across the IBAM group remained flat at ₦148 billion.

Revenues in the Investment Banking division grew by 44% compared to 2013, as we successfully completed large financings primarily driven by increased activities in the oil and gas sector. Contribution to overall group revenues rose to 37% (2013: 35%).

Despite rising competition, revenues from the Trust business increased by 27% in 2014. We established key alliances and pursued aggressive business development initiatives in order to strengthen our position as the leading Trustee business. Contribution to overall group revenues dropped marginally to 20% (2013: 21%).

The Markets business also grew by 44%, in 2014 as we implemented key initiatives aimed at strengthening our distribution platform. Contribution to overall group revenues rose to 6% (2013: 5%).

Revenues in the Asset Management business doubled[14] as efforts to re-position the business started to yield results. The business also recorded approximately 52% growth in the customer base and 9% growth in AUM. Contribution to overall group revenues rose to 17% (2013: 7%).

The performance of the Alternative Investments division was negatively impacted by fair value losses on selected investments, leading to a revenue decline of 68% compared to prior year.

FBN CAPITAL

FBN Capital Limited is the parent entity in the IBAM group and houses the Investment Banking businesses. FBN Capital continues to be the highest contributor of revenue to the Group.

Despite some strong headwinds, gross revenue grew by 56% year on year to ₦9.2 billion, while PBT increased by 36% to ₦5.3 billion (2013: ₦3.9 billion). The Debt Solutions business contributed the majority of the revenue, while the Financial Advisory and Capital Markets businesses accounted for the balance.

FBN TRUSTEES

FBN Trustees is a wholly owned subsidiary of FBN Capital. It acts as a custodian, administrator and manager of assets for public, corporate and private entities/ individuals. We have three main business lines namely; Corporate, Public and Private Trust. The Corporate Trust business benefitted from reforms and increased market activity in the oil and gas, and power industries while the Public and Private Trusts businesses continue to grow steadily.

While gross earnings for the period declined by 18%, profit before tax for the period increased by 73% to ₦1.7 billion (2013: ₦985 million). Total assets under management grew by 3% to ₦41.3 billion.

FBN CAPITAL ASSET MANAGERS

FBNCAM is a wholly owned subsidiary of FBN Capital, offering specialist portfolio and fund management services; mutual funds for retail investors and investment portfolios and structured products for Institutional and high net worth individuals. The Asset Management division's products include mutual funds, structured products, as well as discretionary and non-discretionary portfolio management services across various asset classes including fixed income, equities and real estate.

FBN Capital Asset Managers currently ranks as the third largest SEC registered fund manager in Nigeria (ranked by total AUM of mutual funds and exchange traded funds).

FBN Capital Asset Managers' gross earnings increased 31% year on year to ₦1.7 billion (2013: ₦1.3 bilion), mainly driven by growth in assets under management and fee income. Total assets under management grew by 15% to ₦107 billion.

FBN FUNDS

FBN Funds is a wholly owned subsidiary of FBN Capital, and is the private equity business which serves as a platform for providing growth capital to firms to finance their expansion plans. We have made investments across a number of sectors in Nigeria such as Telecoms, Leasing, Oil and Gas, Travels and Tourism, Information and Communication Technology.

FBN Funds had a challenging year, as there were no exits of investments as was the case in 2013. Fair value losses on selected investments also adversely impacted profitability. Total investments in portfolio companies were valued at ₦3.2 billion at the end of the year.

13 To be renamed and rebranded FBNBank Senegal.

14 Year-on-year variance stated here is net of business development pay-outs.

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FBN SECURITIES

FBN Securities is a wholly owned subsidiary of FBN Capital, and is engaged principally in the business of stock brokerage. It is the hub of our distribution platform; comprising sales, trading, research and structuring activities, across various asset classes (equity, fixed income and foreign exchange). Our services are offered to a broad range of customers including; pension fund administrators (PFAs), insurance companies, banks and financial institutions, local and offshore portfolio managers, large corporations, endowment funds, foundations and cooperative societies, high net worth clients (HNIs) and other retail clients. We also distribute public offerings on behalf of issuers and provide qualitative macroeconomic, sector focused and companies research.

FBN Securities faced a challenging business environment in the year, as the equity and fixed income markets faced significant headwinds limiting foreign investors' appetite. Net revenues decreased marginally to ₦727 million (2013: ₦784 million).

INSURANCE GROUP[15]

The Insurance business group offers insurance brokerage and composite underwriting services to customers; while FBN Insurance Brokers (100% owned subsidiary) provides the brokerage service, the full underwriting business is provided through FBN Insurance (65% owned by FBNHoldings and 35% by Sanlam).

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

Revenue for the Insurance group increased by 78.4% following the integration of the general insurance business to ₦6.5 billion from ₦3.7 billion. This could also be evidenced in the 52.3% increase in interest income. Profit before tax rose to ₦1.6 billion from ₦854.9 million in 2013, an impressive 90.9% rise.

The Insurance group's total assets closed the year at ₦18.3 billion, a 41.1% increase year on year (Dec 2013: ₦12.9 billion).

Performance of the Insurance business was driven by increased business volumes following the inclusion of the acquired general insurance business (Oasis Insurance). This underscores the increased drive to capture more market share while ensuring that good insurance businesses are underwritten in generating sustainable profitability. In addition, a retail focused strategy has been adopted towards the mass market where insurance penetration is at its lowest supported by increased distribution channels. We expect improved contribution and market share as we fully integrate the general insurance business.

FBN INSURANCE

FBN Insurance Limited comprises FBN Life and FBN General Insurance. Gross premium income (GPI) for the Insurance business totalled ₦8.73 billion, comprising life insurance; ₦7.45 billion or 85%, and general insurance ₦1.28 billion or 15% respectively. This represents a year-on-year growth of ₦4.8 billion. Growth achieved within the year is buoyed by the inclusion of the general insurance business, alongside an increase in sale of retail products as well as the deployment of alternate distribution channels such as the credit life and mobile insurance products.

Also contributing to the earnings growth a 65% year-on-year increase in investment income at ₦491 million due to larger investible funds within the period, though muted by the risk reserve provisions (₦1.98 billion) to adequately cater for the risks carried, and growth in net claims payment by ₦720 million. FBN Insurance Ltd closed the year with a PBT of ₦1.36 billion with life insurance business contributing 82% (₦1.13 billion), while the general insurance accounted for the remaining 18% (₦233 million). The performance was mainly due to savings in risk provision and claims payment resulting from underwriting of less risky business

Total assets increased by 54% to ₦17.4 billion (Dec 2013: ₦11.3 billion), resulting from an 86% growth in investment securities as well as a 150% increase in cash and bank balances. Shareholders' funds closed at ₦4.6 billion (Dec 2013: ₦3.6 billion), representing an increase of 26%.

FBN INSURANCE BROKERS

The NAICOM regulation of 'no premium no cover' took full effect in 2014, hence many of the brokerage customers now prefer short-term insurance covers for liquidity reasons.

FBN Insurance brokers recorded a 7.0% decline in gross earnings of ₦774.0 million (Dec 2013: ₦836.0 million) on the back of the decline in both interest income from placements of ₦111 million (-28%) and fee and commissions of ₦663 million (-6% year on year) following reduced volume from the 'no premium no cover' policy, which took effect in the earlier part of the financial year.

Operating expenses increased moderately by 9% year on year to ₦503 million and the strict cost control measures implemented reduced the rate of increase of the operating expense. Profit before tax came to ₦271 million.

Total assets declined marginally (-3% year on year) to ₦1.38 billion (Dec 2013: ₦1.41 billion), while increased retained earnings impacted shareholders' funds, +29%, to close at ₦887 million.

OTHER FINANCIAL SERVICES

Our Other Financial Services group currently serves as a quasi-incubator for our smaller non-banking financial services businesses including a microfinance bank. FBN Microfinance Bank providing microfinance services to the mass-market retail segment and the business group also houses the recently acquired Kakawa Discount House.

Gross earnings increased 130% to ₦4.8 billion following the acquisition of Kakawa Discount House Limited, which is also reflected in the astronomical increase in net fee and commission income to ₦5.1 billion (Dec 2013: ₦1.7 billion). Profitability was restored from the loss position in 2013 to ₦985 million in 2014.

Total assets currently stands at ₦145.5 billion (Dec 2013: ₦43.6 billion).

FBN MICROFINANCE BANK

The dwindling oil prices and devaluation of the naira dampened business growth in the sector as over 75% of the customers' business is commerce (import dependent) related i.e., buying and selling. The economic environment greatly impacted customers as they range among the low income earners and are at the bottom of the standard of living index. The decline in their real income therefore led to drop in sales and turnover and ultimately decline in business activities for the microfinance sector.

Notwithstanding, FBN Microfinance's gross earnings increased 13.2% to ₦1.3 billion (2013: ₦1.1 billion) as a result of strategic initiatives on key drivers of revenue, efficient utilisation of the earning assets and maintaining quality asset mix, which resulted in increased loan portfolio. Net interest income also grew by 4.6% to ₦839.7 million (Dec 2013: ₦802.7 million) while net fee and commission was ₦170.8 million (Dec 2013: ₦119.9 million). Cost containment was a key part of management initiative which resulted in a 12.7% reduction in operating expenses to ₦903.8 million (Dec 2013: ₦1.03 billion). Profit before tax was ₦311 million from ₦64 million in 2013. Noteworthy is the first time adoption of IFRS on the 2013 financial statements. Total assets declined 24% to ₦6.6 billion (Dec 2013: ₦8.6 billion).

15 The business group numbers are consolidated figures but the stand alone financial statements are used in discussing the different sudsidiaries.

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Gross loans increased 18% year on year to ₦1.7 billion (2013: ₦1.4 billion) while customer deposits increased 27% year on year to ₦1.2 billion (2013: ₦1.0 billion).

To further reduce risks, the Bank reviewed its lending methodology by focusing more on group loans in line with its strategy. It adopted the loan strategy of 60% Group, 20% small and medium enterprises, and 20% individual loans. Recovery efforts were also intensified during the period.

Our presence in Abuja and Ibadan, as part of the branch expansion rollout strategy outside Lagos, made a significant impact on our business activities in 2015.

KAKAWA DISCOUNT HOUSE LIMITED

Kakawa Discount House Limited (KDH) was acquired in the fourth quarter of the year with FBNHoldings owning 100%. This acquisition is on the back of a future conversion to a merchant bank following the Central Bank of Nigeria's (CBN) approval and invariably expands the various services offered across the Group.

KDH, a primary dealer and market maker (PDMM) in fixed income securities and an active player in the Nigerian interbank and money market, provides wealth management and corporate finance services to a large clientele of high net worth individuals, institutional and corporate customers. It brings on board a strong fixed income origination and distribution franchise that can be further leveraged through FBNHoldings' existing infrastructure.

In three months to FY 2014, KDH contributed ₦4.2 billion (0.9%) and ₦503.7 million (0.5%) to the Group's gross earnings and PBT respectively in FY 2014 with the expectation of further increments going forward.

We aim to leverage on the synergies existing between KDH and FBNHoldings to grow its non-bank deposit liabilities by 25% as well as enhance the workforce capabilities in preparation for the merchant banking business.

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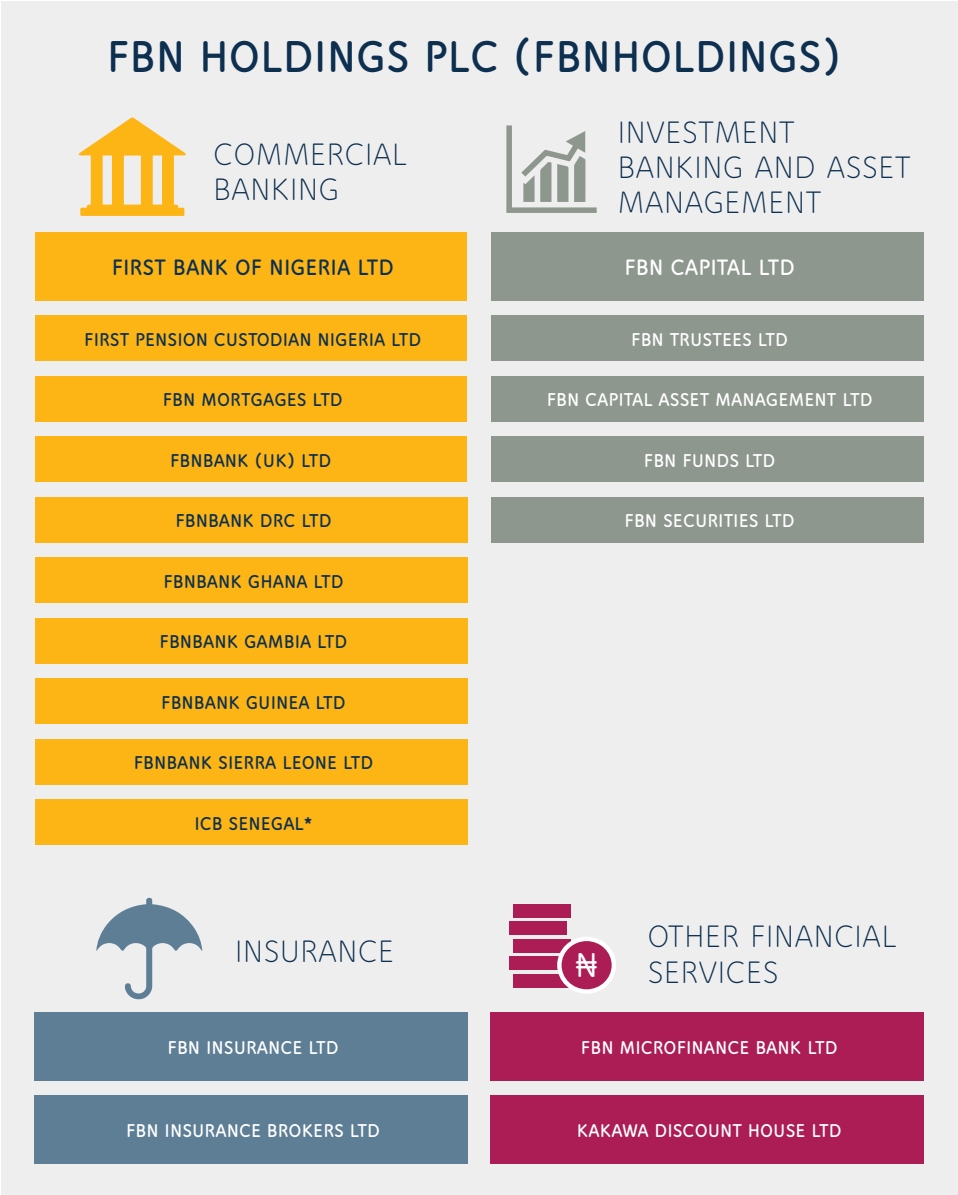
BUSINESS GROUP PERFORMANCE

The Bank remains a clear market leader in Nigeria with the highest market share of 13.2%, 14% and 15% in total assets, gross loans and customer deposits respectively. In the past, the Bank has efficiently leveraged its robust and extensive branch and ATM infrastructure to mobilise deposits from its large retail client base. This has helped translate into a competitive cost of funds for the Bank vis-à-vis competition.



* To be renamed and rebranded to FBNBank Senegal.

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COMMERCIAL BANKING

BUSINESS GROUP OVERVIEW

FirstBank is the Commercial Banking subsidiary of FBN Holdings Plc. The FirstBank Group also includes our international operations, including both the fully licensed banks – FBNBank (UK) and FBNBank DRC, and our expanded operations in the West African countries – FBNBank Ghana, FBNBank Gambia, FBNBank Guinea, FBNBank Sierra Leone and International Commercial Bank (ICB) Senegal. The Group also includes our representative offices in Abu Dhabi, Beijing, Johannesburg and Paris, and other subsidiaries such as First Pension Custodian and FBN Mortgages.

COMMERCIAL BANKING

- FIRST BANK OF NIGERIA LTD
- FIRST PENSION CUSTODIAN NIGERIA LTD
- FBN MORTGAGES LTD
- FBNBANK (UK) LTD
- FBNBANK DRC LTD
- FBNBANK GHANA LTD
- FBNBANK GAMBIA LTD
- FBNBANK GUINEA LTD
- FBNBANK SIERRA LEONE LTD
- ICB SENEGAL*

NET REVENUE[17]

₦338.8bn

PROFIT BEFORE TAX[17]

₦94.5bn

2014	Net revenue (₦bn)[16]	Profit before tax (₦bn)[16]
First Bank of Nigeria Limited	307,585	81,358
FBN Mortgages Limited	(1,138)	(2.344)
BIC	9,049	941
First Pension Custodian Nigeria Limited	4,011	2,510
ICB	4,553	1,281
FBNBank (UK)	19,390	9,176
Others	1,668	1,120

PERFORMANCE OVERVIEW

Despite the challenging macroeconomic and market conditions, the Commercial Banking group showed resilience to post an improved performance in 2014. Gross earnings for the Commercial Banking group for the financial year ending 31 December 2014 stood at ₦455.4 billion, a 22.1% increase from ₦372.8 billion in 2013. Profit before tax (PBT) also increased by 9.1% from 2013, closing the year at ₦94.5 billion.

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

We sustained our predominantly low-cost funding base, achieving a year-on-year deposit growth of 22% as at the year-end December 2014. The Retail Banking business continues to be the major driver of low-cost deposits, while the recently implemented value chain management framework within the Institutional and Public Sector banking businesses ensures higher retention of deposits.

* To be renamed and rebranded to FBNBank Senegal.

16 The net revenue and profit before tax for the individual entities total is ₦345.1 billion and ₦94.0 billion respectively.

17 This includes consolidated adjustments at the holding company level.

COMMERCIAL BANKING

COMMERCIAL BANKING BUSINESS GROUP PERFORMANCE

NON-FINANCIAL HIGHLIGHTS

A brand refresh was launched with a uniform logo and aligned brand architecture across the Banking Group, by retaining the iconic elephant which appeals to the diverse markets which the Bank serves.

In pursuit of the West African operations expansion, the Bank completed the acquisition of International Commercial Bank (ICB) West African operations through the acquisition of ICB Senegal and changed the name of all the international subsidiaries to include 'FBNBank' and the location, with the exception of ICB Senegal.

In line with the evolving business environment, we reviewed our operating model to ensure strategic realignment and optimal use of available resources to take advantage of the increasing growth opportunities in retail banking. Primarily, the existing Public Sector South and Retail Banking South groups have been split along regional lines - Lagos & West, and South Region - to enhance penetration across those regions. While Corporate and Commercial Banking groups retain portfolio focus and continue to exploit latent opportunities in primary locations, there is a renewed focus on the value chain within the public sector and the institutional banking space. We also increased our focus on transaction banking services to stimulate improved collections, grow low-cost deposits, and retain funds through offering effective e-payment and liquidity management solutions.

The Bank's large active customer base of over 9.7 million accounts, coupled with the rapid expansion in the electronic banking business, market leadership position in number of issued cards, high card-active rate and continued migration of additional services onto electronic platforms, all provide a base for sustainable growth. As the Bank with the largest ATM network in Nigeria (2,597 ATMs), its service availability is ensured through effective monitoring tools. In line with the cashless Nigeria initiative, the Bank has been promoting non-cash ATM transactions through awareness campaigns.

Our mobile financial services solution Firstmonie, targeted at extending banking services to the unbanked and under-banked segments of the market, as well as enabling existing customers to conveniently perform banking transactions from their mobile phones, recorded significantly improved performance, closing the year with c2.2 million customers (Dec 2013: c499,000). As at the end of the year Firstmonie had registered 12,567 agents (Dec 2013: c10,000 agents) presenting a viable, reliable and growing network to help grow its customer base, access low-cost deposits without the burden of huge capital investments, and drive float and fee income growth in the medium to long term. To further support the financial inclusion initiative, the second instalment payment of USD1.23 million from the Bill and Melinda Gates Foundation (BMGF) was received during the year, the target to qualify for the second grant payment having been met. This gesture reinforces BMGF's belief in the Firstmonie scheme as a veritable tool to capture the unbanked population in Nigeria. The scheme has received to date a total of over USD4.2 million in grants from BMGF out of the USD12 million grant to be disbursed over a four-year period.

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

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COMMERCIAL BANKING

FIRST BANK OF NIGERIA LIMITED

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

The focus of our strategy over the medium term is twofold: to continue to utilise the Bank's strategic positioning in the industry as the biggest retail franchise in order to drive profitable growth; and strengthening our core processes to acquire and service more customers efficiently across all business segments.

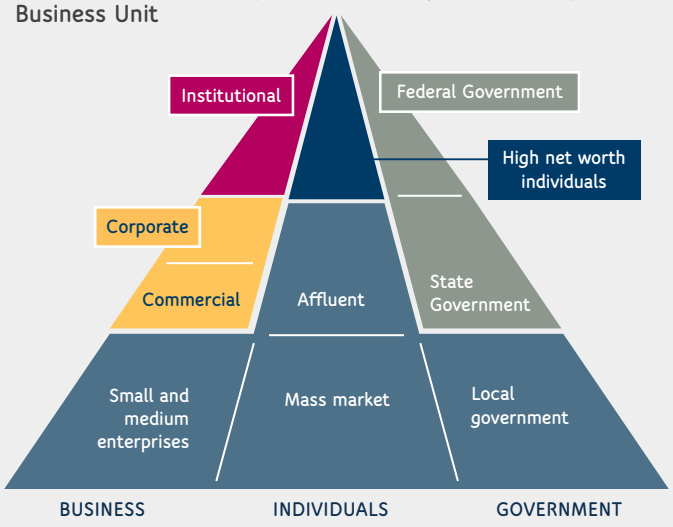
Our 2014-16 strategic initiatives capitalise on our strengths and address key challenges in our business. FirstBank has outlined an ambitious set of aspirations and targets to meet these expectations over a three-year period, together with a set of strategic goals and key enablers.

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. In delivering on the fundamentals of banking, we have consistently adjusted the structure of our business to ensure it is aligned with the needs of our customers and how they hope to be served. Our business model is guided by the philosophy of continuously restructuring for growth, controlling and measuring this growth, and delivering business responsibly.

To ensure the Bank's business model is continuously optimised, we have created two teams to enhance our customer engagement model; the transaction banking team and the middle office. The transaction banking team provides in-depth technical expertise in driving non-interest income across all our business segments to support the development of products and the structuring of business transactions for corporate clients. The middle office operations team will take on the operational responsibilities of relationship managers so they dedicate more business hours to sales-related activities. These two teams are critical to driving the effectiveness of the Bank's sales team. We have clearly delineated customer market segments within the retail and various wholesale banking groups to ensure a proper match of value proposition to customers' profiles. As a result, we further defined a small and medium enterprises (SME) sub-segment within the Retail Banking group, as well as a newly created 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. The Retail and Public Sector businesses have merged and are run geographically. This was done in response to changing industry dynamics and also to take advantage of business opportunities. Consequently, we have three Strategic Business Units - North Directorate, Lagos & West Directorate, and South Directorate - which focus on both retail banking and the public sector.

FirstBank customer segments served by each Strategic Business Unit



I INSTITUTIONAL BANKING GROUP

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

C CORPORATE BANKING GROUP

- Serves the upper-middle segment of the business banking value chain
- Companies with annual turnover of more than ₦3 billion and unrated and/or unlisted - this category of companies have no upper limit but their annual turnover is in excess of ₦3 billion.

C COMMERCIAL BANKING GROUP

- Serves the lower-middle segment of the business banking value chain
- Companies with annual turnover of more than ₦500 million and up to ₦3 billion. Companies whose annual turnover does not exceed ₦3 billion.

P PRIVATE BANKING GROUP

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

R RETAIL BANKING GROUP

- Cuts across private individuals, businesses (SMEs) and public sector clients (LGAs)
- Offers a differentiated value proposition to each customer sub-segment and has tailored products and services in line with segment characteristics
- Customer base of 9.7 million and the Bank's 892 strong branch network, 2,597 ATMs, and 9,700+ POS terminals
- Convenient multi-channel access to our services.

PS PUBLIC SECTOR BANKING GROUP

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

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COMMERCIAL BANKING
FIRST BANK OF NIGERIA LIMITED

To enable the 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 in turn 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 FRAMEWORK

The Bank's strategic goal for the new cycle remains to consolidating its leadership position. However, the Bank has subsequently defined its goal as 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 the identified opportunities, the strategic themes that will aid the Bank in delivering on its objective have been outlined as follows:

1. ATTAIN LEADERSHIP IN MID-CORPORATE/ COMMERCIAL AND SME SEGMENTS

We are developing a tailored value proposition for identified high-growth segments within Retail and Commercial Banking SBUs by developing/ modifying specific products and services. We have also focused on optimising coverage and distribution channels to balance revenue, cost and clients' needs. In addition, we have adopted a systematic approach to generating sales opportunities by leveraging on technology and cross-selling, continuing to develop competence and building in performance incentives.

2. IMPROVE COST AND CAPITAL EFFICIENCY

In line with recent regulatory changes, as well as the evolving business environment, the Bank's Business Operating Model has been reviewed to ensure proper strategic realignment and optimal use of available resources. The Bank continues to aggressively pursue cost optimisation and containment and efficient capital management strategies across its entire operations, and we are confident these efforts will yield results.

3. DRIVE SERVICE DELIVERY EXCELLENCE

Service excellence is a key element of our strategic drive to being the 'clear leader and Nigeria's bank of first choice'. In line with the Bank's commitment to strengthen its service excellence proposition, we are focusing on revamping the customer experience within the Bank, including branch experience and speed of processing. Excellent service and branch transformation strategies have been placed at the forefront of our drive to ensure we attain the leadership position in the industry.

MEDIUM-TERM STRATEGY

The Bank has set out a strategy designed to deliver clear industry leadership and restore operational excellence. Having successfully conducted a strategic planning process, we are embarking on new initiatives for the 2014-16 cycle which are embodied in a seven-point plan of how we intend to build a more dominant banking group. Our strategy is designed to make FirstBank more competitive by playing to its strengths - its optimal distribution network and resulting funding advantage, rich legacy, and deep customer relationships. The Bank puts emphasis on both financial and non-financial priorities and has defined a number of important drivers for each SBU that will be integral to retaining the aspirations outlined in our 2014-16 strategy cycle.

Branch transformation

This initiative aims to improve service levels to customers and enable more proactive sales to occur in the branch. This will shift the focus of our branches from transaction-based centres to revenue-generating centres through sales and delivery of world-class service. This initiative will:

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

Relationship Managers (RM) sales excellence

The objective of this priority is to drive a steep change in RM productivity across the Bank, leading to significant increase in sales per RM, especially in the Institutional and Corporate Banking Groups.

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

Cost containment

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

Transaction banking

In order to attain leadership in the mid-corporates and SME customer segments, the Bank must focus on building a distinctive transaction banking capability and becoming the preferred provider of cash management, trade finance and payments in Nigeria.

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

COMMERCIAL BANKING
FIRST BANK OF NIGERIA LIMITED

Commercial banking

To defend our position as the leading Bank in Nigeria and extend leadership across all metrics, we must significantly increase revenues and profits to take our share of the market in commercial banking to 6% from the current estimate of 3%.

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

NPL management

In driving greater efficiency, we must rapidly reduce our NPL portfolio within a six- to eight-month timeframe. This is, however, not to be a substitute for 'business as usual' recovery efforts.

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

Service excellence

To achieve our goal of top three in customer satisfaction across all customer segments, we must achieve continuous improvement of services so as to increase customer satisfaction and customer retention.

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

2014-16 ASPIRATIONS

To ensure progress on the strategic priorities can be objectively measured, these key themes were further distilled into specific goals/metrics, which have been set out as the Bank's aspirations for the next strategic cycle.

2015 PRIORITY BANK STRATEGIC INITIATIVES

GROW NON-INTEREST REVENUE

- Implement enabling/supporting technology to drive sales volumes of electronic products across the Bank's customer segments (FirstTrade, First Online, naira credit cards, e-payment/collections, etc.)
- Continue roll out of transaction banking model.

DRIVE SERVICE DELIVERY

- Accelerate the branch as sales and service centre initiative
- Continue the mid- and back-office transformation focused on improving RM client interaction
- Institute robust, flexible risk management and credit policies for target market segments in commercial banking
- Implement a holistic digital marketing strategy to drive a high-quality customer engagement/experience
- Develop and implement a holistic e-channel strategy.

OPTIMISE ENTERPRISE-WIDE COST

- Optimise capital and risk-weighted assets
- Continue to drive workforce productivity enhancements
- Manage operating cost and optimise procurement processes
- Drive reduction in non-performing loans.

ADDRESS MARKET PERCEPTION

- Articulate and execute 'perception' strategy.

ENHANCE SALESFORCE PRODUCTIVITY

- Consolidate the roll-out of the RM excellence initiative
- Implement remote advisory model/virtual account management
- Implement phase one of the customer data analytics project as a stop-gap to focus on select, profitable segments.

COMMERCIAL BANKING
FIRST BANK OF NIGERIA LIMITED – REVIEW OF STRATEGIC BUSINESS UNITS (SBUs)

CORPORATE BANKING GROUP (CBG)

OVERVIEW

The Corporate Banking group (CBG) serves the high end of the middle-upper segment of the Nigerian corporate landscape. These companies are predominantly structured and semi unstructured that provide a full range of business banking services from regional hubs across the nation. Customers in this category typically have a minimum turnover of ₦3 billion and above per annum.

For effective coverage, we have 14 groups spread across the key business locations in Nigeria. They are largely focused on corporate clients in services including:

- education, entertainment and logistics;
- indigenous oil and gas businesses (excluding international oil companies);
- power distribution and its value chain;
- trading and general commerce;
- manufacturing including pharmaceuticals;
- construction and infrastructure;
- telecommunications; and
- agriculture and agro-processing.

We have developed unique products and services tailored to the various sectors of the economy we operate. For example, for our clients providing services in education, entertainment and logistics we have schools solution/collection platforms/combo cards for educational institutions, and working capital and project finance. Major products offered include trade products, derivative products such as forwards, term loans and syndicated facilities.

OPERATING ENVIRONMENT

The majority of our customers import raw materials as inputs into their production process and therefore the devaluation of the naira has a direct impact on their performance. However, we have been able to provide advisory services on funding alternatives to our customers leveraging FBN Capital (a subsidiary of FBNHoldings) and provided derivative products to mitigate foreign currency risk.

We continue to create value by strategic business partnerships with customers through customised services within the ambit of regulation.

FINANCIAL PERFORMANCE

The Corporate Banking group recorded a 2.9% growth in deposit closing at ₦192.6 billion (FYE 2013: ₦187.1 billion) while loans and advances to customers increased by 58.7% closing at ₦516.9 billion (FYE 2013: ₦325.7 billion). Net revenue grew by 27.7% from ₦34.5 billion in 2013 to ₦44.0 billion in 2014.

STRATEGIES AND OBJECTIVES

The Corporate Banking group is focused on becoming the leader in profitability and efficiency in the corporate banking segment. Some of the strategic imperatives for the group include:

- expanding and deepening our sector coverage by establishing active banking relationships with at least six out of the top ten corporate banking-type names in priority growth sectors and sub-sectors;
- developing a high quality customer base by aggressively driving reactivation of low activity and inactive CBG accounts, focusing on the top 140 strategic high-potential clients across our portfolio with an emphasis on the non-oil sector;
- driving best-in-class credit and portfolio performance by focusing on disciplined growth with rigorous economic hurdle rates/benchmark rates for FCY (Foreign Currency) and term loan origination and consciously grow short-term lending products; and
- investing and growing market share in solution capabilities, with specific focus on trade financing and payment and cash management.

BUSINESS MODEL

Our approach is to identify the specific needs of individual customers and develop tailor-made solutions. This requires a good understanding of the customers' businesses, their operating environment, competitors' offerings, etc. Furthermore, we find out the pain points of the players in the sectors that we serve and provide cost-effective solutions to earn their patronage and loyalty and by extension, revenues.

Some of the attributes of our solutions include the following:

- **Uniqueness:** our solutions are tailor-made to the specific needs of our individual customers.
- **Cost-effectiveness:** our cost-effective solutions help to increase our customers' profit and maintain a low cost profile to gain a competitive advantage.
- **Simplicity:** our customers do not necessarily have to engage financial experts before understanding how our products work. They are all designed with the customer in mind.
- **Technology-driven:** our robust collection platform serves as a great aid to our valued customers in the management of their working capital.

KEY RISKS AND MITIGANTS

Continuing from 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:

- **Foreign exchange risk:** current economic realities make foreign exchange risk a major issue in our business. We mitigate this by encouraging spot transactions and where possible, offer derivatives and provide financial advice on the best funding options based on the specific characteristics of each customer.
- **Pricing risk:** customers in our segment can be very price-sensitive, hence we offer well-researched, cost-effective solutions to meet their needs.
- **Integrity of financial statements:** we are aware that the integrity of the financial statements of our customers could be in doubt. To mitigate this risk, we usually do a third-party confirmation to determine their reasonableness. This confirmation could be in the form of statements of accounts from the customers' major bankers, credit bureau checks, industry checks and peer review.
- **Key man risk:** the risk that the business depends on one or a few individuals and will not be able to meet its obligations following the demise of the key figure(s) in the business. This risk is gradually becoming less prominent in our business because we have assisted most of our customers to build structures around their operations so that their businesses can outlive their promoters. For the very few remaining, we accept key man risk insurance policies. In addition, exposures are preferably structured to be short tenured.

2015 OUTLOOK

The strategic focus for 2015 is to continue to dominate the corporate banking space in all the regional hubs where we operate. We also aim to deepen our penetration in the non-oil sectors of the economy, such as manufacturing, services (which include education, tourism and entertainment), trade, agriculture and agro-processing.

COMMERCIAL BANKING
FIRST BANK OF NIGERIA LIMITED – REVIEW OF STRATEGIC BUSINESS UNITS (SBUs)

COMMERCIAL BANKING GROUP

OVERVIEW

The Commercial Banking group offers banking services to the middle market segment of the economy, specifically to the following sectors: oil and gas, pharmaceutical, agriculture, mining, transportation, telecoms, distributors, general commerce, manufacturing, hospitality, government contractors, importers and exporters of commodities in focus sectors, and distributors and suppliers of FMCGs and services.

The Commercial Banking group offers financial products and services to companies with an annual sales turnover of between ₦500 million and ₦3 billion across the growth sectors of the economy, private sector enterprises, government contractors, hospitality and educational institutions. Some of the characteristics of the customers within the Commercial Banking SBU include:

- **Management:** the management of the companies within this SBU is not well structured and organised in a formal manner like blue-chip companies. There is no difference between ownership and management.
- **Ownership:** the common type of ownership is the sole ownership with the key man risk being significant.
- **Type of enterprise:** the customers of the SBU belong to private sector enterprises and non-governmental private institutions.

OPERATING ENVIRONMENT

The sharp drop in oil prices and various changes in policies by the Central Bank of Nigeria (CBN), such as the devaluation of the naira, impacted the performance of the group, particularly because we are an import-dependent economy. However, we were still able to navigate the harsh operating environment to deliver impressive growth in our business. 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 commercial banking products. The key focus of the group continues to be on creating an environment where trade business thrives. This will, in turn, enable us to achieve our goal of being the established leader in commercial banking business.

FINANCIAL PERFORMANCE

The Commercial Banking group maintained steady growth of 110.3% in deposits, closing at ₦59.2 billion (FYE 2013: ₦28.1 billion) while loans and advances to customers increased by 112.3%, closing at ₦115.5 billion (FYE 2013: ₦54.4 billion).

The Commercial Banking group gained strong traction by exploiting the Bank's brand and robust branch network.

Net revenue grew by 92.4% from ₦4.1 billion in 2013 to ₦8.0 billion in 2014. This shows there are more business opportunities for the group to take advantage of. Our asset quality ratio has remained at 0% to date, as a result of the strong risk culture of the group.

STRATEGIES AND OBJECTIVES

Our strategic objective is to ensure that we become 'the Bank of choice in the commercial banking segment of the economy'. The strategic imperatives of the group will be on the acquisition of new customers, repositioning the Commercial Banking group as a true partner to customers, and ensuring growth across all revenue streams of the group.

Some of the strategic imperatives have been cascaded into the following priority initiatives for the Commercial Banking SBU:

- **robust trade platform/customer service centre:** a one-stop trade platform that will be used to address all the trade issues of our customers;
- **a deeper market penetration:** leveraging the Bank's rich suite of products and services to deepen penetration into the various chosen commercial market segments;
- **periodic seminars for trade businesses:** providing a platform through which experts in the various trade businesses provide insights, analyse government policies, and advise customers on ways of doing business ethically and profitably;
- **trade customer reward scheme:** a developed reward scheme for customers that route their trade transactions through the Bank; and
- **competitive pricing for our credit lines:** provision of competitive prices for customers across the various credit lines offered by the Bank.

BUSINESS MODEL

Our business model is structured to ensure the implementation of our strategic initiatives and generate revenue, while leading to a sustainable and profitable business operation.

The Commercial Banking SBU is made up of 12 groups that are located in key hubs in the country: Lagos, Oyo, Ondo, Osun, Anambra, Enugu, Aba, Akwa Ibom, Bayelsa, Rivers, Abuja, Kaduna and Kano. The spread gives the group comparative advantage in providing service to a wide array of customers in the country. Each of the 12 groups is made up of four teams.

The structure enables us to penetrate our target market and provide tailor-made solutions for the customers' various needs. It has also created a platform for us to effectively and efficiently engage our customers in the various chosen sectors, carving a niche in the middle market segment. We believe it is this segment that is the next growth engine for the economy.

KEY RISKS AND MITIGANTS

Continuing from a strong tradition of quality risk assets development, risk management will remain one of the central pillars of the Commercial Banking group. We will employ a holistic approach to managing and mitigating the risks inherent in our business. The key risks evident in this segment are:

- **Diversion risk:** the risk that funds availed/payments received are diverted to other purposes and other banks respectively. Our credit risk management has calculated this risk and created mitigants to guide against loss of funds availed. Some of the mitigants include direct transfer of funds from the Bank to the supplier's bank account for goods/services and the inclusion of domiciliation of proceeds from sale of goods/services by the customer into their account in FirstBank in the contract of the beneficiary goods/services provided.
- **Performance risk:** this is associated with the probability that the borrower might not achieve good earnings and profitability from operations. We try to mitigate this risk before granting credit to the customer by gaining insight into what may happen to earnings from operations – whether they would be sustained, increased or adversely affected in any way. This will enable the Bank to make an informed decision on approving or declining such a request. More often, when products are tangible, profitability analysis is conducted before funds are approved.

The Bank has designed product programmes whose structures and terms have been shaped by the various risks inherent in this market, and then implemented processes to mitigate these. The mitigants and strategies are being employed by the SBU. The result is reflected in the quality of assets for the Commercial Banking SBU, which has been zero for the past three years.

OUTLOOK AND 2015 PRIORITIES

More uncertainty abounds in 2015; with an upcoming election rescheduled, a transition of power in various states in the country and the continued drop in oil prices, there is potential for more instability.

Despite this, we remain confident that the middle market is well-positioned as the engine of growth for the economy; and it has become imperative for this segment to cultivate its inherent opportunities. Overall and in line with the group's 2015–2017 strategy, we envisage a balance sheet growth of about 35%.

COMMERCIAL BANKING
FIRST BANK OF NIGERIA LIMITED – REVIEW OF STRATEGIC BUSINESS UNITS (SBUs)

In this regard, the key priority for the Commercial Banking SBU is to ride on these parameters and grow the trade, general commerce and export businesses with a view to capturing about 25% of the available market share.

We intend to develop innovative products and deepen our 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.

While we still have some hurdles to cross, we remain on track towards achieving our objective of building a strong Commercial Banking group and becoming a bank of choice in the commercial segment of the economy.

INSTITUTIONAL BANKING GROUP (IBG)

OVERVIEW

The Institutional Banking group is structured along six industry groups – energy (oil and gas), telecoms, construction and infrastructure, conglomerates and services, manufacturing and financial services, and multilateral. Several top organisations bank with the group across these markets.

As a leading SBU of the Bank, our target market and clients include multinationals, large corporates and corporate players, specialised businesses such as exploration and production companies, international oil traders, and financial institutions, both local and international.

The group provides an array 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. Our distinguishing strength is our ability to customise solutions to meet our clients' requirements.

Across the key Institutional Banking market segments, we continue to build strategic partnerships either by financing cutting-edge transactions that drive revenues, or by adding value to customers' businesses or projects through the provision of advisory services. We have the flexibility needed to be at the forefront of the increasingly dynamic business environment and are positioned to take advantage of the opportunities.

The Institutional Banking group operation is set up across the country's key business hubs, which constitute the main locations of our clients – Lagos, Port Harcourt and Abuja.

OPERATING ENVIRONMENT

The CBN's regulatory policies regarding oil and gas exposure in 2014, coupled with dwindling oil prices, were the two most formidable factors that affect the Energy business. We have since modified our risk acceptance criteria to mitigate the adverse effect of these policies on future transactions.

Our focus in 2015 is to improve on risk participation capabilities with key foreign financial institutions to accommodate new transactions in upstream financing, in light of the regulatory constraints. We will also focus on deepening fee-based ancillary transactions to grow our non-interest income.

MANUFACTURING

Our focus in 2014 was to increase the Bank's share of wallet of transactional activities and to participate in key customer mandate. The Bank achieved commendable growth in these area, with trade and invisible transactions licensing. The last quarter of 2014 was quite unsettling for most manufacturing corporates as a result of the foreign exchange volatility and devaluation of the naira. This led to conversion of foreign currency exposure and a surge in the working capital demand in local currency. Our financing structure was modified to meet the funding gap and mitigate any adverse impact.

CONGLOMERATES AND SERVICES

The regulatory and policy regimes in this space within the year were largely restrictive especially for volumes in automobile, rice and fish importation businesses.

ENERGY

The expected gains of the power sector reforms did not kick in as projected in 2014. The sector is consequently expected to continue to receive the Government's attention and intervention in 2015. This will improve capacity utilisation and necessitate funding from banks, as well as generate ancillary business opportunities. IBG will be in a strategic position to appropriate these presenting opportunities.

TELECOMS

Our telecoms strategy in 2015 will be to identify new areas of growth in line with the National Broadband policy and enhance internal capacity/resources to capture market. We also intend to hold on to operators and other markets to enable us to play along the entire value chain and pursue the cash generated within the value chain.

FINANCIAL PERFORMANCE

The business unit achieved moderate results across key metrics during the year. Net revenue decreased marginally by 1.3% to ₦48.8 billion in a year that witnessed tight regulations and restrictive lending coupled with deliberately sustained sell down in risk assets. Deposits closed at ₦302.0 billion (FYE 2013: ₦316.8 billion) while loans and advances at year end was ₦640.3 billion (FYE 2013: ₦592.6 billion). Deposits dipped in 2014 due to the business nature of our institutional clientele, pricing pressure from increasingly sophisticated customers and the effect of government policy on public funds that affected state and corporates, etc.

We will continue to be strategic in delivering our value propositions to the market we serve, which we are certain will translate into improved numbers in 2015.

STRATEGIES AND OBJECTIVES

The strategic imperative for us as the market becomes increasingly competitive will be to diversify the IBG portfolio by investing in growth industries while deepening existing relationships by increasing penetration of non-loan solutions/services. We will develop and build corporate/structured finance capabilities by up-scaling our relationship team's capacity to meet our increasingly dynamic and sophisticated client needs.

Our objective would be to attain market-leading position in the delivery of transactions and electronic solutions in the institutional banking market space by 2015. Adequate priority will be given to enhancing service delivery platforms to ensure TAT, quality information etc. are on par with best in class. This will be achieved by building efficient transaction processing platforms to support prompt execution of customer requests, particularly trade transactions, credit processing, etc.; and strengthen our electronic banking solutions/platforms to constantly deliver superlative experiences to customers.

BUSINESS MODEL

Our proposition for IBG clients is to provide bespoke, end-to-end services to the top tier of the market. We leverage the Bank's subsidiaries, such as FBN Capital, to provide advisory services to our customers; and collaborate with our IBG customers in charting new growth platforms by providing advisory services.

We continue to focus on the growth sectors of the economy, while deepening our involvement in the trading, commerce and general business sector in line with best practices. This enables the group to achieve the dual objective of growing our deposit and simultaneously earning additional fees on trade finance.

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COMMERCIAL BANKING
FIRST BANK OF NIGERIA LIMITED – REVIEW OF STRATEGIC BUSINESS UNITS (SBUs)

KEY RISKS AND MITIGANTS

The major risks that may challenge the financial sector in the year are trade sector-related trends, which are critical to our market. This is in addition to the naira devaluation which heightens the cost of importation for manufacturers and other import-dependent concerns. There is also the uncertainty surrounding outcomes of the 2015 election in relation to the direction of Government policies. The Bank's appetite for risk assets expansion is also expected to play a role.

We are, however, adequately poised to mitigate these concerns. Our trade financing transactions are well hedged ahead of prevailing trends and this is in addition to our proven and proactive internal credit process.

OUTLOOK AND 2015 PRIORITIES

A key priority is to increase the Institutional Banking group's (IBG) net revenue contribution to the Bank to 18%. We hope to achieve this by growing profitability, improving performance across all metrics, deepening relationships with customers and growing transaction volumes.

We also intend to focus on increasing the returns from our low-performing relationships, drive the acquisition of new clients across identified growth areas and re-activate strategic inactive relationships, while making the most of the value chain of key principals. It will also be a priority to maximise non-interest opportunities and be more efficient in service delivery to clients, understanding their unique business needs better and thereby offering more value-added products to meet these needs.

PRIVATE BANKING GROUP

OVERVIEW

The achievements witnessed between 2011 and 2014 are indicators of the potential within the business of private banking. In 2014, with the implementation of the Global Private Banking Initiative, led by Bernadine Okeke, the Private Banking group Strategic Business Unit (SBU) commenced the journey to becoming an international participant.

In 2014, the Nigerian economy posed some considerable challenges to our operations. Regulatory headwinds and insecurity had an impact on the confidence level of investors, which led to a flight-to-safety to instruments in other jurisdictions. However, we were able to rebalance our clients' portfolios and provide some protection for them from the systemic shocks witnessed during the course of the year. The strides made in the market by our SBU were recognised during the course of the year by World Finance (Best Private Bank, Nigeria 2014) and EMEA Finance's African Banking Awards (Best Private Bank in Nigeria 2014).

Our focus in 2014 was broadly on two primary 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, and 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, state 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.

OPERATING ENVIRONMENT

Regardless of the tough business terrain of local and offshore financial markets characterised by constantly changing policy statements from local regulators and the indication of bond purchase tapering by the United States treasury, the Private Banking group SBU recorded considerable improvements on its wealth management portfolio, with a 12% growth in our assets under management (AUM) in 2014. The monetary policy adjustments made in the attempts to tackle inflation led to hikes in the risk asset rates and this affected our generation of loans and advances, as it was more prudent for our clients to utilise their funds in executing personal projects as well as those for their businesses.

Though the Private Banking business in Nigeria has seen an increase in the number of indigenous banks in this space, the advantage will belong to those who are able to provide clients with bespoke wealth management solutions both on and offshore to meet their financial objectives. In a bid to exploit this opportunity, we have positioned ourselves to leverage the expertise and extensive network of our Investment Banking and Asset Management group. This means we can 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.

PERFORMANCE

There was a decline in our risk asset portfolio which contributed to a marginal decline in our revenue generation (-1%). Despite this, the SBU was able to live up to its commitment to adopt robust wealth management services structures aimed at creating and growing financial value for our clients. We were able to maintain our market share of the private banking business in the Nigerian economy with a 100% client retention rate, enabling the SBU to generate revenues in excess of ₦2.5 billion in 2014. Over the course of 2014, we engaged our staff in specialised wealth management and risk asset portfolio management training. This was aimed at improving their appreciation of the concept of private banking and wealth management.

We achieved close to the client base growth projection of 30% for 2014. This was driven through our collaboration with the newly commissioned operations in the UK which are aimed at capturing a significant market of Nigerians living in the diaspora. This growth occurred mainly due to intensified business development activities, referrals from existing clients, and leveraging the SBU's growing presence in Africa and Europe.

Net revenue grew by 35.7% from ₦1.8 billion in 2013 to ₦2.5 billion in 2014. We were able to achieve this by providing customers with investment outlets in high-yielding products tradable in foreign jurisdictions through our collaborations with our Investment Banking and Asset Management affiliates. 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.

STRATEGIES AND OBJECTIVES

Looking ahead, the plan for the next three-year strategy cycle is to enhance the market penetration achieved and harness growth. The business model will also be reviewed, with a view towards increasing our focus on enhancing staff skills. In-house development of investment products is expected to increase as we look to significantly reduce the time-to-market for all our products. Cross-border business through the global private banking structure is expected to begin to yield results as we serve our clients across jurisdictions creating seamless banking over our network. The successful execution of the strategies and objectives will ensure the SBU retains at least 7% market share of net revenue in the private banking business in Nigeria, improves client engagement, increases the client base to approximately 2,000, and increases the share of wallet of existing under-penetrated clients.

COMMERCIAL BANKING
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BUSINESS MODEL

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

We believe that the 100% customer retention achieved in 2014, despite the prevalent circumstances, lent more credence to the efficient business model of the SBU. This 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.

KEY RISKS AND MITIGANTS

Market risks. As was the case in 2013, the 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 in 2014 was the ability to deliver premium service. This is critical, 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. We have positioned our SBU to provide clients with investment solutions within or outside Nigeria in the coming years.

OUTLOOK AND 2015 PRIORITIES

While the launch of the Private Banking group has been reasonably successful, the SBU is now moving into a consolidation and expansion phase of its life cycle. This phase is designed to see us leverage on our successes from the previous strategic cycle and enhance our market share. The economy realities of 2014 hampered some of our activities in terms of focus areas. However, in addition to our previously stated strategic imperatives, we intend to continue to drive the following areas in 2015.

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. We would look to grow our bouquet of investment partners with a view towards providing an exhaustive basket of investment solutions, thus limiting the need for our very mobile clients to seek alternatives elsewhere.

Trustee business and the next generation. The average high net worth client (HNI) in Nigeria has yet to appreciate 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. We made some strides in 2014 in this area (5% of AUM growth) and we intend to consolidate on the successes recorded here in 2015 and beyond towards securing the next generation of ultra high net worth (UHNW) clients and private banking clients.

Continuous talent management. We will 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.

Human capital investment and customer relations management. Customer relations management (CRM) is growing in its significance as UHNW individuals possess varying degrees of nuances and less loyalty to service providers. With the rapidly increasing mobility of skilled human capital, a CRM system that provides a seamless transfer of relationship managers needs to be in place in order to ensure that the smallest detail is given the requisite attention for each client.

We intend to identify and invest in the talent required as this is going to be a major competitive advantage in the foreseeable future. With the continuous modifications in this digital age, we hope to fully maximise the capability of our newly installed CRM system. We intend to make it adaptable and enhance its capability to assist our wealth managers and private bankers in reading each client's ambitions towards mapping a plan for their future. Such capabilities include anticipating potential changes in life stages and the implications of these changes to all stakeholders, especially the next generation, thus providing an opportunity to flag up these latent alterations ahead of the scrambling pack. The aforementioned investment would further optimise the client experience and endear the next generation to the Bank that puts this much focus on the future of the UHNW.

RETAIL BANKING GROUP

NEW STRUCTURE

The Retail Banking group (RBG) was recently restructured from the previous two SBUs into three SBUs namely Lagos & West Region, South Region, and Retail North, with five, eight and eight groups, respectively. The restructuring was driven by the strategy of the Bank to focus on the retail business as the frontier of growth and profitability, leveraging the robust branch network and alternative channels of the Bank.

OVERVIEW

FirstBank's RBG is focused on offering financial products and services to individuals and corporate customers with a turnover of ₦500 million and below per annum. This includes local governments and their parastatals.

The SBU is a one-stop shop for an array of financial products with highly specified value propositions for our individual customers and their businesses.

- **Personalised service:** we provide a relationship manager to handle customer relationships, thereby ensuring high service quality.
- **Convenience:** we have various channels for customers to conveniently manage their financial activities and access their funds, including conveniently located branches, online and mobile banking and ATMs. We also have a number of card products that allow online purchases and channels for bill payments.
- **Loan products:** these include credit cards for customers, consumer loans and small and medium enterprises (SME) loans addressing specific customer needs like mortgages and household equipment purchases.

The differentiating factor between FirstBank's Retail Banking SBU and its competitors is based on our approach; we have a strong focus on our customers, across all lifestyles and income levels, in order to understand the needs of each individual. Based on their profile and market segment, we aim to consistently deliver products and services to our customers effectively and efficiently.

OPERATING ENVIRONMENT

The market for the Retail Banking business is largely made up of individuals and corporate customers. Opportunities within the retail banking space in Nigeria are varied. There are now in excess of 93 million adults in Nigeria, with 31% of the population living in urban areas. Of the adult population, 36.9 million are financially excluded. There are also more than 17 million SMEs in the country. Consequently, there is still significant room for growth for the RBG with regards to new customer acquisition and product sales.

There are challenges in the business environment given the Central Bank of Nigeria's (CBN's) various regulatory interventions to reduce excess liquidity and defend the national currency. Another challenge is the security situation in the northern part of the country and the 2015 Nigerian elections. These issues will affect the ability of the SBU to attract cheap deposits in the short to medium term.

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However, we would continue to explore the use of alternative channels in addition to our branch network to increase the number of customers and the Bank's share in the retail space, particularly with the unbanked; while also increasing our focus on providing financial access to large-scale markets.

BUSINESS MODEL

Over the course of 2013 and 2014, the RBG implemented initiatives designed to drive the perception that we are an SME-focused bank. In the course of the year, that position was confirmed by the KPMG Survey Report, which showed that FirstBank was ranked by SMEs across Nigeria as the number one SME bank based on loan transactions and account ownership.

For our affluent customers, our retail engagement strategy is built around presenting a clear value proposition for customers based on convenience, expedited turnaround times for transactions and a number of needs-based products meeting their loan and transaction requirement. Footfall through our premium lounges has increased by a staggering 288% in just one region.

To further increase our proposition to our mass market customers, we have started to focus specific product offerings to the top end of the mass market by increasing our list of lending principals.

STRATEGIES AND OBJECTIVES

Our key strategic priority for 2015 is to increase our market share of the affluent, SME and mass markets, as well as increasing the transactions we do for them in order to drive up our profitability and deposit base, by meeting customer needs and growing product sales. We also intend to deepen our synergies with FBNHoldings' subsidiary companies to diversify the bouquet of products available to our customers. Identification and exploitation of new opportunities throughout the year will also serve to strengthen our revenue lines.

Our focus points are:

- to increase our income from non-interest transactions by deepening our interactions with our customers beyond loans and towards supporting all aspects of their business;
- to strengthen our core prudence in our retail loans business to minimise losses from bad loans by negating our exposure to risky industries and market segments;
- to accelerate growth in priority market segments and to continue the implementation of modified service models for customers categorised as either affluent, young or SME;
- to drive operational excellence to attain a top-three position in service levels and customer satisfaction across all market segments; and
- to enhance cost efficiency by implementing tactical initiatives.

PERFORMANCE

Retail Banking in FirstBank has the widest geographic footprint of all the banks in Nigeria and therefore the most diverse collection of customers across the country. It presently has more than 763 business locations spread across the 36 states and the Federal Capital territory, giving the Bank the largest branch network in Nigeria. There are over 9.7 million active accounts domiciled in those branches. We have issued more than 6.9 million electronic cards to our customers.

Retail Banking South region recorded a 5.7% growth in deposit closing at ₦547.2 billion (FYE 2013: ₦517.6 billion), while loans and advances to customers increased by 20.5% closing at ₦173.3 billion (FYE 2013: ₦143.8 billion). Retail Banking Lagos West region recorded a 6.6% growth in deposit closing at ₦657 billion (FYE 2013: ₦616.4 billion), while loans and advances to customers increased by 9.7% closing at ₦186.8 billion (FYE 2013: ₦170.3 billion). Retail Banking North region recorded a 16.6% growth in deposit closing at ₦322.1 billion (FYE 2013: ₦276.3 billion), while loans and advances to customers increased by 10.1% closing at ₦51.3 billion (FYE 2013: ₦46.6 billion).

KEY RISKS AND MITIGANTS

The key risks are from regulatory decisions and the impact on our various income streams, as well as the effect of various election-related activities on business.

RBG is preparing for this by increasing its non-interest income business. We are also intensifying our training programmes for our relationship managers to ensure our customer base is retained, adequately served and grown. We are 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 2015 PRIORITIES

Our priority for 2015 is to increase our share of the affluent SME and mass markets, and also to increase our product sales. Similarly, we hope to boost income earned per customer by increasing transaction.

PUBLIC SECTOR GROUP

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

However, in the year under review, following increasing pressure on the National Currency and as a monetary policy strategy, the CBN increased the cash reserve ratio (CRR) on the Public Sector fund to 75, effectively contracting the liquidity in the economy. As a strategic response to the policy thrust of the Government, management commenced the phased review of the operating model of the Public Sector group (PSG).

Phase 1 entailed the expansion of the business focus area of the group to include commercial transactions. This became effective in April 2014. In Phase 2, the PSG was merged with the Retail Banking group (RBG) and divided into regional Directorates. Thus the South Directorate and the Lagos & West Directorate emerged. The PSG North and RBG North were unaffected.

The third phase, which will commence in the subsequent financial year, will result in the discontinuation of the PSG as a distinct, stand-alone business focus, even as we continue to engage the PS (private sector) for business opportunities and management of existing relationships. The anticipated commencement of the Treasury Single Account (TSA) policy of the Federal Government makes the adoption of the Phase 3 strategy even more compelling.

Generally, PS business was impacted adversely by the 75% CRR, dwindling revenue receipts and huge spending on projects as the general election approached.

STRATEGY AND OBJECTIVES

The general policy trajectory of the Government following dwindling revenue and the multi-dimensional impact on the economy, combined with the increasing private sector relevance in the overall economy, compels a renewed focus on small or medium enterprises (SMEs) as key drivers of the economy.

Consequently, one of the Bank's strategic objectives is to redirect our business focus from PS to the MSMEs to increase market share while retaining relevance in the PS as strategic partners and as leverage for the acquisition of related commercial businesses.

Accordingly, the Bank shall continue to partner with the Government in:

- enhancing internally generated revenue through formalised structures, and robust and automated collection platforms;
- providing alternative funding options including public-private partnerships, contractor-financing and concessions;
- promoting prudent management of public resources through compliance with the Fiscal Responsibility Act;

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- 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 FBNHoldings.

PERFORMANCE[18]

Deposits dropped by 33.8% from ₦547.7 billion in 2013 to ₦362.4 billion in 2014; loans declined by 34.6% from ₦48.7 billion to ₦31.9 billion, and net revenue declined by 29.3% from ₦21.0 billion to ₦14.8 billion in the same period.

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

KEY RISKS/CHALLENGES

1. Sustained contraction of liquidity with CRR of 75% 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 partnerships with key customers in internal revenue generation by the robust deployment of automated revenue collection solutions to increase revenue and block revenue leakages.
3. Following from 2 above and the Federal Government's restrictions on lending to other tiers of Government, there has been constrained lending to the public sector. This was managed by the strategic lending to commercial entities under the public sector purview.

OUTLOOK AND 2015 PRIORITIES

As the Federal Government moves towards a consolidated view of government cash through the 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.

Following reduced revenue accruable to Federal and State Governments due to a drop in the crude oil price, there is a tendency towards deficit budgeting in 2015. With anticipated expenditure in the run-up to the 2015 elections, opportunities exist to issue debt instruments and raise taxes.

Our strategic response to the opportunities created by the deficit budgeting will be to provide funding support via direct lending, 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.

Following from the challenges in the public sector business environment, and given the Bank's overall strategic initiative to deepen the Retail Banking segment, the restructuring of the Retail and Public Sector South groups along regional lines was initiated in 2014. This initiative is expected to be consolidated and optimised in 2015. It has resulted in the redesign of the operating model in the south, bringing Public Sector groups (PSGs) and Retail Banking groups (RBGs) in the South-East and the South-South under the South Directorate with leadership provided by Urum Eke, Executive Director, and bringing PSGs and RBGs in Lagos and the West under the Lagos & West Directorate, with leadership provided by Gbenga Shobo, Executive Director.

With the trajectory of the CBN's policy towards curbing inflation and defending the value of the naira following the drop in crude oil revenue, our strategic initiative would be priority lending to short-term, high-yield transactions.

However, given the pre-eminence of government in the overall economy, we shall continue to tactically engage governments and related institutions to maintain relevance and optimise opportunities identified.

TRANSACTION BANKING

OVERVIEW

To help achieve the key objective of growing non-interest income through transaction volumes, the Transaction Banking group (TBG) commenced operations in July 2014 with 27 staff. By December 2014, the group had achieved 46 of its 89 approved staff.

These two quarters witnessed myriad economic and regulatory shifts that significantly challenged transaction volumes.

PERFORMANCE

The Bank's anticipated growth from transaction banking was weakened by a series of factors, including the foreign exchange contraction in the Retail Dutch Auction System (RDAS) market, resulting from falling oil revenues and CBN's treasury directives on public sector funds and contraction of fees from collections.

Notwithstanding these challenges, the intensive and focused business collaboration delivered the following performance over budgeted transaction volumes:

Transaction category	2014 volume	2014 budget	% achieved
Collections (₦ billion)	**3,086**	4,143	**74**
ePayment (₦ million)	**17**	18	**94**
Trade (₦ billion)	**1,134**	1,300	**87**

The Bank topped industry collection volumes on the Interswitch platform with 17% market share and retained its number two ranking in RDAS trade volumes, doing 5% of the transactions in terms of count. Several new trade, e-payment and collection mandates were also won across all market segments.

Our key focus in 2015 will be to innovate trade and cash management transaction delivery by pursuing the deployment of the MISYS platforms and, through this efficiency, attract more customers to execute transactions with the Bank.

This, in conjunction with the sustained aggressive marketing of identified opportunities, should deliver on agreed TBG expectations for 2015.

OPPORTUNITIES

Our strategic imperatives include growing volumes in all Transaction Banking business lines, increasing non-interest income and expanding the market share of the Bank in trade and collections, while ensuring a high rate of adoption of the Bank's e-payment services by customers. A careful dissection of the market shows opportunities in various sectors, including manufacturing, agricultural value chain, hospitality, State Governments, export, schools and lots more. Our major quick win will be to revive the moribund transaction banking-type customer mandates through revamped and re-engineered service delivery.

18 This captures performance of the Public Sector North region only due to the restructuring of the group.

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RISKS AND MITIGANTS

As with other businesses in the economy, transaction banking businesses are highly regulated by government and other regulatory bodies. Chief among the risks inherent in our line of business include a possible slowdown in risk asset growth, the rationalisation and inaccessibility of foreign exchange, changing Government policies and regulations, the high rate of new entrants and, of course, heightened aggression from competition. Though these risks are common to players in this space, we aim to mitigate the effects by deploying innovative means to service delivery through automation, improving product offerings and building closer relationships with customers. In addition, we constantly source cheaper means to provide our customers with much-needed funds.

MILESTONES

TBG successfully kicked off on 1 July 2014 and has already achieved 50% of its required staffing levels. Despite the lean resources, the model has, in the space of six months, delivered 24%, 18% and 13% growth in collections, trade and e-payments transaction volumes, and 58% growth in aggregate non-interest income (NII), generated from trade transactions between 2013 and 2014. In addition, greater traction was recorded in new Transaction Banking (TB) mandate acquisitions, as more customers are becoming aware of this offering from the Bank. The implementation of the TB model has led to the generation of more than 500 new mandates.

PRIORITIES

To sustain the pace achieved thus far, we have outlined the key priorities for optimal service delivery to customers. These include, but are not limited to:

- the deployment of an end-to-end automated trade services solution;
- the deployment of state-of-the-art cash management solutions (collections, e-payments and liquidity management);
- the pursuit of increased adoption of our e-payment and collection services;
- continuously ensuring the stability of all Transaction Banking platforms; and
- driving market share expansion in the Transaction Banking business.

2015 OUTLOOK

The continuing decline in oil revenue has put significant pressure on foreign exchange demands with the resultant discontinuation of the RDAS market by the CBN. This, coupled with increased CBN fiscal measures in defence of the currency, will challenge trade transactions in 2015, with spillover effects on sales collections.

The Bank will focus on converting opportunities in the Government's recent interventions in the agricultural value chain, cotton, and garment and textiles sectors to grow export transaction volumes through financial support to them.

Trade automation will ultimately be achieved in 2015, which will promote customer acquisition and growth in trade transactions. We will also drive increased adoption of the Bank's e-payment and collection platforms to reduce operating costs and drive growth in non-interest revenue.

COMMERCIAL BANKING
FBNBANK (UK) LIMITED

OVERVIEW

FBNBank (UK) (FBN UK) personal services and products are tailored to meet the needs of international business executives, professionals and entrepreneurs, with an in-depth understanding of global markets. FBN UK has built core competence in financial solutions for mid-tier to large corporations. The principal activities are the provision of: corporate banking; correspondent banking facilities covering all major currencies; private banking; project and structured finance; property finance; trade finance; treasury services and foreign exchange-related products.

OPERATING ENVIRONMENT

The UK economy witnessed a steady and encouraging growth in 2014, according to data released by government agencies. On the positive side, the UK's unemployment rate declined steadily throughout the year, and the inflation rate fell from 2.0% at the close of December 2013 to 0.5% as at December 2014. The economy grew by 0.5% in the fourth quarter of 2014. Although there has been a positive response by employment to the UK economic recovery, growth in real earnings continues to remain weak and productivity has continued to show disappointing signs. Nevertheless, despite downward pressure on real wages, household consumer spending has continuously provided a strong contribution to growth, while the construction industry witnessed an increased positive contribution to economic growth.

Contribution from investment was also strong but cooled off somewhat in the last quarter due to a decline in business investment. However, there are now real grounds for optimism that the economy is finally on the road to a sustained recovery.

The services sector continues to lead the recovery, with retail sales picking up and hotels and restaurants generally seeming busier. The construction sector has picked up from a low base in the past year and this is expected to cool off in 2015, but there should not be room for complacency as there are still plenty of economic risks out there to be monitored and managed.

The regulatory environment, particularly in the UK, remained very challenging. Global regulators continued to put in place stringent rules in an effort to ensure banks are better prepared for any future financial crisis. Some of the rules are quite restrictive and costly, but are to become effective in the medium term. However, the UK regulator has compelled UK-based banks to achieve early compliance. It is strongly evidenced that the application of liquidity rules has frustrated the supply of credit to the economy. It is hoped that current pronouncements and policies of the new Bank of England leadership will restore some confidence into the industry in the coming year and beyond.

The Bank is well placed strategically in an environment where there are vast business opportunities. The challenge going forward is to retain our existing customers while trying to attract new customers in the face of increasing competition. Being a UK entity means we cannot ignore the current economic climate both at home and abroad. However, we believe that despite these issues, if we maintain our level of service and performance while not taking undue risk, the Bank will continue to prosper.

FBNBank (UK) will continue to be proactive in responding to the ongoing economic recovery and more stringent regulatory requirements through its conservative approach to business. We are well positioned to succeed. Our strength is built on our loyal and excellent staff and our priority remains to work closely with customers to ensure we are meeting their demands.

STRATEGIC

The overall vision of FBNBank (UK) is to continue to be the first choice UK and European bank for Africa, offering excellent service to African countries through the integration of the various strategic business units within the Group. Our strategic plan is to extend our leadership position as the foremost Nigerian-owned bank in the UK and the first African bank in the UK that balances its performance with its long-term health. We will continue to position ourselves strategically to take advantage of opportunities and mitigate risks resulting from changes in global economic and regulatory changes.

Our competitive differentiators are in the provision of:

- world-class services, delivered with a high degree of professionalism and flexibility;
- operational excellence, supporting the capacity to offer bespoke products to meet individual clients' needs; and
- a strong asset base with substantial shareholder support to pursue FBNBank (UK)'s market penetration strategy.

FINANCIAL PERFORMANCE[19]

FBN UK delivered a remarkable profit performance in 2014, with growth in our balance sheet footing despite a difficult trading environment throughout the year. Our capital position was strengthened through increased retention of profit, while funding and liquidity positions remained healthy throughout 2014.

Gross earnings rose by 20.6% year on year to ₦26.9 billion (Dec 2013: ₦22.4 billion). This increase in gross earnings compared with the previous year resulted from the expansion of customer lending activities.

Net fee and commission income was ₦2.3 billion, a year-on-year increase of 40.4%. The increase in fee and commission income is attributable to a good turnover of trade finance and other fee-related activities. Our Private Banking business continued to show good potential and made great strides in the year. However, the unimpressive global equity market, coupled with a low-interest regime, continued to affect investors' appetite for further investment.

Operating expenses increased by 28.2% to ₦7.4 billion (2013: ₦5.8 billion). Appropriate levels of an operational framework and systems were put in place by FBN UK to support increased business and safeguard assets. This led to a rise in staff costs, professional fees and premises costs. These additional expenses generated stronger growth in operating income. However, increased amounts of impaired loan charges resulted in a worse cost-to-income ratio of 52.68% (2013: 49.49%) compared with the previous year. However, FBN UK posted profit before tax of ₦9.2 billion, a 21.0% year-on-year increase (2013: ₦7.6 billion).

19 Prior year's performance translated at prior year's exchange rate

84 GROUP PERFORMANCE
97 BUSINESS GROUP PERFORMANCE

COMMERCIAL BANKING
FBNBANK (UK) LIMITED

Total assets rose by 23.1% to ₦659.7 billion (2013: ₦535.9 billion), driven by an increase in customer deposits (+40.0%) generated to support increased lending activities. Loans to customers increased by 27.5% to ₦369.7 billion (2013: ₦291.1 billion).

Total shareholders' equity increased by 20.1% to ₦62.8 billion (2013: ₦52.3 billion), resulting from a combination of high profit retention and a reduction in the revaluation reserve account. Return on shareholders' equity increased to 12.4% (2013: 12.1%) while return on assets remained unchanged year on year at 1.2%.

FBN UK recorded a capital adequacy ratio of 18.6% (2013: 18.2%) with a core tier 1 capital ratio of 14.9% (2013: 14.3%), reflecting the contribution from a high-percentage profit retention and optimal balance sheet management. The capital ratios were in excess of regulatory requirements as at the reporting date and demonstrated the strong capital position of FBN UK.

As at 31 December 2014, FBN UK had ₦413.9 billion (2013: ₦295.7 billion) in liabilities, strategically driven by wholesale and retail deposits liabilities to achieve an optimal funding mix. Liquidity remained strong during the year as FBN UK continued to hold high-quality, unencumbered liquid assets and maintained a reserve account at the Bank of England in line with the regulatory buffer asset requirements. In addition, significant highly liquid money market instruments were held to support liquidity requirements.

COMMERCIAL BANKING

FIRST PENSION CUSTODIAN NIGERIA LIMITED

OVERVIEW

First Pension Custodian Nigeria Limited (FPCNL) is one of the foremost pension custodians in the Nigerian pension industry and a wholly owned subsidiary of First Bank of Nigeria Ltd.

OUR MISSION

To provide best-quality custodial services and optimum protection of contributors' assets.

OUR VISION

True to our name, to be the custodian of first choice.

OUR VALUES

Integrity, excellence, teamwork, professionalism.

OUR STRATEGIC INTENT

To be the market leader through customer intimacy and value-added services using best-fit technology.

As at the end of December 2014, we had custodial relationships with 19 pension fund administrators (PFAs), five closed pension fund administrators (CPFAs) and eight banks and other financial institutions. We held about 35% market share and had in our employment 58 core employees during the year. To us, good performance is not just about profit, it's about running our business in the most sustainable way.

The principal activity of FPCNL as a pension fund custodian is to provide a wide range of custody services that cover our assigned responsibilities under the Pension Reform Act 2014, in addition to our collection of global services.

We offer our clients a full spectrum of custodial services designed to meet their business needs. Our overriding priority is to be the leader in customer services. This is driven by superior customer insight and cutting-edge relationship management. We focus on responding to our customers' various requirements and we offer bespoke solutions. This is achieved through the efficient use of information technology and dedicated staff, as well as through various initiatives aimed at developing value-added services.

Below are some of the services we provide:

- pension contributions collection from employers on behalf of PFAs for the benefit of the contributors;
- investment transactions settlement;
- safekeeping of pension assets;
- corporate actions across all lines of asset classes;
- pension and benefit payment nationwide;
- portfolio valuations;
- cash management; and
- performance measurement and compliance monitoring.

Under our Central Bank of Nigeria (CBN) licence for money market and fixed income instruments, we hold non-pension assets on behalf of the Asset Management Corporation of Nigeria (AMCON) and non-proprietary assets for banks, asset managers and insurance companies.

More than nine years after we commenced operation, we continue to engage our employees in continually striving to exceed our customers' expectations and delivering value to our shareholders.

OPERATING ENVIRONMENT

The 2014 financial year was challenging for the Company in terms of operational activities and competition. The entire investment horizon, right from the start of 2014, began on a cautious note and this was reflected in a negative price movement on the Nigerian Stock Exchange. The capital market experienced myriad highs and lows in 2014.

The last quarter witnessed falling crude oil prices in the international market and a slide in the value of the naira against major foreign currencies, which had a negative impact on capital market activities. The markets were already experiencing highs and lows, and have become a source of worry for stakeholders. Plus, a significant number of foreign portfolio investors have already exited the market. All of these issues have grave implications for both the country and the pension industry. Apart from insecurity, all other issues are rooted in the economy, with some of the potential implications for pension assets including:

- a possible freeze of salaries and reduced growth rate of the defined contribution scheme, as well as a slowdown in the growth of pension assets under custody;
- a failure by various governments to treat pensions obligations as sacrosanct;
- possible lay-offs of workers, which would most likely be due to downsizing to reduce overhead costs;
- inadequate empowerment of private sector companies to cushion the effect of falling oil prices;
- falling prices of equities and bonds on the stock market, which could depress the value of assets under custody;
- that the worsening value of the naira to the dollar portends implications for the cost of operations, most especially because of inputs that are serviced in foreign currencies; and
- that interest rate movements will have an impact on investment revenue, both for assets under custody and corporate assets.

The regulatory framework continued to evolve with the signing into law of the Pension Reform Act 2014, which repealed the previous Pension Reform Act 2004. The major thrust of the Act was to increase the minimum rate of pension contribution from 15% to 18%. The provisions of the Act also expanded the pension base. It revised the obligatory criteria by bringing organisations with as few as three employees into the contributory pension scheme.

Overall, the implication is that more workers would be brought under the contributory pension scheme and that there would be a potential increase in global assets, resulting in increased assets under custody. Based on current retirement savings account (RSA) registrations, industry analysts estimated that the provisions of the new Act will increase registrations, bringing the total number of accounts to 7.14 million by the end of 2015.

During the year, based on a CBN directive, all banks and discount houses had to appoint licensed custodians for their money market and fixed income instruments and outsourced their non-proprietary financial assets. This further increased the asset base of some licensed custodians.

There is continued significant technological development in the pension industry, which has the potential to reshape the market and to drive operational excellence and customer satisfaction.

It is clear that intensive and intrusive regulation is here to stay. We will continue to evaluate the implications on our business of the unfolding changes in the industry and the other key drivers of change, with the objective of developing strategies that would reposition FPCNL as a market leader in the pension custody space in Nigeria.

COMMERCIAL BANKING
FIRST PENSION CUSTODIAN NIGERIA LIMITED

BUSINESS MODEL

Our model is focused on building a sustainable business as a pension fund custodian, while simultaneously creating long-term value for our shareholders and supporting our clients to achieve their operational objectives. Our customers are at the centre of everything we do. We seek to satisfy the needs of our customers by offering a full range of products and services, which achieve improved income and sustainable returns.

Our business can only achieve sustainable, profitable growth by employing the right people and with a performance-driven culture. We are building capability and leadership among our people. To achieve our vision of being 'the custodian of first choice', we need to continue to build a talented workforce. The smarter we work the more effective and efficient we will be at meeting the ever-changing needs of our customers.

We seek to create and add value for our clients through the various services we offer. FPCNL's competitive advantage is created by the diversity of our businesses, the quality of our Group brand and our customer relations. We differentiate ourselves from competitors by our approach: our experienced professionals deliver high-quality services and are committed to helping our customers and clients achieve their goals.

OUR STRATEGY

In 2013, we undertook a review of our strategy. This resulted in new objectives and aspirations aimed at transforming the culture and performance of FPCNL over the next two to three years. This step takes us closer to achieving our vision of being 'the custodian of first choice' for all our stakeholders.

FPCNL's strategic direction-setting was carried out within the context of FirstBank Group's aspirations and overall strategic objectives of market leadership in all key businesses. It has four overall aspirations: a culture of high performance, service excellence, better shareholder returns and market leadership.

In 2014, to support our cultural change, a guide for behaviour, The FPCNL Employee, was disseminated to all members of staff. A strong corporate culture leads to higher long-term returns and is the first line of defence against repeating the mistakes of the past. We continue to invest in our people to get the best out of them.

Reward and incentives are critical enablers of behaviour change. And, as of 2014, staff performance has been measured and rewarded based on not only what an employee delivers but also how they achieve their objectives. As such, rewards will align with FPCNL's values and the Company's performance scorecard.

We have also focused on improving operational efficiencies, which include adopting innovative technology and the automated processing of client transactions to enhance customer satisfaction and profitable growth. During the same period, we completed the implementation of the new custody software, as well as other IT initiatives.

FOCUS FOR 2015

In 2015, we will continue to build on the progress made in 2014. We will focus on delivering our financial commitments by continuously seeking opportunities to expand our business and engendering clients' satisfaction. We expect to see the benefits of our 2014 strategic initiatives begin to crystallise in the coming year.

The landscape of the pension industry has been transformed with the signing into law of the Pension Reform Act 2014, and will continue to evolve in the coming years. We aim to respond positively to the evolving regulatory framework, as we believe it will inevitably call for continued rigorous review and supervision by the regulator.

Another key focus for 2015 and the coming years is to sustain the trust that customers and other stakeholders have in our organisation. We are poised to respond better to current needs and to anticipate the future needs of our customers and clients by embedding technology across our product offerings.

We have made good progress in 2014 and we start 2015 in a better position. We will continue to take steps to increase the efficiency of our operations and perform well against our plan. While recognising there is much to be done, we have every reason to be positive about our prospects.

PERFORMANCE HIGHLIGHTS

FINANCIAL

FPCNL delivered a creditable performance in 2014 despite the challenging operating environment. During the year, we were responsive to our customers' needs and invested in giving our customers better value. Alongside this, we focused on managing our costs tightly to mitigate the impact on our profitability. We manage all our expenditure carefully, ensuring we are as efficient as possible.

Gross earnings were ₦4.0 billion in 2014, an increase of 22.5% compared with 2013 at ₦3.3 billion. The increase in gross earnings year on year is attributed to increased assets under custody and investible funds. Assets under custody increased by 25.5% to ₦1.8 trillion (2013: ₦1.5 trillion) arising mainly from newly added volumes of non-pension assets as a result of the outsourcing of non-proprietary assets by banks and other financial institutions. Total interest income grew by 18.6% to ₦0.5 billion (2013: ₦0.4 billion), driven by growth in investible funds.

Operating expenses rose by 22.2% to ₦1.5 billion (2013: ₦1.3 billion). As the Company continued its drive to support increased business, operational excellence and customer satisfaction, there were increases in amortisation costs, information technology maintenance costs and financial support to pension industry developments.

All the above factors resulted in a profit before tax of ₦2.5 billion, which exceeded the prior year's figure by ₦2.0 billion (23.9%).

Total assets increased by 10.9% to ₦7.0 billion (2013: ₦6.3 billion), driven by growth in investible funds. Earning assets increased by 17.0% to ₦5.3 billion (2013: ₦4.5 billion), which was mainly attributable to an increase in investment securities by ₦0.7 billion (15.3%) to ₦5.1 billion.

The Company's total equity was ₦6.2 billion as at 31 December 2014, a 15.6% increase compared with 2013 as a result of the growth in profitability, which consequently increased the retained earnings.

Our aim for 2015 is to continue to operate an efficient business; managing our costs tightly and building a platform for long-term sustainable growth.

NON-FINANCIAL

Service delivery

We continued to leverage our IT capabilities to add value for our customers and clients. Considerable progress was made in this regard over the year, with the deployment of the FPCNL Online solution and the PIN Upload Portal to aid the execution of clients' instructions and transactions.

Customer satisfaction

We remain focused on our strategy to support our clients by continuously reviewing customer service initiatives and anticipating their needs by embedding technology across our product offerings. During the year, the FPCNL Online solution was introduced for clients to upload their trade and settlement instructions. Another initiative is the introduction of the PIN Upload Portal, where clients can authenticate new RSA PINs. Both initiatives improved efficiency and turnaround times. Feedback from our customers has indicated a better level of satisfaction with our service delivery.

COMMERCIAL BANKING
FIRST PENSION CUSTODIAN NIGERIA LIMITED

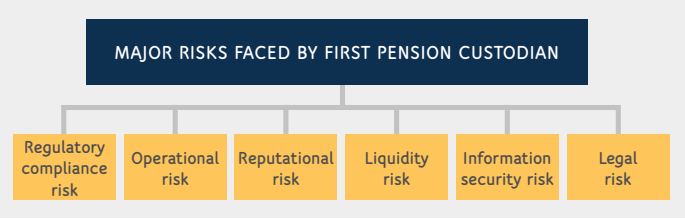
Our people

We have made significant progress this year with our people strategy. We continue to engage our staff and support the requirements of the business through various developmental courses aimed at enhancing technical and managerial skills. This is to further build capacity and serve our customers better.

During the year, there was a review of the performance management process linking employee performance to FPCNL's business strategy and objectives. This ensures the effective monitoring and measurement of skills and identified gaps. It is only by helping our people to do the best they can that we can achieve our own objectives and goals.

KEY RISKS

Risks are managed at FPCNL through the collective effort of all staff, the Audit, Risk and Compliance department, senior management and the Board of Directors. Consequently, the Company has put in place a strong risk management framework that clearly monitors, evaluates and controls the principal risks the Company is exposed to in the conduct of its actions. The major risks faced by the Company are highlighted below:



REGULATORY COMPLIANCE RISK

Regulatory compliance risk is the risk that applicable laws, codes of conduct and standards of good practice are not being complied with in business activities. The Company adopts a culture of compliance which is seen not only as a requirement of law but also as a good business practice. Compliance risk management is an independent core risk management activity undertaken by the Company's compliance unit, which is overseen by the Head of Audit, Risk and Compliance.

Impact on business

A regulatory compliance contravention could result in significant financial loss, reputational damage or the outright closure of the business, induced by sanctions or fines, or the suspension of the Company's licence.

Mitigation measures

Our Audit, Risk and Compliance team ensures that all relevant internal policies, statutory and regulatory directives are complied with at all times and that exceptions are promptly identified, corrected and reported.

The compliance unit is well positioned to guard against the risk of failure to comply with applicable laws, regulations, codes of conduct and standards of good practice. It focuses on ensuring that the Company complies with laid-down legislation and regulations that are applicable to the pension business and operations.

We also continue to identify and mitigate these risks through continuous updates of the Company rule book and compliance risk management framework, improved internal processes and training of stakeholders to understand regulatory obligations and implications of non-compliance.

Responsibility

All members of staff have the responsibility to comply fully with internal policies and regulatory requirements.

OPERATIONAL RISK

Operational risk is the risk of loss (financial or otherwise) as a result of inadequacies or failures in internal processes, people or systems (including IT and infrastructure). It also includes the risk arising from the interruption of operational activities caused by external events. Examples include: the incorrect execution of a client instruction, the transfer of funds to the wrong counterparties, inadequate reconciliation of stock positions or corporate action entitlements being followed up inadequately. The Company's approach to managing operational risk is to adopt practices that will increase the efficiency and effectiveness of the Company's resources, minimise losses and utilise opportunities.

Impact on business

The consequences of operational risk on the business are minor to massive financial loss, reputational damage and loss of market share.

Mitigation measures

Internal audit/control job functions are key to effective operational risk management. The Internal Audit unit provides independent assessment and evaluation of the Company's operational risk and ensures that business units adhere to the operational risk policies. The Internal Control unit, on the other hand, is accountable as part of its daily checks for monitoring control activities and ensuring compliance with set standards. Other key counter-measures put in place by the management of FPCNL include enhanced staff training, regular job rotation, segregation of duties, continuous improvement of Company policy, and processes and adequate insurance cover for assets and staff.

REPUTATIONAL RISK

This is the risk that the Company's reputation may suffer adversely due to bad publicity as a result of non-compliance with regulatory rules, legislation, internal procedures, service level agreements or providing a service that does not comply with industry standards. It is the risk arising from a negative perception on the part of clients, regulators, government agencies, pensioners, service providers or the public at large that can affect the Company's ability to maintain existing client relationships and attract new business.

Impact on business

Reputational risk could lead to negative publicity, loss of revenue and business, costly litigation or the exit of key employees.

Mitigation measures

The Company identifies and mitigates this risk by creating awareness among staff of the need to be more diligent in the conduct of transactions, ensuring quality services to clients and applying best practice in dealing with various stakeholders. It also strives to maintain quality client services and business operation procedures that enable compliance with regulations in order to minimise the risk of a drop in the reputation of the Company.

LIQUIDITY RISK

Liquidity risk is the risk of not having sufficient financial resources to meet obligations as they become due or having to meet financial obligations at excessive cost. This risk arises from mismatches in the timing of cash flows.

Impact on business

Liquidity risk could lead to the Company's inability to meet its immediate financial obligations and could eventually damage its reputation.

Mitigation measures

Mitigation measures of liquidity risk include effective cash flow planning, having diversified sources of funding, and efficient asset and liability management.

COMMERCIAL BANKING
FIRST PENSION CUSTODIAN NIGERIA LIMITED

INFORMATION SECURITY RISK

Information security risk is a business risk related to the unauthorised access, use, disclosure, modification, recording or destruction of information assets. It is specifically a business risk associated with the use, ownership, operation, involvement, influence and adoption of information technology within an enterprise. An information asset is any information of value to an organisation and its operations. In essence, information risk management not only protects the Company's information resources from a wide range of threats, but also enhances business operations, ensures business continuity, maximises return on investments and supports the implementation of various services.

Impact on business

Information security risk can expose an enterprise to financial loss, customer dissatisfaction, and regulatory breaches. It could compromise confidentiality, integrity or the availability of information.

Mitigation measures

Information security can be mitigated by continued risk evaluation through the use of proven risk assessment methodology. This identifies key risk areas and prescribes the controls necessary to reduce these risks to an acceptable level. Information security control is built into all Company processes and procedures through the development of appropriate safeguards; and we have a recovery site in case of either natural or man-made disasters, which may render existing buildings and/or infrastructures useless.

Responsibility

The responsibility for IT security is shared by all staff, including management. The Company provides awareness and training programmes for employees' knowledge of this area.

LEGAL RISK

Legal risk is the risk of real or threatened litigation against the Company. FPCNL is aware of the potential losses that can arise when a financial institution faces a negative court judgement. It has therefore incorporated the process of managing and mitigating legal risk into the enterprise risk management framework.

Impact on business

Legal risk can cause significant loss to the Company, disrupt its operation, and reduce earnings and capital.

Mitigation measures

Ways of lessening legal risk include strict adherence to sound business practices, avoidance of litigation against the Company, and the engagement of external counsel with proven competence in the prosecution of the Company's claims against third parties.

OUTLOOK

We expect that the business environment for 2015 will present stiff competition. Therefore, the Company recognises the need to further address issues, such as average customer experience, talent management and financial performance, to enable us to achieve our goal of regaining and sustaining market leadership. We have set out, through our strategic initiatives, to provide excellent and efficient services to our clients.

We will intensify the deployment of information technology as a vehicle for providing quality service to customers. We will also start to provide alternative delivery channels to ease the collection of pension contributions and benefit payments.

The industry initiative to automate the submission of contributions may be launched in the first quarter. This will remove the problems currently encountered with the matching of contribution schedules against cash lodgements.

Although the economic and political indicators remain shaky, we are hopeful for a positive year ahead.

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COMMERCIAL BANKING
FBN MORTGAGES LIMITED

INTRODUCTION

FBN Mortgages Limited is a wholly owned subsidiary of FirstBank with expertise in mortgage lending business tailored towards provision of integrated mortgage services. Its business activities include acceptance of mortgage-focused deposits, funds management and provision of various types of mortgage loans as well as provision of mortgage advisory services.

The Bank's target markets are a mix of high-end to middle-class income earners as well as carefully screened and qualified self-employed customers. These customer classes represent about 60-70% of the Nigerian population and provide enormous opportunities for the Bank.

OVERVIEW

The Bank is a market leader in the primary mortgage banking sector of the financial industry and has to its advantage the underlisted key statistics pointing to its market leadership:

- Customer base - 5,468
- Deposit base - ₦11.3 billion
- Asset base - ₦14.2 billion

The Bank leverages on the top-notch brand of FBNHoldings in the marketplace, robust information technology (IT) and highly seasoned personnel for its cutting-edge operations and service delivery.

The products and services offered by the Company can be grouped into two classes:

- risk assets; and
- savings and deposit products.

BUSINESS MODEL

Increasingly, our focus has been to deliver competitive quality services to our customers and help our target market achieve their dreams of owning their own homes. Our aspiration is to become the preferred mortgage solution provider in Nigeria. To achieve this, we understand the need to provide tailor-made services that continually meet our clients' needs.

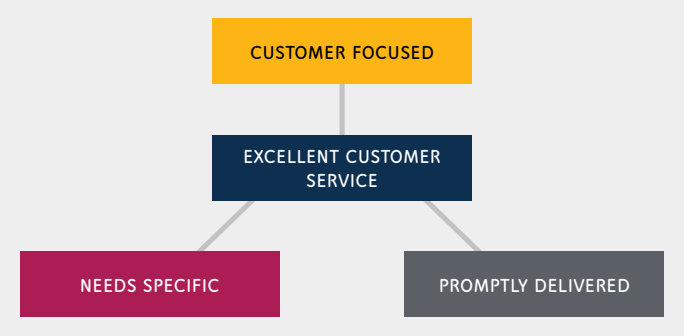
Our current focus is therefore on the 'yet to be served' middle and lower classes of the Nigerian population. This is because mortgages at the middle to lower end of the market are usually longer tenured, low priced and broad based.

BUSINESS STRATEGY

Our vision is to be the preferred mortgage provider in Nigeria through quality service delivery. Our focus is to continuously deliver top-notch, excellent customer service and we intend to build on the following service parameters:

- Our services will be customer focused.
- Our services will be customers' needs specific.
- Our services will be promptly delivered.

SERVICE DELIVERY CHART



In 2015 and beyond, our business activities will be powered by improved IT to achieve set objectives while delivering seamless and efficient services both in the short and long term. Deployment of the most recent version of the banking solution Finacle and the loan management software Finone is a key deliverable in 2015. Once achieved, the Bank will be well positioned to rule the market in delivery of efficient services and effective loan management structure.

OPERATING ENVIRONMENT

The real estate industry in Nigeria portends a huge growth potential, particularly within the context of massive unmet housing needs. Currently, our country has an estimated housing deficit of about 17 million and needs approximately ₦45 trillion to meet this deficit.

Intertwined with these opportunities are key risks and challenges detracting from concerted efforts in maximising the potentials. Some of these challenges are:

- double digit interest rates resulting from unpleasant fiscal and monetary policies;
- poor infrastructures; and
- weak legal framework.

All these combined make mortgage a very risky venture for mortgage lenders.

In the last half of the year under review, international crude oil prices dropped drastically, even below Nigerian budget benchmark, thereby dwarfing the revenue accruing to the Federation Account. This further worsens the propensity to spend and/or save within Nigeria, with the Government being the highest spender in the economy.

The effect of the partial subsidy removal led to increased inflationary pressure in the market with attendant effect on the cost of construction, real estate property prices, and reduced effective market demand in the consumer market.

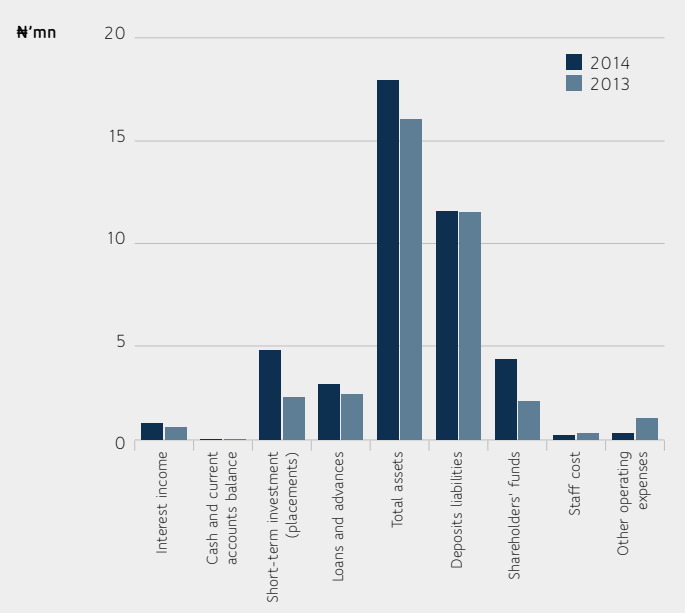
As at 31 December 2013 Primary Mortgage Banks (PMBs) were only allowed to provide services such as mortgage finance, real estate construction finance, acceptance of savings and time/term deposits, and acceptance of mortgage-focused demand deposits. These clearly streamlined the activities of PMBs to the provision of mortgage finance while excluding real estate related activities such as the provision of estate facilities management services, property development etc.

COMMERCIAL BANKING
FBN MORTGAGES LIMITED

PERFORMANCE HIGHLIGHTS

FINANCIAL HIGHLIGHT

Performance indicators	2014 ₦	2013 ₦
Interest income	**796,891**	624,982
Cash and current accounts balance	**104,815**	1,887
Short-term investment (placements)	**4,318,000**	2,055,427
Loans and advances	**2,638,149**	2,197,300
Total assets	**14,151,079**	15,622,221
Deposits liabilities	**11,265,280**	11,109,109
Shareholders' funds	**498,957**	1,865,164
Staff cost	**236,180**	315,863
Other operating expenses	**1,745,735**	1,046,872



NON-FINANCIAL HIGHLIGHTS

- Completion of one of the Bank's ongoing estate developments in Port Harcourt, Rivers State.
- Increased volume in the mortgage lending business from a total of merely 16 loans disbursed in 2013 to 204 loans in 2014.
- Increased partnership/synergies with seasoned real estate developers through the instrumentality of Memorandum of Understanding (MoU).
- A strong relationship with Nigerian Mortgage Refinancing Company (NMRC).

KEY RISKS

The following risk factors impact on our business:

- credit risk;
- operational risk;
- marketing and liquidity risk; and
- legal risk.

CREDIT RISK

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

Impact on business

1. Poor asset portfolio quality arising from the high level of non-performing loans and ultimately low yield on risk assets.
2. Financial loss due to increased loan loss provisions and charges on impaired assets.
3. Impairment of shareholders' funds.

Mitigation measures

1. Strong credit analysis to identify the risk and proffer mitigants.
2. Limitation of exposure and prevent concentration risk.
3. Clear loan covenants and transaction dynamics.
4. Efficient loan management and monitoring.

OPERATIONAL RISK

Aside from complying with regulatory requirements, this could arise from failed internal processes, people and systems, or from external events.

Impact on business

1. Negative service experiences for our customers and the attendant loss in market share; financial loss and reputational damage.
2. Inability to deliver strong business performance that meets or exceeds stakeholders' expectation.

Mitigation measures

1. Enforcement of strong supervisory control.
2. Ensuring that regulatory requirements are incorporated in the operational procedures manual where appropriate.

MARKET AND LIQUIDITY RISK

This involves the possibility of loss in portfolio value or income, as a result of changes in interest rates, probability that the actual return on an investment will be lower than the expectations or the risk that one party to a contract will fail to meet the terms of the contract and default before the contract's settlement date. Ensuring appropriate liquidity ensures responsiveness to the demands of customers in a timely manner.

Market risk

1. Significant financial loss from reduction in net interest income, and impairment of interest rate-related instruments.
2. Diminution in the value of investments.

Liquidity risk

1. Could lead to insolvency and eventual reputational risk.

Mitigation measures

1. Regular monitoring of assets and liabilities matching to avoid mismatch, and compliance with set limits.
2. Ensuring that significant investments are approved by the Board and all others by the Management Committee.
3. Strong supervision by the parent company Board of subsidiaries.
4. Contingent funding plan.
5. Effective cash flow planning and compliance with set limits.

COMMERCIAL BANKING
FBN MORTGAGES LIMITED

LEGAL RISK

Our ability to identify, mitigate and manage the legal risks in our activities and business transactions continues to improve.

Impact on business

1. Increased costs.
2. Loss of revenue.
3. Abuse and/or loss of intellectual property.
4. Distractions.
5. Negative brand equity.
6. Strained relationships with customers, employees, service providers, investors, regulators and other stakeholders.
7. Possible disruption of business activities.

Mitigation measures

1. Consistent application of professional standards, best industry practices, transparency and fairness in transactions.
2. Bespoke documentation and clarity in documentation and agreements.

All these reduce conflicts while engaging external counsel with proven competence in the prosecution of the Bank's claims against third parties and in the conduct of the Bank's defence, while also exploring alternative dispute resolution mechanisms.

BUSINESS OUTLOOK FOR YEAR 2015

The future of the mortgage sub-sector in Nigeria is positive and with the ongoing reforms, we expect a win-win situation; both for the mortgagors and the mortgagees. The emergence of the Nigerian Mortgage Refinance Company Limited (NMRC) is also expected to change the game and boost liquidity in the sector.

The CBN also anticipates loan sizes and tenor to increase tremendously, just as it expects delivery of housing stock to increase exponentially as the reform has seen the capital base of the mortgage banks move from ₦100 million to ₦2.5 billion for state PMBs and ₦5 billion for national PMBs, thereby increasing their capacities. For FBN Mortgages, quick disposal of the remaining stock of properties will allow for easy concentration on mortgages in line with the ongoing reforms.

We are also optimistic that our ongoing discussions with our partners, International Finance Corporation (IFC) and Dewan Housing Finance Limited (DHFL) will strategically position the Bank to maximise all future opportunities.

OUR MAJOR BUSINESS PRIORITIES FOR 2015

- **Complete divestment from real estate development**
  Complete divestment from real estate development will release the Bank's funds tied down in these investments. The funds generated would be reinvested in risk assets and treasury operations to earn good returns.
- **Increase our reach and market visibility:**
  1. With a robust information technology base and adequate capital base we are poised to entrench our market visibility.
  2. This will be driven by branch networks and leveraging on the vast branches of our parent company, FirstBank, to serve as distribution/service channels.

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COMMERCIAL BANKING

FBNBANK DRC LIMITED

INTRODUCTION

Set up in 1994, the bank, formerly known as Banque Internationale de Crédit SARL, was renamed FBNBank DRC Limited in September 2014. Its shareholders changed from Mr Kinduelo to Thorens Limited in August 2008, and from Thorens Limited to First Bank of Nigeria Ltd (75%) and BSG Capital Markets Limited (25%) in June 2012. It comprises experienced Board members and Senior Executives. The bank has 38 branches in 9 of the 11 provinces of the DRC.

The products and services that the bank offers include the following:

1. credit (overdraft, term loan, guarantee) and discount of bills;
2. deposit (current, time, saving);
3. transfer (local, international, incoming, outgoing);
4. change (local currency against foreign currencies, between foreign currencies);
5. card;
6. e-banking; and
7. diaspora product.

FBNBank DRC's key activities are as follows:

- Receiving and collecting funds from the public, credit operations, leasing operations or any leasing operation with a purchase option, payment operations and payment instrument management operations.
- Banking transactions, particularly exchange transactions, transactions in gold, precious metals or coins; investment, purchase, management, custody and sale of securities and any financial products; acquisition of interests within the limits set by the Central Bank of the Congo, consulting and support in wealth management, financial management and engineering; and, in general, any services intending to facilitate the creation and development of businesses, operating leases of movable or immovable property for companies authorised to transact leasing.

The competitive advantages of the bank may be summarised as follows:

- The bank is a member of a solid financial institution.
- The bank has never experienced liquidity issues.
- The bank provides its staff with suitable working tools and conditions.
- The bank has set up branches in some locations (Aru, Mahagi, Lukula, etc) where other banks are not present.

BUSINESS MODEL

Following its integration into the FirstBank Group, FBNBank DRC has become strategically positioned to foster greater collaboration and provide a better service to the country's public, corporate, retail, SME and private customers. With over 35 branches in the DRC, FBNBank DRC leverages the FirstBank Group's international network, business expertise, technology and best practices to allow us to offer innovative, convenient and secure banking services to our customers and better seize the emerging opportunities in the local market.

184,839 accounts

STRATEGY

Our key strategic objectives are as follows:

- Competing favourably in Katanga (Katanga is the pivotal province for corporate and upmarket retail banking, having about four million people and being the centre of the mining activities of the DRC).
- Implementing value chain management.
- Driving product-based marketing.
- Deepening ATM usage and acceptance.
- Ensuring sustainable growth in retail.

OPERATING ENVIRONMENT

MACROECONOMIC ENVIRONMENT

2014 closed with a GDP growth rate of 8.9% against a forecast of 9.5% after the review of the initial foreseen growth rate of 8.7% (average of 6% in the Sub-Saharan countries). The rate of 9% mainly results from the contribution of the primary sector (46.2%), and more especially from the extraction activities (37%).

The index of the average prices for the goods and services market remained stable over the year at 1.02%.

A depreciation of the Congolese franc against US dollar was noted in the two markets - interbank (0.48%) and parallel (0.21%) - as a great demand for the US dollar by local banks did not meet the corresponding expected offer. However, the Central Bank of the Congo noted an appreciation of the Congolese franc against US dollar of 0.04%.

In a context of stability in the goods and services market, the monetary policy was maintained without any change during 2014:

- BCC prime rate: 2% with a positive margin of 0.97 points.
- Mandatory reserve: local currency 5%-0%; foreign currency 8%-7%.

We believe that this level of reserve will be further increased as it concerns the whole country.

LEGAL AND REGULATORY ENVIRONMENTS

The banking industry is one of the most regulated and governed. In 2014, the most significant developments were:

- The uniform act of OHADA on business firms and associations for developing commercial interests were modified on 30 June 2014 and became effective on 12 September 2014 for business firms created before 12 September 2012. It repealed all the legal provisions relating to business firms in the DRC.
- In January 2014, the new pricings and conditions of the Central Bank of the Congo were published.
- On 25 March 2014, the new exchange regulation was published and became effective six months after its publication on 25 September 2014. This regulation repealed the one published on 13 February 2013 in circular 282 of 5 March 1999.

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- The publication of the new instruction no 16, amendment 2 of the Central Bank of the Congo on prudential standards relating to the classification and to the loan provisions of credit institutions of 28 October 2014 that became effective on 31 December 2014.
- The publication of the new instruction no 16, amendment 2 of the Central Bank of the Congo relating to issue by tender of the bond of the Central Bank of the Congo that became effective on 16 March 2014.
- The publication of the law no 14/002 of 31 January 2014 on public funding that modified some provisions of the law no 004/2003 of 13 March 2003 relating to tax procedures.
- The American regulation Foreign Asset Tax Compliance Act (FATCA) relating to new and former customers of financial institutions with the américanité criteria (critères d'américanité) became effective on 1 July 2014.

PERFORMANCE

FBNBank DRC continues on a growth trajectory in spite of a tough operating environment. Gross earnings increased by 16% to ₦9.7 billion (Dec 2013: ₦8.4 billion) with profit before tax down to ₦1.0 billion (Dec 2013: ₦1.4 billion) as a result of increased operational costs owing to heightened political risks. Total assets grew by 19.0% to ₦63.8 billion (Dec 2013: ₦53.6 billion). Net loans to customers increased 35.9% to ₦32.3 billion, while customer deposits closed at (+21.6%) ₦52.5 billion (Dec 2013: ₦43.2 billion). The decline in profitability notwithstanding, FBNBank DRC was the fourth most profitable bank in absolute terms in 2014, while it leads the pack on pre-tax returns on equity. Retail and corporate banking constitute 82.9% of the loan book, driven by general commerce, retail and SME. Funding is primarily from equity and deposits at 86.9%. Risk assets remain largely concentrated in the capital, Kinshasa.

KEY PERFORMANCE INDICATORS (KPIS)

Introduction

The overall strategy of the bank is to become the Congolese bank of first choice. The articulated strategy's financial and non-financial priorities provide direction when ensuring the bank's strategy is achieved. To measure our performance and the progress towards these goals, six financial indicators are being used.

These indicators cover strategically important areas in our business and are catalysts to achieving the desired long- and short-term targets.

The Board of Directors measures the bank's progress against its strategic objectives. Progress is assessed by comparison with the strategy, its operating plan targets and its historical performance using both financial and non-financial measures.

We remain focused on tracking our progress towards our goals. However, sustained improvement will take account of all relevant factors, particularly comparisons against our peer group with regard to the financial and non-financial KPIs.

KEY RISKS

Year-on-year, we have continued to strive to improve the quality and scope of our risk management practice and transparent disclosures. FBNBank DRC has surpassed the minimum regulatory requirements for risk management.

As with past years, the operating environment in the DRC continued to be tense, thereby imposing high operational risk costs on banks. There was apprehension that the interest rate could crash as regulators continued to complain about the high cost of credit. Therefore the bank continued to look for alternative sources of revenue, which led it to shift its focus to fee instead of interest income.

A major cause of concern to the bank has always been the high and increasing non-performing loans portfolio, which did not abate in 2014 because of the problem the bank encountered with the suspension of its banking relationship with Citibank. Funds meant for repayment of credit in our books were trapped in the alternative solutions adopted by the bank.

In the current year, the bank will adopt enterprise risk management strategies to identify, assess and manage the risk exposure proactively. Our focus shall be on the following risk areas:

Credit risk

FBNBank DRC continued to provide a relatively robust suite of credit products and service offerings to meet and exceed market demands. The credit delivery channels and risk management processes were constantly checked against industry standards to improve the level of efficiency, asset quality and yield. The credit policy was followed to ensure compliance with the Group standard and to account for the environmental risks of our business. The Group continued to record high demand for credit lines from existing and new customers, even though there seemed to be a general credit squeeze in the industry during the year.

Market and liquidity risk

Despite relative stability in the foreign exchange market, FBNBank DRC remains sensitive to market risk because of its tendency to pose systemic business risk. Although relatively new in the DRC, FBNBank DRC pioneered the establishment of a functional department to monitor the market and liquidity risk of the bank. The bank will ensure the department has necessary training and equipment to fulfil its function.

Operational risk

Perhaps of more significance than credit risk in the DRC is operational risk. This might not be unconnected with the fact that the country is evolving after a long civil war and is currently under periodic attack from several armed rebel groups across the country.

FBNBank DRC is establishing a robust operational risk management practice, culture and environment driven by highly rated risk and control intelligent solutions to promote the soundness of the institution. Operational risk is getting management attention with a view to reducing the cost of operational risk to within acceptable levels through the appropriate focus and resources being aimed at minimising the operational losses of the bank.

The general security situation in the country remains a concern, having taken a different dimension with the upcoming political undercurrent. FBNBank DRC has continued to work at ensuring the safety of the bank's assets, staff and customers' investments through the implementation of a business continuity management system in line with global best practice.

Legal and compliance risk

We continue to build on our institutionalised awareness creation framework for the identification, mitigation and management of the myriad legal risks in our business activities. In addition to the existing processes, we have embedded proactive legal advisory support into our transaction flow with the benefit of end-to-end documentation, security and compliance assurance. We recognise that such legal risks may originate from the bank or as a result of other external factors – hence the early deployment of our legal advisory mechanism for a more efficient and timely identification, mitigation and management of these legal risks. This accentuates the reality of our strategy of evolving the legal services function from a mere advisory role to one of shaping strategy, process and policy.

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CONCLUSION

FBNBank DRC will focus on proactive identification and management of risks in its different business lines and operations under a rapidly transforming environment, through critical upscaling of the enterprise risk management framework with the strategic objective of maintaining risk at acceptable levels. The Board and management of the bank will continue to critically subject business initiatives to risk considerations and proceed on such initiatives only when the risk is considered fair, avoiding unguarded and uncalculated risk to capital.

OUTLOOK

During 2015, FBNBank DRC will continue its network expansion programme by opening new branches in Kananga, Mbuji Mayi and Likasi, by renovating its current Lubumbashi branch and by opening two new branches in Kinshasa.

The bank will also complete the integration of FirstBank Group's Finacle IT platform, with the aim of providing a better quality of service to its customers. This will change the financial relationship with customers, the working habits of staff and the security of operations. We will also start to provide alternative delivery channels to ease the collection of pension contributions and benefit payments.

We will continue to improve on our deposit base and the diversification of our income/revenue stream, thereby strengthening our balance sheet quality. We have started by launching several of the bank's products with this initiative in mind and we are hopeful for a positive year ahead.

We are also working on moving to a new head office, complete with an ultra-modern branch, and we aim to improve the brand's visibility. These changes will improve perceptions of the bank and increase our customers' satisfaction.

COMMERCIAL BANKING
FBNBANK GHANA LIMITED

OVERVIEW

FBNBank Ghana Limited is a subsidiary of First Bank of Nigeria Limited. In 2013, First Bank of Nigeria acquired a 100% equity stake in the West Africa operations of ICB, which included ICB Ghana. Consequently, upon approval by the Bank of Ghana, the name of the bank was changed to FBNBank Ghana Limited.

OUR VISION

To be a clear leader and Ghana's bank of first choice.

OUR MISSION

To maximise shareholders' value through sustainable growth, superior customer service and innovation.

OUR VALUES

Passion, partnership, people.

OUR STRATEGIC INTENT

To be among the tier 2 banks in profitability by 2016.

Currently, we have 17 branches and two agencies across Ghana. All our branches are networked to facilitate transactions of business by our customers from any of our branches.

In line with our parent company's philosophy, we launched the concept of 'value banking', which is all about creating a service and product platform that addresses customer needs from functional and effective aspects. Functionally, the Bank:

- ensures that it is easily accessible and provides confidentiality with good service/product platforms (e.g., ATMs) for the conduct of business;
- has introduced the SMS alert, which has also improved the quality of customer service;
- promotes the professionalism and integrity of the frontline staff through good job knowledge and information to better serve the customers;
- offers high-quality service delivery and customer-centric product innovation and development; and
- upholds transparency in pricing for value-for-money services and products.

OPERATING ENVIRONMENT

The 2014 financial year was challenging for the industry as a result of an energy crisis, rising inflation and a weak currency, and a drop in crude oil prices. Inflation was 16.5% and the rate was pushed higher by non-food inflation. Consumer inflation ran well above the Government's target of 13%. Due to rising inflation, the Bank of Ghana increased the monetary policy rate twice in 2014 to contain inflationary pressures and realign interest rates in favour of domestic assets. The policy rate moved from 16% in January 2014 to 19% as at the third quarter of 2014. Some commodity prices, like gold and cocoa, witnessed a surge in price while that of crude oil witnessed a decrease. This will reduce the earning of the bank.

BUSINESS MODEL

Our model is focused on delivering sustainable growth through superior customer service, innovative products to maximise stakeholders' value, and supporting our clients to achieve their objectives. We seek to satisfy the needs of our customers by offering a full range of products and services to achieve improved income and sustainable returns.

Our business will revolve around hiring the right people and promoting a performance-driven culture with a view to achieving sustainable and profitable growth in all performance indicators. To achieve our vision of being 'a clear leader and Ghana's bank of first choice' we will continue with efforts to build a talented workforce. The smarter we work, the more effective and efficient we will be at meeting the ever-changing needs and preferences of our customers.

OUR STRATEGY

In 2014, we implemented a strategy to transform the culture and performance of the bank over the next two to three years. The strategy has four overall aspirations: a culture of high performance; service excellence; better shareholder returns; and market leadership.

We will roll out an internal branding campaign targeted at all members of staff to bring about a strong corporate culture, and will continue to invest in our people to get the best out of them. We will fine-tune our structures and processes to ensure we attract and retain the right people and fit them within the right structure.

The bank is focused on restructuring to improve operational efficiencies. These include delineating the marketing focus of the branch manager's role from that of the branch service head that oversees service delivery. The bank also segmented the corporate banking role from that of retail banking. While the Corporate Banking group was tasked with serving the needs of entities in the middle to high end of the economy, the Retail Banking group was made to focus on the low to middle end of the economy. Both the Corporate Banking and Retail Banking teams have been adequately resourced to achieve set targets for the bank. With respect to innovation and technology the bank's operating software was upgraded to Finacle 10 as SMS and email alerts were deployed to augment customer experience with the brand. The bank updated staff knowledge base with cutting-edge training and development and improved branch ambience all in a bid to deliver improved service to customers. In addition, the bank improved its credit administration processes and procedures to significantly reduce the non-performing loans threshold and introduced new assets and liabilities products for retail and corporate/commercial customers.

FOCUS FOR 2015

We will continue to build on the successes we achieved in 2014. Our attention will be on improving the efficiency and effectiveness of our credit processes and governance structure. This includes providing adequate training for all staff involved in any aspect of the credit process. We will focus on improving customers' accessibility to our e-channel products and further strengthen our customers' satisfaction. In 2015 we plan to achieve the following:

- roll out some off-site ATMs;
- launch point-of-sale terminals;
- implement the bank's internet banking platform;
- unveil our Master Card; and
- have all customers enjoy SMS notifications.

We are also working on moving to a new head office location, complete with an ultra-modern branch, and we aim to improve the brand's visibility. These changes will improve perceptions of the bank and increase our customers' satisfaction.

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COMMERCIAL BANKING
FBNBANK GHANA LIMITED

PERFORMANCE HIGHLIGHTS

FINANCIAL

We recorded an impressive performance in 2014 through careful management of our costs as well as improved customer service delivery. Gross earnings increased by 342.6% from 2013. The increase in gross earnings was largely due to an increase in interest income, which leaped by 1,360%, as well as an increase in fees and other income, which increased by 522%. This achievement was primarily driven by a repricing of our loan portfolio, as well as taking advantage of the higher yield opportunity in the money market.

Our realignment of the deposit mix in favour of current and savings accounts led to improvement in the net interest margin.

Operating expenses rose over 2013 numbers to ₦1.5 billion due to re-branding and integration expenditure, which was aimed at driving our business and increasing the brand's visibility. All the above factors culminated in a 253% increase in profit before tax over 2013.

NON-FINANCIAL

Service delivery

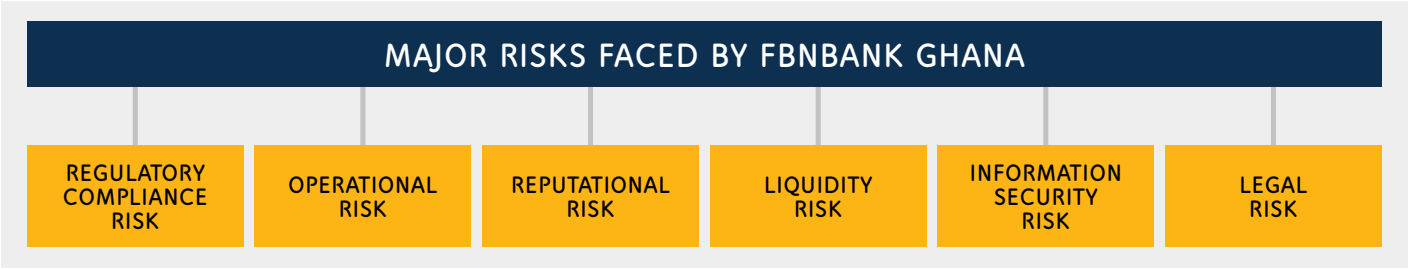
Introduction of a service delivery desk to handle customer complaints has helped increase the knowledge base of the staff and, as such, we expect this acquired knowledge to reflect in the delivery of service to customers.

Our people

We have made significant progress by filling strategic positions and having the right people and right structure to drive the bank's growth aspiration. We will continue to engage our staff and support the requirements of the business through various training and development initiatives aimed at enhancing our knowledge base and sharpening our staff's skill set.

KEY RISKS

The major risks faced by the bank are highlighted below. They are managed through the collective effort of all staff, the Audit, Risk and Compliance departments, senior management and the Board of Directors.



REGULATORY COMPLIANCE RISK

Regulatory compliance risk is the risk that applicable laws, codes of conduct and standards of good practice are not being complied with in business activities.

Impact on business

Contravention of regulatory compliance could result in financial loss, reputational damage or the outright closure of the bank, induced by sanctions or fines, or the suspension of the bank's licence.

Mitigation measures

Our Compliance Department, under the guidance of the Chief Risk Officer, ensures that all relevant internal policies, statutory and regulatory directives are complied with at all times and that exceptions are promptly identified, corrected and reported.

The department also focuses on ensuring that the bank complies with laid-down legislation and regulations that are applicable to banking operations.

Responsibility

All members of staff have the responsibility to comply fully with internal policies and regulatory requirements.

OPERATIONAL RISK

Operational risk is the risk of loss (financial or otherwise) as a result of inadequacies or failures in internal processes, people or systems (including IT and infrastructure). It also includes the risk arising from the interruption of operational activities caused by external events such as natural disasters.

Impact on business

The consequences of operational risk on the business range from minor to massive financial loss, reputational damage and loss of market share.

Mitigation measures

The bank has in place a policy, procedures and toolkits for operational risk management to help identify, assess, control, manage and report on the operational risks within the bank.

Management and the Board play an oversight role through the Management Committee (MANCO), Business Risk and Compliance Committee (BRCC) and Board Audit & Risk Assessment Committee (BARAC) to curtail the impact of operational losses.

COMMERCIAL BANKING
FBNBANK GHANA LIMITED

REPUTATIONAL RISK

Reputational risk is the risk arising from a negative perception on the part of clients, regulators, government agencies, customers, service providers or the public at large that can affect the Bank's ability to maintain existing client relationships and attract new business.

Impact on business

Reputational risk could lead to negative publicity, loss of revenue and business, costly litigation or the exit of key employees.

Mitigation measures

The bank identifies and mitigates this risk by creating awareness among staff of the need to be more diligent in the conduct of transactions, ensuring high-quality services to clients and applying best practice when dealing with various stakeholders.

LIQUIDITY RISK

A liquidity risk is the risk of not having sufficient financial resources to meet obligations as they become due or having to meet financial obligations at excessive cost. This risk arises from mismatches in the timing of cash flows.

Impact on business

A liquidity risk could lead to the Bank's inability to meet its immediate financial obligations and could eventually damage its reputation.

Mitigation measures

Mitigation measures of liquidity risks include effective cash-flow planning, having diversified sources of funding, and efficient asset and liability management.

INFORMATION SECURITY RISK

Information security risk is a business risk related to the unauthorised access, use, disclosure, modification, recording or destruction of information assets. It is specifically a business risk associated with the use, ownership, operation, involvement, influence and adoption of information technology within an enterprise.

Impact on business

Information security risk can expose an enterprise to financial loss, customer dissatisfaction and regulatory breaches. It could compromise confidentiality, integrity or the availability of information.

Mitigation measures

The bank has risk assessment methodology for continued evaluation of the risk. This identifies key risk areas and prescribes the controls necessary to reduce these risks to an acceptable level.

Information security controls have been built into all our processes and procedures through the development of appropriate safeguards and we have a recovery site in case of either natural or man-made disasters.

Responsibility

The responsibility for IT security is shared by all staff, including management. The bank provides awareness and training programmes to update our employees' knowledge base in this area.

LEGAL RISK

A legal risk is the risk of real or threatened litigation against the bank via a negative court judgement which can lead to potential financial losses.

Impact on business

Legal risks can cause significant loss to the bank, disrupt its operations, and reduce earnings and capital.

Mitigation measures

The bank has incorporated the process of managing and mitigating legal risk into the enterprise risk management framework by ensuring strict adherence to sound business practices, and the engagement of external counsel with proven competence in the prosecution of the Company's claims against third parties.

OUTLOOK

In anticipation of stiff competition in 2015 and unfavourable signals on the economic and political outlooks, we have set out, through our strategic initiatives, to provide excellent and efficient services to our customers.

The exchange volatility the country suffered from 2014, which is projected to continue in 2015, is likely to result in a higher non-performing loan threshold from customers who have taken facilities with the bank. This will adversely affect the projected revenue of the bank.

The country has also had to grapple with energy crises that have affected investment in various sectors of the economy namely, industry, agriculture, commerce and employment. The energy crisis has also led to an increased cost of production and that affects growth.

We will deploy information technology as a vehicle for providing a high-quality service to customers and enabling them to gain access to our products and services. This includes alternative delivery channels such as internet banking, collections services and electronic payment solutions.

COMMERCIAL BANKING
FBNBANK GAMBIA LIMITED

INTRODUCTION

The ongoing integration of International Commercial Bank (Gambia) Limited by the Banking Group made 2014 a challenging year. FBNBank Gambia witnessed a lot of procedural changes in terms of operation and structure.

The bank offers products and services ranging from personal banking, corporate banking, payments and collection, and funds transfer, to mention only a few. The target customers are mass market, corporate citizen and public sector. It operates in a small market with four branches and has about 8,583 accounts. Of these 850 were opened in 2014.

What differentiates FBNBank Gambia from its competitors in the industry includes the speed of its foreign transfers and the ease of access customers have to the top management. The bank created a niche for itself in the Indian market segment, which generated 16% of the bank's revenue, but contributed 0% to non-performing loans. The bank, however, could not take full advantage of this segment as lean shareholders' funds (single obligor limit) restricts the assets that can be created to 45% of the portfolio request.

BUSINESS MODEL

FBNBank Gambia's business model is mainly centred on retail banking and corporate banking. These Strategic Business Units (SBUs) remained the highest contributor to the bank's revenue. Its strategy is hinged on exploiting the immense bankable population in the retail banking sector in The Gambia (as seen in the sharp drop in the deposit mix) to keep and grow low-cost deposits. Fixed deposits used to account for more than 60% of total deposits, while current and savings accounts (CASA) made up the balance. In the year under review, fixed deposits fell to 36% of total deposits. To achieve this feat, the bank adopted a strategy of growing low-cost deposits, increasing market penetration. Marketing executives were employed and deployed to sell the bank's products, which increased its share in the mass-market segment.

STRATEGY

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

IMPROVE MARKET PENETRATION

Focus on corporates (and the value chain) in strategic sectors of the economy that are attracting significant government expenditure and implement a value-based public sector marketing strategy for tapping into and trapping government funds.

FOCUS ON PRODUCT DEVELOPMENT

- Introduction of electronic payments and collections solution.
- Implement strategy for value chain management for contractors' collections from distributors and retailers.
- Acquisition of Western Union to enable us to grow foreign exchange income.
- Significantly increase revenue from non-interest sources such as reference letters, SMS alerts, statements of accounts, cheque books and counter cheques, etc.
- Drive strong low-cost public sector, CASA deposits.
- Targeted savings promotion and product innovations for priority segments.
- Branch deployment to cheap liability-generating locations.

OPERATING ENVIRONMENT

The banking industry in The Gambia ended 2014 with strong fundamentals. The industry risk-weighted capital adequacy ratio averaged 30% in 2014, over and above the required minimum of 10%, with all banks meeting the minimum requirement. The banking industry recorded a net profit of ₦2.5 billion in 2014. Total assets of the banking industry increased to ₦101.9 billion, or 16%, from 2013. Loans and advances, accounting for 22% of total assets, decreased to ₦22.46 billion, or 10%, owing primarily to the 9% decline in private sector credit. The ratio of non-performing loans to gross loans declined substantially from 20% in 2013 to 7% in 2014. Deposit liabilities rose to ₦69.9 billion, higher than the ₦63.2 billion in 2013.

In the year to end December 2014, domestic debt rose to ₦77.8 billion, or 38.7%, from a year earlier. Treasury bills and Sukuk-Al Salaam, accounting for 78% and 3% of the domestic debt stock, increased by 32% and 49%, respectively. The yield on the 91-day and 182-day treasury bills decreased from 16% and 17% in 2013 to 14% and 16% in December 2014, respectively. In contrast, the yield on the 364-day bill remained 19% during the same period. The weighted average inter-bank rate also decreased from 16% in December 2013 to 14% in December 2014. The reduction in the inter-bank market had a negative impact on the bank's profitability as some long-term deposits have higher interest rates.

PERFORMANCE

A soft appetite for private sector credit growth was a major constraint as credit requests were turned down because of the market dynamics in the country. The lean capital base of the bank also limits it taking all financing opportunities (single obligor limit).

FINANCIAL

Despite the constraints, FBNBank Gambia's performance over the 12 months that ended 31 December 2014 was impressive. Total asset grew by 13.3% to ₦2.7 billion (2013: ₦2.4 billion). Profit before tax closed at ₦49.5 million. Operating expenses and loan loss impairment cost were ₦187.8 million and ₦6.9 million respectively. These performance lines were largely affected by the deterioration in the quality of risk assets and the ongoing integration project. The quality of the loan book declined by 4.7% in the period under review. Customers' deposit grew by 12.6% to ₦1.5 billion from ₦1.3 billion in 2013. Gross earnings and net revenue were ₦365.4 million and ₦294.5 million respectively.

COMMERCIAL BANKING
FBNBANK GAMBIA LIMITED

NON-FINANCIAL

The bank has continued to implement various initiatives aimed at enhancing cost efficiency. Cost initiatives, such as centralised printing, were introduced, which aimed to reduce capital outlay, such as the cost of printers and copiers. This reduction has an attendant gain as depreciation expense also reduced.

The introduction of the SMS and email alert system targeted at improving customer satisfaction and convenience by reducing the number of times that customers have to visit the branch for enquiries such as balance on account and confirmation of inflows. The creation of the marketing team has also increased the penetration of, and the access to, the bank's products in the market.

Customer loyalty is high owing to our exceptional service delivery. For example, customers' instructions to make foreign transfers are confirmed in less than 48 hours. This accounts for why FBNBank Gambia has a high customer retention rate. The bank made progress in increasing low interest deposits during the year 2014, which accounted for the net interest margin increasing by 16% on the 2013 performance.

KEY RISKS

EXCHANGE RATE RISK

The Gambian economy reacts to fluctuations in rates of foreign currency as the country is import-dependent for most consumables. This makes the country open to exchange rate risk. The major source of foreign currency is tourism, which is seasonal. Financial institutions in The Gambia are always long and short in foreign exchange at the same time because of the seasonal nature of its sources. This poses a major threat to the survival of the industry as the local currency depreciated in 2014 by an average of 17% against the major trading currencies.

IT RISK

The unavailability of IT infrastructure and banking applications (such as the online banking application, the robust core banking application, the credit management application, the automatic teller machines and point-of-sale machines etc.) is another risk the bank is facing. This could hinder the extent to which the marketing team can canvas potential customers, as banking in this age is more than just the deposit and withdrawal of money. These IT challenges will be mitigated in 2015 by the integration of FBNBank Gambia's systems.

EBOLA-RELATED RISK

Although The Gambia is free of Ebola, just being a part of the region meant it felt the external shockwaves arising from the epidemic. The country suffered low productivity during the tourist season, which had a negative impact on the economy. This led to an 18% drop in the hospitality industry, compared to the 9% growth experienced in 2013. Businesses that depend on supplies from Ebola-hit countries (Sierra Leone and Guinea) are affected as there are flight restrictions on these countries.

OUTLOOK

By the end of last year, the global economic growth outlook remain mixed, despite the strong performance of the US economy, lower international oil prices and the quantitative easing announcement by the European Central Bank. In the latest update of the IMF's world economic outlook, global growth is projected at 3.5% and 3.7% in 2015 and 2016, respectively. Sub-Sahara African's growth improved for the second consecutive year to 4.5% in 2014 from 4.2% in 2013.

Despite headwinds, regional growth in Gross Domestic Product (GDP) is projected to remain steady at 4.6% in 2015 and rise to 5.1% in 2017, supported by infrastructure investment, increased agricultural production and buoyant services. However, there are risks to this outlook, which mainly arise from the Ebola epidemic, lower commodity prices and volatile global financial conditions. The latest estimates from The Gambia Bureau of Statistics indicated that real GDP contracted by 1.4% in 2014. This decline was due to late and insufficient rain, and the negative impact of the Ebola epidemic on the tourism sector. Growth is projected to be 4.6% in 2015.

We aim to bring down our cost-to-income ratios over the next 12 months by strengthening our service proposition.

This will be achieved by improving customers' access to our products and services, making their consumption of the latter as easy and convenient as possible.

Our goal over the next 12 months is to deliver a strong and sustainable financial performance. To do this effectively, we will price our asset portfolio optimally, manage our overall costs more efficiently and guard against any deterioration in the quality of our assets.

COMMERCIAL BANKING
FBNBANK GUINEA LIMITED

OVERVIEW

FBNBank Guinea, formerly known as International Commercial Bank Guinea, was acquired in 2013 as part of First Bank of Nigeria's expansion strategy. FBNBank Guinea, which began operating in 1997, is a result-oriented and customer-focused financial institution with active participation in the Guinean economy.

With 104 employees, FBNBank Guinea operates in five business locations, all in the capital city Conakry where it caters to the needs of more than 18,000 customers.

To better meet the banking needs of its valued customers, FBNBank Guinea offers a broad range of products and services, including:

- liability products: current account, savings account and fixed deposits;
- asset products: various loans, bank guarantees, letters of credit, etc; and
- services such as telegraph fund transfer, Sigue and Ria money transfer, inward and outward bill collection, foreign cheque collection, foreign exchange trade, etc.

OPERATING ENVIRONMENT

The banking sector in Guinea is characterised by a low bank account penetration rate among the population. This represents a huge growth opportunity and there is strong competition among the 15 banks operating in the country. The market is heavily based on cash transactions, with ATMs, e-products, quality services and geographical range seen as key competitive advantages.

BUSINESS MODEL

To generate revenues and deposits the bank has developed a value chain strategy to provide a one-stop financial service shop for customers.

This strategy consists of targeting corporate and institutional customers and developing strong business relations with them in such a way that their staff, contractors, suppliers and customers start banking with us.

STRATEGY

We aim to become Guinea's leading bank and the country's bank of first choice within the next five years. To help achieve this, FBNBank Guinea has embarked on a range of non-financial initiatives aimed at delivering exceptional services to customers. These initiatives include:

- growing the business (opening new branches outside Conakry, broadening the product range and improving customer satisfaction);
- realigning policies and procedures with best industry practices;
- improving processes to achieve better efficiency and effectiveness;
- rebranding the bank through developing a strong advertising strategy;
- deployment of e-products and ATMs; and
- attracting the industry's best talent and initiating training to bridge staff knowledge gaps.

PERFORMANCE HIGHLIGHTS

FINANCIAL

The year 2014 in Guinea was characterised by the Ebola virus crisis, which has had a negative impact on the economy. According to figures published by World Bank, the country's economy grew by just 0.5%, far lower than the pre-crisis forecast of 4.5%.

FBNBank Guinea's total assets decreased by 4.2% to close at ₦9.4 billion (2013: ₦9.8 billion). Net loans to customers grew 2.9% to ₦1.94 billion (2013: ₦1.88 billion) while customer deposits decreased 8.7% to ₦7.1 billion (2013: ₦7.7 billion) following the health crises in the country which threatened the economy.

Gross earnings and net revenue closed at ₦700 million and ₦601.0 million respectively, while profit before tax closed at ₦188.0 million.

NON-FINANCIAL

In order to meet its financial objectives FBNBank Guinea conducted the following initiatives to boost staff efficiency and customer satisfaction:

- creation of an email account for every staff member;
- improving the environment of branches through the bank's rebranding programme;
- alignment of policies and procedures with best industry standards;
- bridging of knowledge gap through 'learning series' and 'knowledge test' initiatives; and
- launch of e-alerts and electronic clearing.

COMMERCIAL BANKING
FBNBANK GUINEA LIMITED

KEY RISKS

MARKET RISK

This involves the possibility of a margin squeeze as a result of changes in interest rates or crash of treasury bond rate.

Impact on business

1. Significant financial loss from reduction in net interest income, and impairment of interest rate-related instruments.
2. Diminution in the value of investments.

Mitigation:

- Diversification of the loan portfolio to other sectors such as petroleum products; adoption of value chain engagement strategies.

LEGAL RISK

A legal risk is the risk of real or threatened litigation from customers, staff or suppliers against the bank via a negative court judgement which can lead to potential financial losses.

Impact on business

Legal risk can cause significant loss to the company, disrupt its operation, and reduce earnings and capital.

Mitigation:

- Strict respect of rules, procedures and laws.
- Efficiency of legal department.

COMPLIANCE RISK

Compliance risk is the risk arising from non-compliance with legal and the applicable laws, codes of conduct and standards of good practice. FBN Guinea adopts a culture of compliance which is seen not only as a requirement of law but also as a good business practice.

Impact on business

Non-compliance could result in significant financial loss, reputational damage or the outright closure of the business, induced by sanctions or fines, or the suspension of the bank's licence.

Mitigation:

- Commitment to high standard of integrity in business conduct.
- Full compliance with the spirit and letter of applicable requirements.

INFORMATION SECURITY RISK

Information security risk is a business risk related to the unauthorised access, use, disclosure, modification, recording or destruction of information assets. It is specifically a business risk associated with the use, ownership, operation, involvement, influence and adoption of information technology within an enterprise. An information asset is any information of value to an organisation and its operations. In essence, information risk management not only protects the company's information resources from a wide range of threats, but also enhances business operations, ensures business continuity, maximises return on investments and supports the implementation of various services.

Impact on business

Information security risk can expose an enterprise to financial loss, customer dissatisfaction, and regulatory breaches. It could compromise confidentiality, integrity or the availability of information.

Mitigation:

- Updating information security policies.
- Implementation of a business continuity plan.
- Ensuring IT infrastructure is up-to-date with modern developments.

CREDIT RISK

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

Impact on business

1. Poor asset portfolio quality arising from the high level of non-performing loans and ultimately low yield on risk assets.
2. Financial loss due to increased loan loss provisions and charges on impaired assets.
3. Impairment of shareholders' funds. .

Mitigation:

- Close monitoring of obligors' business.
- Respecting credit procedures.
- Taking necessary guarantees from customers.

PEOPLE RISK

This is the risk associated with knowledge and skill gaps among the employees and activities resulting from fraud and crime.

Impact on the business:

Loss of revenue and business.

Mitigation:

- Training (internal and external) and exchange programme.
- Full implementation of control procedures at all levels.
- Background checks on employees.

OUTLOOK

Low commodity prices, combined with the impact of the deadly Ebola virus and political tensions arising from the build-up to the presidential elections, will dampen growth prospects in the Guinean economy in 2015.

Despite this challenging environment the banking sector is expected to pick up marginally. The low level (less than 10%) of banking penetration in the Guinean population represents an opportunity for commercial banks to capture new customers and develop business with existing customers. To this end FBNBank Guinea plans in 2015 to:

- open at least two branches and two cash points in Conakry and up country;
- deliver excellent customer service;
- expand customer deposit base through the introduction of new deposit and loan products;
- improve visibility through rebranding and advertisement in various medias;
- introduce provision of e-products and ATMs to customers to improve the banking experience; and
- initiate new letter of credit (LC) business though FBN lines to grow business volumes.

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COMMERCIAL BANKING
FBNBANK SIERRA LEONE LIMITED

OVERVIEW

FBNBank Sierra Leone was formed following the acquisition of International Commercial Bank's West Africa operations by FirstBank Group in 2013. The result is one of the fastest growing banks in Sierra Leone. It offers a complete range of services including retail, corporate and institutional banking. The bank currently operates from two locations in Freetown.

We believe our focus on the customer keeps us ahead of competition. Our relationship managers serve as a single point of contact for all customers' needs. Through this approach our customers can contact their personal relationship managers by phone or email rather than having to visit a branch. In a market where banks do not pay interest on current accounts FBNBank Sierra Leone ensures interest is paid. This has resulted in a significant increase in our customer base and number of accounts, which has helped us to drive low-cost deposits and has, therefore, improved our deposit mix.

FBNBank Sierra Leone offers cutting-edge banking services to individuals, corporations and institutions in Freetown. The business climate has been greatly hampered by the Ebola epidemic. This has reduced the Bank's business hours and its level of marketing activity.

A large part of our business comes from just a few customers both in terms of asset and liability generation. However, this is being addressed through new product development, which will have a positive impact on both the consumer and retail end of the business. These new products will start having impact on the business in 2015.

Our liability products include savings, current and fixed-term deposit, and towards the end of the year we introduced the Savings Plus product. Our asset products are the generic loans overdrafts and bank guarantees. However, we are in the process of rolling out new product programmes to aid asset creation.

During the course of last year, we introduced SMS alerts, which, along with internet banking is still a work in progress. The process to sign with the money transfer platform Moneygram commenced in the fourth quarter of 2014, and will be concluded in 2015. This will complement our existing relationships with Ria and Coinstar.

BUSINESS MODEL

Our business model hinges on our ability to generate low-cost deposits and deploy them to high-yielding assets. At the end of 2013, our deposit mix was skewed towards expensive fixed-term deposits, which made up 60% of our total deposits. However by the end of 2014, this greatly improved to 45%, while current and savings (CASA) deposits accounted for 55% up from 40% at the beginning of the year. In view of the import-dependent nature of the economy, banking business in Sierra Leone is dominated by banks that have different sources of foreign inflows; therefore, there is a constant drive to win new business from non-governmental organisations (NGOs) and mining companies, which account for over 90% of foreign inflows.

STRATEGY

- **Growth:** Improve the market penetration of select business segments to diversify our assets further, and to promote revenue and profit growth especially in our consumer and retail banking divisions.
- **Operational excellence:** Improve significantly on service levels by developing world-class institutional processes, systems and capabilities in reducing transactions' turnaround time.
- **Performance management:** Deliver unmatched results by improving employee performance through creating a corporate culture that has clear accountability at all levels.
- **Talent management:** To recruit the best talents in the industry and ensure these employees are retained through training and competitive compensation and benefits.

BUSINESS STRATEGY

The business strategy for this financial year will continue to focus on generating low-cost deposits. Our target is to grow current and savings deposits (CASA) from 55% to 70% while at the same time reducing fixed-term deposits from 45% to 30% of total deposits. This way we will lower our interest expense substantially. We will also continue to encourage large current account depositors by paying interest on their deposits.

Winning new business from NGOs and improving the existing business in this area will be top priorities in 2015. This will make us more attractive to the importers and users of these funds. Earnings from NGOs contributed over 50% of our total revenue in 2014. We will introduce letters of credit in quarter one of 2015 in order to ease our customers' trade transactions.

To improve our bottom line, we are changing our approach to recovery of delinquent facilities. Instead of relying on just one law firm to perform the recovery function, we will engage multiple firms to do so. If necessary, we will also engage professional debt collectors.

We are also changing our approach to lending by reducing our concentration risks by lending to a large number of small retailers and consumers.

Cost containment measures will also be sustained throughout the year in order to maintain shareholders' value.

OPERATING ENVIRONMENT

Despite the harsh operating environment of 2014, largely due to the Ebola scourge, we were able to exceed 2013 profit before tax position by 9%, but fell short of our 2014 target by 10%. The shortfall was due to provisions made for non-performing accounts, and strategies are now in place to ensure full recovery of these accounts.

Drive for new business has been greatly affected by the Ebola epidemic, because of the resultant restriction on movement and reduction in banking hours. The flip side is the huge inflow of funds from overseas donors, which were sold to importers with very good margins. The continuous reduction in treasury bills rate by FBNBank Sierra Leone resulted in a fall in earnings derived from this. Most of the banks, including ours, suspended lending due to the Ebola epidemic which reduced risk asset growth and ultimately interest income.

Despite the very competitive and challenging business environment, we exceeded our deposit target. This is a reflection of our identity as a strong, loyal and safe brand, and also demonstrates public confidence in the bank, as well as our commitment to serve our customers diligently. We look forward to a more promising year in 2015 given the reduction in Ebola cases nationwide.

COMMERCIAL BANKING
FBNBANK SIERRA LEONE LIMITED

PERFORMANCE

Despite the bank's poor performance in 2014, largely attributable to the effect of the Ebola epidemic on the business, we are hopeful that the outlook for 2015 is more optimistic based on the predictions from analyses. Below is a summary of the bank's performance:

	2014 ₦	2013 ₦
Deposit	**3,158,880.19**	2,215,052.84
Total asset	**4,796,980.92**	3,692,437.64
LAD	**1,034,129.52**	1,149,578.19
Gross earnings	**529,210,951**	84,968,440

BRANDING

Following the acquisition of the bank, rebranding it as FBNBank Sierra Leone has been taking place. This rebranding exercise has yet to be completed, but we envisage it will be finalised by the first quarter of 2015.

BUILDING A STRONG TEAM

In 2014, we faced several staffing challenges: the CEO and Head of Operations resigned; a member of staff was dismissed for fraud (though approval was given to recruit a replacement); and two other staff members were also suspended for theft, while we await the outcome of the investigations. Staff training will be given the utmost attention so as to improve on our quality to deliver exceptional customer service.

During the year, a new staff compensation package was approved by the Board.

GROWING OUR BUSINESS

A new Credit Policy manual has been produced for FBNBank Sierra Leone, which will provide guidance for all our lending activities. Four new product programmes are under review and will be launched in Q1 2015 to boost our asset creation.

In 2014, we welcomed Red Cross International as a new customer and have received inflows in excess of USD10 million since September which were sold to importers with handsome margins.

KEY RISKS

The purpose of risk management is to identify, monitor closely and mitigate against potential risks so as to ensure the success and long-term sustainability of the business.

EXTERNAL CRIMES AND FRAUD

Rigid control on third party cheques and letter of debit instructions, increased surveillance on signature and dates on cheques by Head of Operations and Internal Audit Manager.

INTERNAL CRIMES AND FRAUD

Increased surveillance on maker-checker procedures. Review the staff account for unexplained suspicious credits. Increase monitoring of office expenses. This is reviewed at the Audit and Risk Management Committee meetings.

CREDIT RISK

Review daily expired overdraft facility and unauthorised overdraft exposure. Review of sticky loans, especially in the light of the Ebola crisis due to shortfall in working capital.

UNRECONCILED BALANCES IN THE NOSTRO'S ACCOUNT AND SUSPENSE ACCOUNTS

Increased efforts and focus on reconciliation work and call over.

OUTLOOK

The outlook for 2015 is promising, given the late rally in the last quarter of 2014. Asset yield is expected to remain stable as cost of funds continue to reduce, due to the emphasis on low-cost deposits; and re-pricing of existing deposits at maturity to reflect the current rates.

Transactional values are expected to rise as the Ebola infection rates decrease. This will boost commercial activities. Growth in loan book will be dependent on the policy direction of the Group, i.e., whether to lift the ban placed on lending or otherwise. The recovery of impaired assets will be given a boost as we engage new solicitors to aid our recovery drive. This will enable us to improve our asset quality ratio which we intend to keep at a single digit before the end of Q1 2015.

We will also continue to pursue disciplined capital and liquidity risk management which formed our pillar for growth and differentiating competitive factor in 2014.

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COMMERCIAL BANKING

ICB SENEGAL*

OVERVIEW

ICB Senegal was acquired by First Bank of Nigeria on 27 May 2014 as part of the Group's Sub-Saharan Africa (SSA) growth plan and in line with its international expansion strategy. ICB Senegal is a universal banking institution, licensed by the Central Bank of West African States (BCEAO) to operate in Senegal. With a paid-up capital of ₦2.6 billion as at December 2014, ICB Senegal operates from three branches located in downtown Dakar (Roume branch), Mermoz (VDN branch) and Ngor Almadies (Almadies branch). In 2015, we intend to relocate and grow our branch network to reach out to retail and commercial customers especially.

The bank has been able to record significant gains in number of accounts, total assets and gross earnings, which are set to increase after rebranding and integration into the Group.

Continuing its drive to expand its range of products and services to meet customer needs better, ICB Senegal plans to launch an array of electronic banking services, including the deployment of ATMs throughout its network of branches, as well as offsite locations in collaboration with the integration team.

ICB Senegal will be structured along corporate, SME, institutional, professional and consumer banking customer segments, giving us the ability to drive deeper product penetration and develop sector expertise with relationship management based on a clear understanding of customer needs.

3 Business locations

3 ATMs

68 employees

1,460 cards in circulation

2,800 active customer accounts

₦9.5bn total assets

₦522.8bn gross earnings

BUSINESS MODEL

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

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

OPERATING ENVIRONMENT

The banking environment in Senegal is characterised by low banking penetration with a small percentage of banked customers relative to the total adult population. The Senegalese market has seen an increase in the competition among banks seeking customers with a large volume of funds, demand deposits and foreign currency inflows.

The banking sector is still comparatively new and requires segmentation, a network of branches across the country and electronic channels, as well as the promotion of personalised services and products, as they remain key differentiating factors.

STRATEGY

In order to align ICB Senegal to the Banking Group and fully leverage the opportunities in the market, we are embarking on a series of initiatives to grow the bank and improve its profitability. Some of these initiatives are to:

- drive deposit mobilisation to grow the balance sheet;
- optimise costs to drive down the cost-to-income ratio;
- grow revenues;
- improve asset quality and clean NPL;
- increase capital;
- develop a culture of service excellence;
- offer good value propositions based on customer needs;
- focus on commercial banking; and
- review processes and re-engineer the bank to align it with the Group.

* To be renamed and rebranded FBNBank Senegal.

COMMERCIAL BANKING
ICB SENEGAL

We shall be focusing on addressing the following business issues immediately:

- embark on aggressive recovery of NPL as at 31 December 2014;
- address the low liquidity position of 70% as at year end against the 75% norm set by the Central Bank and recorded in our operational risk framework;
- focus on completing the ongoing initiatives conducted with the African integration team to avoid continued cost overruns, as well as giving attention to sales;
- focus on building a pool of cheaper funds through CASA (current account, savings account) with a view to reducing the current high cost of funds;
- focus on addressing poor documentation issues in various departments of the bank as noted in the ICB Senegal examination report, as well as the last internal audit report; and
- maintain and grow existing income streams (mortgage portfolio and short-term loans, overdrafts, trading of foreign currencies and trade finance) to sustain profitability objectives.

PERFORMANCE HIGHLIGHTS

ASSETS, LIABILITIES AND EQUITY

ICB Senegal ended the year with total assets of ₦9.5 billion (+0.85% vs. FY2013), while achieving a loan to deposit ratio (LDR) of 65% in 2014. ICB Senegal ended 2014 with loans and advances to customers down 27.11% compared with 2013, while investments in securities increased by 55.68%.

Customer deposits increased slightly by 2.44% to ₦4.8 billion at the end of 2014 from December 2013. This poor performance was due to an increase in rates on term deposits, a significant decline in demand deposits and a slight increase in interbank borrowing (+5%). ICB Senegal had to obtain interbank financing mainly from BCEAO in order to finance its new loans.

Overall, for the year ended 2014, profit after tax deteriorated by 208% compared with the prior year's position as a result of the banking activities' non-profitability combined with the increased provision for non-performing loans incurred during the year.

In 2014, we shored up the loan portfolio to make it healthier, classifying poor-quality loans, and adequately provided for the non-performing loans. Following the clean up, we are hopeful for improved performance in the future.

NON-FINANCIAL PRIORITIES

The right configuration of business enablers will build a system that will differentiate our value proposition in a manner that will be harder to replicate by our competitors. The enablers also serve the long-term health of our business. Consequently, we have defined five non-financial priorities as part of our bank strategy. The priorities are accompanied by very specific initiatives and projects, many of which are already underway:

- service excellence;
- credit quality/process excellence;
- brand transformation;
- talent management; and
- performance management.

KEY RISKS

With limited capital mobility relative to the rest of the world, there is some scope for an active monetary policy in the context of the exchange rate regime. Recent empirical evidence obtained from BCEAO and staff from the IMF suggests that changes in policy rates have a statistically significant impact on inflation, but that the impact is small. This reflects a shallow financial system – with an underdeveloped interbank market and no secondary market for government securities and the absence of an exchange rate channel.

OUTLOOK FOR 2015

ECONOMIC OVERVIEW

Senegal aspires to become an emerging market by 2035. However, it has been stuck in a low-growth equilibrium since 2006, and has not shared the rapid growth experienced by many other SSA countries over the last decade. Compared with the average growth rate of 6% for the rest of SSA, growth in Senegal has averaged only 4.8% since 2011.

The country's gross domestic product (GDP) growth in 2014 was, however, approximately 5.0%, despite poor cereal harvests and low production in mining and industry. So there are good prospects for the nation in the years ahead.

MEDIUM-TERM OUTLOOK

Over the medium term, Senegal is expected to regain economic momentum with the implementation of the Emerging Senegal Plan. Senegalese authorities have high expectations for growth in the coming years, predicting rates of 6.7% in 2015 and 8% by 2017. Currently, the construction and services sectors, including trade, are the main drivers of economic growth. We are currently canvassing the leading companies in these sectors such as Eiffage Sénégal, CSE, CDE, insurance companies and microfinance companies (COFINA). We project an increase in customer deposits of 50% before the end of 2015.

INVESTMENT BANKING AND ASSET MANAGEMENT (IBAM)

BUSINESS GROUP OVERVIEW

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

INVESTMENT BANKING AND ASSET MANAGEMENT

- FBN CAPITAL LTD
- FBN TRUSTEES LTD
- FBN CAPITAL ASSET MANAGEMENT LTD
- FBN FUNDS LTD
- FBN SECURITIES LTD

GROSS REVENUES

₦18.8bn

PROFIT BEFORE TAX

₦3.5bn

ASSETS UNDER MANAGEMENT[20]

₦148bn

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

FBN CAPITAL

OVERVIEW

FBN Capital Limited is a wholly owned subsidiary of FBNHoldings, a full-service investment banking and asset management business, and a parent company for the IBAM group.

We provide investment banking and asset management services through our wholly owned subsidiaries, namely: FBN Securities, FBN Capital Asset Management, FBN Trustees and FBN Funds. These subsidiaries are operationally structured along five divisions comprising Investment Banking, Trust and Agency services, Markets, Asset Management and Alternative Investments. Our divisions are supported by an integrated operations platform providing services such as human resources, information technology, financial control and transaction operations. See the group structure below for our divisional organisation.

BUSINESS MODEL

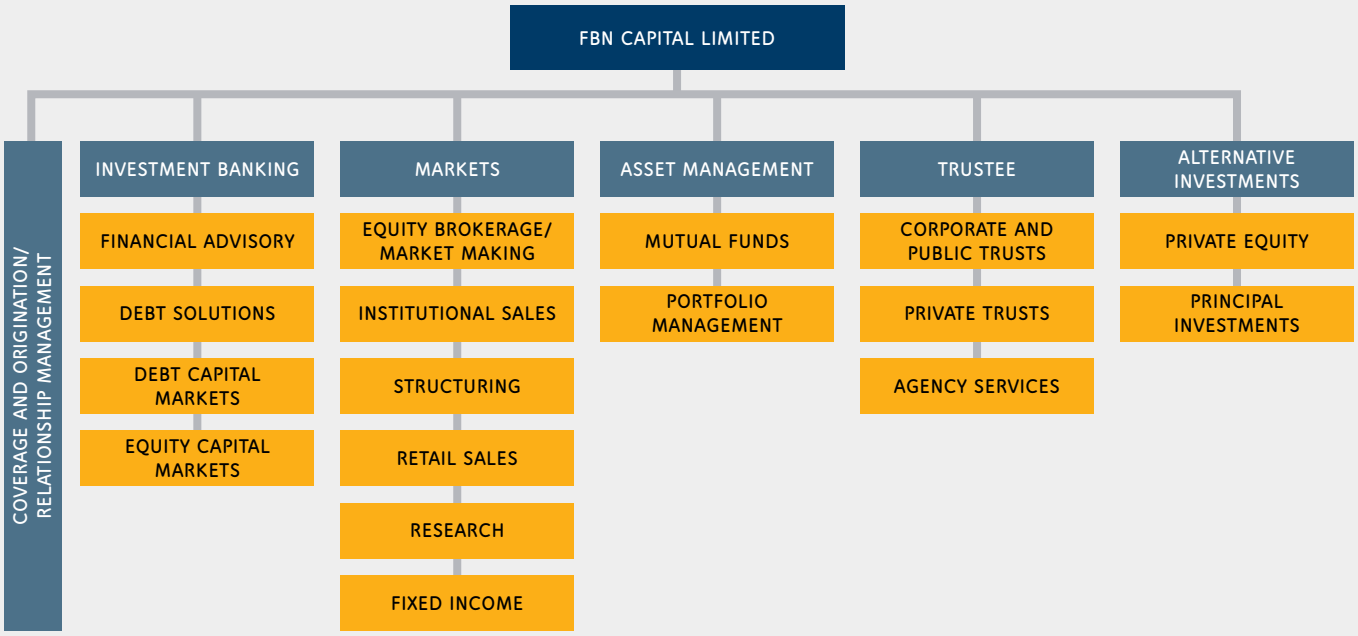
We are a leading investment banking and asset management group has offices in Nigeria and the United Kingdom. We are driven by our vision of becoming a world-class investment bank and asset manager, and our mission of creating value and wealth for all our stakeholders. Client focus is an integral part of our strategy; we focus on creating value for our clients and ultimately our shareholders. We serve a diverse institutional and retail client base across various markets and industries by arranging finance, providing strategic advice, trading securities, administering assets, managing funds, and selling investment and risk management products. We leverage our rich talent pool of highly skilled staff, strong distribution platform and strategic partnerships with various multilateral and domestic financial institutions. Our revenue structure comprises fees, commissions and investment income.

We believe in establishing and nurturing longstanding mutually beneficial relationships. A rich heritage of service excellence, integrity and innovation, and significant financial capacity, distinguishes us from our competitors. Our strong leadership team and governance frameworks ensure that we operate with best practices, create value for our clients and maintain a sustainable business model.

20 Assets under management (AUM) represent total AUM for both the Trust and the Asset Management businesses.

INVESTMENT BANKING AND ASSET MANAGEMENT (IBAM)

FBN Capital group structure



INVESTMENT BANKING OVERVIEW AND OPERATING ENVIRONMENT

Within our Investment Banking division, we arrange finance through the banks and capital markets, and provide strategic advice. Our strong capabilities and deep knowledge of the terrain ensures we are able to propose tailored solutions for each client. We have a strong track record and have advised on key transactions in the telecommunications, financial services, power, infrastructure, oil and gas, and manufacturing sectors of the economy. We remain an industry leader in deal origination, execution and distribution.

The operating environment was benign in the first half of the year with fairly stable exchange and inflation rates. The last quarter of the year, however, was characterised by significant macro headwinds: dwindling oil prices, currency devaluation and volatile financial markets. Activity in the equity capital markets was mostly subdued with only a few companies accessing the market for capital either in the form of new or rights issues. The Nigerian Stock Exchange (NSE) was one of the worst performing exchanges in Africa closing with a 16.1% negative return. On the debt capital markets side, primary activity was dominated by Federal Government of Nigeria (FGN) bond issuance with only a handful of state, FI and corporate bond issues. Trading activity was dominated by DMBs, pension funds and foreign investors.

On the debt arranging and advisory side, several industry initiatives such as the first phase of the sale of the National Integrated Power Project (NIPP) assets; divestment of International Oil Company (IOC) assets; mergers and acquisitions in the industrials; and financial services industry supported market activity. The market also witnessed an inflow of new foreign players in the investment banking segment.

MARKETS (SALES AND TRADING) OVERVIEW AND OPERATING ENVIRONMENT

The Markets division is the hub of our distribution platform comprising sales, trading, research and structuring activities, across various asset classes (equity, fixed income and foreign exchange). Our services are offered to a broad range of customers including pension fund administrators (PFAs), insurance companies, banks and financial institutions, local and offshore portfolio managers, large corporations, endowment funds, foundations and cooperative societies, high net worth individuals (HNIs) and other retail clients.

2014 was a volatile year in the market with several headwinds impacting performance. The political uncertainty caused by the general elections, reduction in oil prices, and the subsequent devaluation of the naira negatively impacted local and foreign investors' appetite for Nigerian securities in general. Consequently, the Nigerian Stock Exchange was one of the worst performing bourses in Africa.

ASSET MANAGEMENT OVERVIEW AND OPERATING ENVIRONMENT

Within our Asset Management division, we offer specialist portfolio and fund management services, mutual funds for retail investors and investment portfolios, and structured products for institutions and HNIs. The division's products include mutual funds and structured products, as well as discretionary and non-discretionary portfolio management across various asset classes including fixed income, equities and real estate. The asset management industry continues to grow steadily; however, it remains dominated by pension funds and is saturated with numerous players. The industry also lacks established distribution channels.

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INVESTMENT BANKING AND ASSET MANAGEMENT (IBAM)

ALTERNATIVE INVESTMENTS OVERVIEW AND OPERATING ENVIRONMENT

The Alternative Investments division is involved in principal investment and private equity. We provide growth capital to medium-sized companies in growing sectors with compelling business models. Government policy in key sectors such as power and agriculture drove market activity during the course of the year. Investors also seized opportunities in the financial services, industrial, and information and communication technology (ICT) market segments.

TRUSTEE SERVICES OVERVIEW AND OPERATING ENVIRONMENT

The Trust division provides trust and agency services to three distinct segments of the industry: private trust – individuals, families, endowments, foundations and privately held businesses; corporate trust – syndication, corporate bonds, escrow agency and share warehousing; and public trust – state bonds and funds (collective investment schemes and reserve funds).

The operating environment was challenging for the trusteeship business, particularly the public trust segment. In contrast, the Corporate Trust segment benefited from increased market activity in the oil and gas, power and telecoms sectors of the economy, while the private trust's client base and assets under custody grew as we gained traction with some of the marketing initiatives.

PERFORMANCE SUMMARY

FINANCIAL HIGHLIGHTS

Notwithstanding the challenging operating environment, our businesses performed strongly in 2014. We recorded around 7%, and 17% growth in gross earnings and profit before tax (PBT) respectively. This performance was driven by a combination of strong and sustained underlying performance across most of our businesses. Our cost-to-income ratio rose slightly from 43% to 44%. This year, we have delivered a 19% total return to shareholders (2013: 16%); this demonstrates growth in value to shareholders. Total assets under management (AUM) across the IBAM group remained flat at ₦148 billion.

Investment Banking division revenues grew by 44% relative to 2013 as we successfully completed large financings primarily driven by increased activities in the oil and gas sector. As a result, contribution to Group revenues increased from 35% to 37%.

Despite rising competition, revenues from the Trust business increased by 27% in 2014. We established key alliances and pursued aggressive market penetration initiatives to strengthen our position as the leading trustee business.

The Markets business also grew in 2014 by 44% compared to 2013 as we implemented key initiatives aimed at developing our distribution platform.

Asset Management's revenues doubled[21] relative to 2013 as efforts to re-position the business started to yield results. The Asset Management business recorded a 52% growth in the customer base and 9% growth in AUM.

The Alternative Investments division's performance was negatively impacted by fair value losses on selected investments leading to a revenue decline of approximately 68% relative to prior year.

NON-FINANCIAL HIGHLIGHTS

Customer acquisition

We made significant strides in growing our customer base at both institutional and individual levels. This is discussed in detail in the divisional updates section of this report.

Employees and culture

During the course of the year, we reviewed compensation and benefits across the board to ensure we retain our employees. We also upgraded and fine-tuned the recruitment process to ensure we attract the right talent. We continued with the graduate trainee and internship programmes to develop a strong talent pool of thoroughbred professionals. Towards the end of the year, we embarked on a culture transformation project to develop a cohesive culture – our shared system and framework of corporate values and practices. The culture transformation project will increase employee engagement and productivity, and enable us build a more adaptable and client-centric organisation.

STRATEGY

Our performance reflects our commitment to investing in our businesses, the market leadership of our franchises, and our effectiveness in executing our core business strategies. This year, we focused on the execution of four key strategic initiatives that place us in a better position for long-term success. We made significant progress with these key initiatives and they have started to yield positive results.

Obtain a merchant banking licence: during the course of the year, FBNHoldings acquired one of the leading discount houses. The new business is complementary to our existing business and assists us in expanding our products and service offerings to a much broader client base.

Institutionalise group collaboration: we continued to entrench the cross-selling culture and made significant progress in collaborating with other members of the group. This led to the creation of new products. Group cross-selling generated revenue in excess of ₦3 billion/USD15 million in 2014.

Refocus the asset management sales effort: this key initiative has started to yield results as we are gradually diversifying our customer base. Customers grew by c.52% while AUM grew by 9%.

Grow the distribution platform: similarly, we have made progress in strengthening our distribution platform; our distribution capacity has been enhanced while our product breadth is broader.

We also embarked on a strategic initiative to transform our technology platform. This initiative is consistent with our vision '*to be the leading investment bank and asset manager*'. Our technology platform is one of the key success pillars in realising this vision.

We received a number of important awards in 2014 (some of which relate to transactions completed in 2013). These awards are a reflection of the independent recognition of our capabilities:

- Best Investment Bank in Nigeria by Global Finance;
- Best Asset Manager in Nigeria by EMEA Finance;
- African Telecoms Deal of the Year by Euromoney Project Finance;
- ICT/Telecoms Deal of Year by Africa Investor;
- Best Restructuring in Africa award by EMEA Finance;
- Africa Oil and Gas Midstream Deal of the Year by Euromoney Project Finance;
- Africa Deal of the Year by Islamic Finance News Awards; and
- Dealmaker of the Year by EMEA Finance.

21 Year-on-year variance stated here is net of business development pay outs.

INVESTMENT BANKING AND ASSET MANAGEMENT (IBAM)

2015 OUTLOOK

Global growth is expected to rise moderately, to 3% in 2015[22], and developed countries are likely to grow on the back of gradually recovering labour markets and relatively low financing costs. In developing countries, as domestic headwinds ease and recovery is strengthened, growth is projected to gradually accelerate. In Nigeria, the 2015 outlook is influenced by the expected impact of the elections (most analysts predict a slowdown in market activity in the first quarter of the year) as foreign institutional investors stay on the sidelines and local investors adopt a wait and see approach. Analysts also predict potential further devaluation of the currency by the CBN and slow growth of external reserves. Equity and fixed income market segments are expected to experience modest growth. Notwithstanding, gross domestic product (GDP) is expected to grow by 5.3%[23]. Competition is set to intensify as more foreign players enter the market and local players defend their market share. We expect government policy thrusts and activity in the key sectors of oil and gas, power, infrastructure and financial services, to drive growth.

FUTURE DIRECTION: 2015 STRATEGY AND PRIORITIES

STRATEGY

FBN Capital's primary objective is to attain and maintain a leadership position in our areas of focus.

With bold ambition to significantly grow the business, revenues and profits, we have now progressed into the second year of the three-year strategic plan (2014-2016). We have continued to implement our strategic plan with key aspirations including:

- integration of the discount house to our existing business and transition to merchant banking;
- ranking top 2 in established businesses;
- ranking top 3 on the NSE top broker list by market share;
- increasing sales and trading platform revenue by 100%;
- ranking top 5 in Alternative Investments business by committed funds under management;
- attaining the position of the number 2 non-pension asset management company by funds under management and revenue; and
- maintaining a competitive cost-to-income ratio.

HIGHLIGHTS OF 2014 PERFORMANCE FOR EACH OF OUR FIVE DIVISIONS

INVESTMENT BANKING

OVERVIEW

Within our Investment Banking division, we arrange finance through the banks and capital markets, and provide strategic advice. Our strong capabilities and deep knowledge of the terrain ensures we are able to propose tailored solutions for each client. We have a strong track record and have advised on key transactions in the telecommunications, financial services, power, infrastructure, oil and gas, and manufacturing sectors of the economy. We remain an industry leader in deal origination, execution and distribution.

The Investment Banking business continues to be the highest contributor of revenue to the Group. The Debt Solutions team, in particular, benefited from increased market activities in the power and oil and gas sectors. This drove the strong growth in revenues of c.44% compared with the preceding year. The financial advisory business was also very active across several sectors and participated in several International Oil Company (IOC) divestments and the sale of power assets. However, the primary capital markets (both debt and equity) remained quiet for most of the year, with only a handful of transactions.

OPERATING ENVIRONMENT

The operating environment was benign for the first half of the year with fairly stable exchange and inflation rates; the last quarter of the year, however, was characterised by significant macro headwinds: dwindling oil prices, currency devaluation and volatile financial markets.

Activity in the equity capital markets was mostly subdued with only a few companies accessing the market for capital either in the form of new issues or rights issues. The Nigerian Stock Exchange (NSE) All Share Index was one of the worst performing exchanges in Africa closing with a 16.1% negative return. On the debt capital markets side, primary activity was dominated by Federal Government of Nigeria (FGN) bond issuance with only a handful of state, FI and corporate bond issues.

On the debt arranging and advisory side, several industry initiatives such as the first phase of the sale of National Integrated Power Project (NIPP) assets, divestment of International Oil Company (IOC) assets, and mergers and acquisitions in the industrial and financial services industry supported market activity.

BUSINESS MODEL

Through our seasoned professionals, we arrange finance and provide advice to government institutions and top-tier local corporates across various industries. We leverage our deep knowledge of the terrain, industry expertise and strong relationships to deliver tailored, flexible and innovative solutions. We earn fees for the financial solutions we provide to our clients.

BUSINESS PERFORMANCE

The division won 27 new mandates, raised 138% more capital (c₦1.4 trillion) for our clients and completed a number of notable transactions in 2014.

From a competitive standpoint, our product teams are market leaders. Debt Solutions ranked first in the debt arranging sector in Nigeria (based on the number and volume of transactions arranged in the last two years); the Equity Capital Markets business ranked second in the industry with a market share of 22% in 2014; and market sources show that the Debt Capital Markets business ranked third by volume with a market share of 32%. Our financial advisory team is also a strong player.

22 www.worldbank.org/en/publication/global-economic-prospects
23 FBN Capital Research - Economic Outlook (2014).

INVESTMENT BANKING AND ASSET MANAGEMENT (IBAM)

Some notable awards received by the Investment Banking business in 2014 include:

EMEA FINANCE PROJECT FINANCE AWARDS

- Best Infrastructure Deal in Africa – Apapa SPM
- Best Project Finance Deal in Africa – Etisalat Nigeria
- Best Telecoms Deal in Africa – Etisalat Nigeria
- Best Energy Infrastructure Deal in Africa – EHGCL
- Dealmaker of the Year – Patrick Mgbenwelu, Director and Head Debt Solutions

GLOBAL FINANCE WORLD'S BEST INVESTMENT BANK AWARDS

- Best Investment Bank in Nigeria

EMEA FINANCE ACHIEVEMENT AWARDS

- Best Local Currency Bond House
- Dealmaker of the Year
- Best Restructuring in Africa Award

EUROMONEY PROJECT FINANCE DEALS OF THE YEAR AWARDS

- Africa Telecoms Deal of the Year – Etisalat Nigeria
- Africa Oil and Gas Midstream Deal of the Year – Accugas

WORLD FINANCE BANKING AWARDS

- Best Investment Bank in Nigeria

EMEA FINANCE AFRICA BANKING AWARDS

- Best Project Finance Deal in Africa
- Best Telecoms Deal in Africa
- Best Energy Infrastructure Deal in Africa

AFRICA INVESTOR AWARDS

- ICT/Telecoms Deal of the Year – Etisalat
- Oil and Gas Deal of the Year – Oando

ISLAMIC FINANCE NEWS AWARDS

- Africa Deal of the Year – Osun State Sukuk 2014

STRATEGY

We operate a client-centric model focused on understanding our clients' needs and developing innovative solutions. Our differentiating factors are our strong industry expertise, the solid financial strength of our parent company, our strong distribution platform and our deep knowledge of the terrain.

2015 OUTLOOK

The 2015 outlook is marked by significant political and macroeconomic headwinds. Consequently, we expect subdued market activity in the first quarter of the year. Market activity is expected to gradually pick up from the second quarter as investor confidence is restored, and the policy direction becomes clearer. The oil and gas, power, infrastructure and financial services sectors are some of the key industries expected to drive growth. We will continue to focus on these key sectors and to drive Group collaboration particularly with the bank. The commencement of merchant banking operations will also create additional synergies for the Investment Banking division.

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97 BUSINESS GROUP PERFORMANCE

INVESTMENT BANKING AND ASSET MANAGEMENT (IBAM)

FBN CAPITAL ASSET MANAGEMENT LIMITED (FBN CAM)

OVERVIEW

At FBN CAM we offer specialist portfolio and fund management services; mutual funds for retail investors and investment portfolios and structured products for institutions and HNIs. We also provide access to both local and international markets through simple, yet innovative, products. Our dynamic, yet disciplined, investment process enables us to deliver superior performance across all market cycles.

The Asset Management division's products include mutual funds and structured products, as well as discretionary and non-discretionary portfolio management across various asset classes including fixed income, equities and real estate.

OPERATING ENVIRONMENT

The non-pension asset management industry continues to grow steadily, recording c.17% growth in assets under management (AUM) when compared to 2013. Total industry AUM was c.₦175.9 billion (₦150.8 billion in 2013).

The top five asset managers in the industry still command a total market share of over 80%, while the top three command a market share of 64%. The majority of mutual funds currently offer a strikingly similar composition (e.g., money market, bonds, balanced, equity and real estate) which makes it difficult for managers to differentiate themselves. FBN CAM closed the year as the third largest mutual fund asset manager in Nigeria.

The asset management industry, however, remains dominated by pension funds accounting for over ₦4.9 trillion in AUM. The industry remains saturated with numerous players and also lacks established distribution channels. The low level of awareness has limited the industry's growth but we continue to be at the forefront of investor education using a number of media platforms. The Fund Managers' Association is also working closely with the Securities and Exchange Commission (SEC) to foster growth in the industry.

BUSINESS MODEL

Asset Management's products and services offerings have been broadly categorised into two major areas, in order to ensure delivery of the highest quality to our customers.

PORTFOLIO MANAGEMENT

Asset Management provides discretionary and non-discretionary portfolio management to high net worth, corporate and institutional investors. In collaboration with FirstBank's Private Banking division, we provide tailor-made investment solutions for the high net worth and wealthy individual. For corporate and institutional investors, we provide fund and investment management solutions targeted to meet specific goals and investment objectives.

MUTUAL FUNDS (COLLECTIVE INVESTMENT SCHEMES)

Asset Management's mutual funds provide investment solutions to retail, corporate and institutional investors, by providing access to various asset classes, to meet investment objectives. Mutual funds also act as investment vehicles which can be used to acquire indirect holdings in investments they may not ordinarily have access to and, for the retail investor, at a fraction of its cost.

The division earns management fees on AUM.

BUSINESS PERFORMANCE

We grew our customer base by 51.7%, from 11,079 as at 31 December 2013 to 16,803 as at 31 December 2014.

During the year, we launched new products such as the Ivory Africa Bond Notes (USD) and the Easy save (in conjunction with FBN Life). The FBN Heritage Fund remains the largest multi-asset mutual fund in Nigeria. The FBN Money Market Fund successfully retained its industry rating of Aa (f) by the Pan-African rating agency, Agusto and Co. We were awarded 'Best Asset Manager in Nigeria' by EMEA Finance. This prestigious industry award recognises our expertise backed by strong local insight, and our focus on delivering superior returns to our clients with uncompromising integrity.

As at 31 December 2014, we were the third-largest SEC registered fund manager in Nigeria (ranked by total AUM of mutual funds) having moved two places from fifth position in December 2013.

STRATEGY

Our 2014 strategy entailed building scale by driving volume through distribution channels, product breadth and leveraging the FirstBank brand. We leveraged synergies within FBN Holdings Plc and built partnerships with other subsidiaries within the group. We believe distribution and awareness were key enablers for success in the Nigerian asset management market in 2014.

Our strategy going into 2015 is to continue to:

- build scale by driving volume through distribution reach, product breadth, and leveraging our strong brand;
- ensure group collaboration within FBN Holdings Plc and build partnerships with other subsidiaries in the Group; and
- focus on strengthening our distribution channels to attract institutional and retail clients.

Our clients are our focus and we will continue to deliver superior long-term performance and exceptional client service to them.

2015 OUTLOOK

The asset management industry is expected to grow in tandem with the Nigerian economy, attracting retail and institutional investors from across the country. Furthermore, the industry will be positively transformed by new technology, demographic shifts and changing social habits.

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97 BUSINESS GROUP PERFORMANCE

INVESTMENT BANKING AND ASSET MANAGEMENT (IBAM)

FBN SECURITIES LIMITED – MARKETS DIVISION

OVERVIEW

FBN Securities is a wholly owned subsidiary of FBN Capital, and is engaged principally in the business of stock brokerage. It is the hub of our distribution platform, comprising sales, trading, research and structuring activities across various asset classes (equity, fixed income and foreign exchange). Our services are offered to a broad range of customers, including pension fund administrators (PFAs), insurance companies, banks and financial institutions, local and offshore portfolio managers, large corporations, endowment funds, foundations and cooperative societies, and HNIs and other retail clients. We provide corporate broking and market-making services, distribute public offerings on behalf of issuers and publish qualitative macroeconomic, sector-focused company research.

OPERATING ENVIRONMENT

Several headwinds hit performance in 2014, which was a volatile year. The political uncertainty caused by the general election, reduction in oil prices and the subsequent devaluation of the naira negatively affected local and foreign investors' appetite for Nigerian securities.

Equities market: the value traded in 2014 was 28% higher than 2013. In addition, AMCON's sell-off of some of its equity shareholdings provided significant liquidity in tightly held consumer names. Foreign investors dominated activities, accounting for about 58% as at the end of the year. Approximately ₦188 billion was raised in the market in 2014 by way of rights and IPOs, indicating the low level of appetite for new issues.

Fixed income: trading activity was much lower in 2014, driven by lower yields and higher risks associated with the naira. As a result, offshore investors' appetite for Nigerian fixed income instruments waned. In the local broker/dealer market, the switch from the Reuters platform to the E-bond (Bloomberg) trading platform greatly increased transparency and price discovery in the treasury bill/bond market, thereby greatly reducing brokerage and arbitrage opportunities for brokers.

BUSINESS MODEL

The Capital Markets division (FBN Securities) earns fees and commissions by structuring, selling and trading equity, fixed income and foreign exchange. Our value proposition is to provide our clients with excellent services. Our differentiating factors are as follows:

People: our team consists of brokers and sales traders who are knowledgeable about the market and brokerage operations.

Execution: excellent execution of trades, provision of volume flows and also timely dissemination of market and economic information that will aid decision-making.

Distribution: strong sales and distribution pool of domestic and international clients and also access to a large client base by leveraging the FBN Group pool.

Research: strong research team, which covers key sectors in the economy.

Operational efficiency: leveraging technology to streamline processes and procedures in line with global best practice.

BUSINESS PERFORMANCE

Our customer base grew by 47% between 2013 and 2014.

During the course of the year, the structuring team developed new products, including credit linked notes, first-to-default basket and cross-currency secured funding. We also continued the Purchasing Managers Index (PMI) survey, an economic indicator that gauges the temperature of the sector at monthly intervals.

We continued to implement various initiatives to strengthen our distribution capabilities. FBN Securities maintained sixth position on the broker ranking league table. However, market share value increased from 3.82% in 2013 to 4.58% in 2014.

STRATEGY

In 2014, our strategy focused on product development, increasing visibility both locally and internationally with institutional and retail clients, growing market share by establishing strategic alliances, building stronger relationships with relevant stakeholders and leveraging the FBN franchise across the Group.

In 2015, we plan to:

- increase investor coverage and visibility internationally with institutional and retail clients;
- drive growth via cost-effective systems; and
- strengthen client focus and enhance our direct reach/availability to clients.

2015 OUTLOOK

The Nigerian macroeconomic environment is predicted to be vulnerable to external shocks in 2015, primarily because of falling oil prices, FX volatility, a reduction in foreign inflows and political uncertainty. With the devaluation of the currency and increase in yields, inflation is expected to continue to rise. Notwithstanding, we intend to diversify our income stream by developing new products and increasing market share. Our focus shall continue to be maintaining and developing new relationships, both with the offshore and the domestic community.

INVESTMENT BANKING AND ASSET MANAGEMENT (IBAM)

FBN FUNDS LIMITED – ALTERNATIVE INVESTMENTS DIVISION

OVERVIEW

The Alternative Investments division is involved in principal investment and private equity. It provides growth capital to medium-sized companies in growing sectors with compelling business models. Government policy in key sectors, such as the power and agriculture sectors, drove market activity during the course of the year. Investors also seized opportunities in the industrials and information and communication technology (ICT) market segments.

We have made investments across a number of sectors in Nigeria, such as telecoms, leasing, oil and gas, travel and tourism, and ICT.

OPERATING ENVIRONMENT

Based on reports from Private Equity Africa, USD4.6 billion was invested by private equity funds in Africa in 72 deals in 2014. The highest number of deals was recorded in the retail sector, which was boosted by a significant number of small- to medium-sized deals across East and West Africa. For the second year in a row, Nigeria attracted the most investments, accounting for 46% of aggregate deals in the continent. Most of these investments were made in financial services, telecommunications, ICT, and oil and gas.

Single-digit inflation (8% as at December 2014) and a favourable investment climate encouraged foreign investors, illustrated by key investments being made in Union Bank (Atlas Mara), Helios Towers Africa (Helios, Providence, Quantum & Co), Diamond Bank (Carlyle) and Seven Energy (Temasek).

The last quarter, however, was characterised by declining oil prices and currency devaluation dampening the momentum.

BUSINESS MODEL

We focus on providing growth capital to firms to finance their expansion plans. This is achieved through minority equity and quasi-equity investments in selected businesses. We seek to partner with companies backed by strong and experienced management teams, with scalable business models, and products with a large addressable market. Our team of specialists work towards unlocking shareholder value through partnerships with entrepreneurial management teams. Our returns are driven by management fees charged on our funds, dividend income, coupons, liquidation premiums and gains on realised investments.

Below are some of the key risks we face and their mitigants.

Key risks and mitigants

- **Concentration risk:** we ensure that our investments are adequately diversified in view of the dangers of portfolio concentration.
- **Performance risk:** in order to ensure that portfolio companies perform as projected, we adopt a hands-on approach to investment monitoring. We also ensure we partner with management teams that have the capacity to react adequately to material changes in their operating environment.
- **Liquidity risk:** we provide financial support to our investee companies over the life of our investments via follow-on investments where required. We also provide a platform for our investees to access bank debt and other sources of financing where required.
- **Exit risk:** we make new investments with a clear, pre-specified exit plan and work with our management teams to ensure our exit objectives are achieved.

BUSINESS PERFORMANCE

The Alternative Investments business generated revenue of ₦913 million (excluding changes in option value) for the financial year ended 31 December 2014. FBN Funds had a challenging year, as there were no exits of investments as was the case in 2013. Fair value losses on selected investments also adversely affected profitability. Total investments in portfolio companies were valued at ₦3.2 billion at the end of the reporting year.

During the financial year, the division successfully achieved the following milestones:

- fully exited its investment in a major oil and gas company and a leading travel agency company; and
- the introduction of a new asset class by becoming limited partners (LP) in a venture capital technology fund.

2015 OUTLOOK

In 2014, Nigeria rebased its GDP from 1990 to 2010, which resulted in an 89% increase in the estimated size of the economy. Estimated nominal GDP as at the end of 2013 was USD510 billion, catapulting Nigeria to the position of the largest economy in Africa. The rebasing has increased the spotlight on Nigeria as it is now on the radar of significantly more foreign investors.

Notwithstanding, we expect subdued market activity until after the elections when foreign investors will, we think, cautiously return to the market. Manufacturing, construction, education, finance and insurance, and information and communications technology were the five fastest-growing sectors as at Q3 2014. These sectors are likely to benefit from foreign direct investment inflows in 2015.

STRATEGY

Our strategic focus in 2015 can be broadly categorised into two:

Manage existing investments

- Continued value enhancement of existing portfolio companies drive collections on legacy portfolio.
- Implement real estate strategy.

Broaden the alternative investments platform

- Commence third-party fundraising by the joint ventures fund management company.
- Define and implement a strategy for raising additional third-party funds focused on new asset classes – such as the Credit Opportunities Fund.

INVESTMENT BANKING AND ASSET MANAGEMENT (IBAM)

FBN TRUSTEES NIGERIA LIMITED – TRUST AND AGENCY SERVICES DIVISION

OVERVIEW

FBN Trustees provides trust and agency services to three distinct segments of the trust industry: private trust – individuals, families, endowments, foundations and privately held businesses; corporate trust – syndication, corporate bonds, escrow agency and share warehousing; and public trust – state bonds and funds (collective investment schemes and reserve funds).

OPERATING ENVIRONMENT

The operating environment was challenging for the trusteeship business, particularly in the public trust segment. Notwithstanding, the corporate trust segment benefited from government reforms in the oil and gas, power and telecoms sectors of the economy, while the private trust's client base and assets under custody grew as we gained traction with some of the marketing initiatives.

Public trust's growth was constrained by dwindling State Government revenue, caused by a slowdown in market activity in the run-up to the general elections. In addition, only a handful of sub-national transactions were consummated during the course of the year. The weak performance of the equities market also had a negative impact on public trust revenues, which was mandated on only one mutual fund transaction.

The corporate trust business benefited from the power sector. Robust support from FBNHoldings and Investment Banking and Asset Management contributed positively to the strong performance of the corporate trust business, allowing us to maintain our leadership position.

While cultural challenges remain, our market penetration initiatives, such as the weekly trust series and the collaboration estate planning guide, have started to yield results. The private trust business recorded double-digit year-on-year growth in both revenue and client numbers.

Our interest income revenue line was negatively affected by narrowing margins, as well as fee compression as new players entered the market.

BUSINESS MODEL

The trust business is typically a fee-generating business, driven predominantly by securities servicing. Consequently, growth in assets under management is a key business driver.

The division's innovative product offering tailored to meet clients' current and future requirements, coupled with the very strong FirstBank brand, are the unique factors that differentiate it from its competitors and make it the preferred trust and agency business in Nigeria.

BUSINESS PERFORMANCE

We grew our customer base by 12% in 2014, from 1,009 in 2013 to 1,126 in 2014. Four new products were developed during the course of the year, namely: Nominated Trust, FBN CET, Education Trust Scheme and the Family Incentive Trust.

STRATEGY

Our strategy in 2014 was driven by strategic alliances, Group collaboration and client education. We intend to continue with these strategies in 2015.

2015 OUTLOOK

We expect macroeconomic headwinds and political uncertainty to prevail in the first quarter of the year and a gradual pick-up in business activity as from the second quarter. Broadly speaking, we anticipate fee compression and thinner margins as competition intensifies. We, however, maintain a positive long-term outlook for our corporate and private trust businesses, and a modest outlook for the public trust segment.

Our focus in the coming year is as follows:

- develop an alliance with a key offshore partner;
- maintain a strong relationship with key partners (internal and external) to originate new transactions;
- extend product offerings and effectively advertise and market our products;
- implement multi-segmentation strategies to target distinct market groups;
- implement well-planned products/services and pricing strategies through different distribution channels;
- drive product innovation along our different product categories; and
- strengthen our selling capabilities and go-to-market strategies.

INSURANCE

FBN INSURANCE

OVERVIEW

The Insurance business group offers insurance brokerage and composite underwriting services to customers. FBN Insurance Brokers provides the brokerage service, and the full underwriting business is provided through FBN Insurance Limited. Its vision is to be Nigeria's first choice in wealth creation and financial security. It offers a wide range of products and services that cater for the needs of both the corporate and retail ends of the insurance market.

INSURANCE

FBN INSURANCE LTD

FBN INSURANCE BROKERS LTD

GROSS REVENUES

₦4.7bn

PROFIT BEFORE TAX

₦0.7bn

FBN Insurance is a business relationship that leverages the technical insurance skills and expertise of Sanlam Group and the FirstBank knowledge of the Nigerian financial services market and distribution network to deliver tangible value to clients.

The products offered help customers enjoy the peace of mind that comes from managing the risks of everyday life. With FBN Insurance, they can save for a comfortable future and protect the people that are most important to them. One primary objective is to help people, businesses and communities get back on their feet when the unexpected happens. As a specialist life insurance organisation offering a range of investment and risk insurance products, all operations are anchored on innovation, efficient service delivery and high standards of professionalism. FBN Insurance pioneered mobile insurance in Nigeria, with the aim to continue expanding its influence across the country, while being committed to conducting all business within the framework of applicable professional standards and regulations together with its core values.

The Sanlam Group, which is an associate of FBN Insurance, is the second largest non-banking financial services group in South Africa. In its 93 years, the Sanlam Group has grown from a small life insurance company to a diversified financial services group focusing mainly, but not exclusively, on wealth creation, investment management and protection, and offering solutions to clients across the broad financial services spectrum. The group comprises a number of mutually interdependent and complementary business entities, and currently functions via three main clusters of business: life insurance, general insurance and asset management.

To further increase FBN Insurance's market penetration and participation in the general insurance space, it acquired Oasis Insurance. Oasis Insurance is a public liability company with authorised and paid-up capital in excess of ₦3 billion and licensed under the Insurance Decree of 1991 to transact all classes of general insurance businesses.

INTRODUCTION

FBN Insurance is one of Nigeria's fastest growing insurance companies, providing coverage for individual and corporate clients. It is jointly owned by FBNHoldings (65%) and the Sanlam Group (35%), one of the largest financial institutions in South Africa. With over 200 years' combined experience, we have the advantage of and continued to leverage on FirstBank's expertise in the financial services industry as well as the extensive branch network in Nigeria and across Africa. Specifically, we have the benefit of drawing on Sanlam Group's technical expertise and FirstBank's distribution network, thus delivering tangible value to our clients.

BUSINESS ACTIVITIES

We have continued to provide innovative insurance products and services to our clients in Nigeria. These products include:

Retail distribution:

1. Flexible Education Policy;
2. Flexible Savings Policy;
3. Flexible Cash Flow Policy;
4. family income protection plan (FIPP);
5. extended family support plan (EFSP);
6. family shield; and
7. EasySave Policy.

Alternative distribution:

1. first family shield;
2. credit life;
3. mortgage protection plan;
4. keyman assurance;
5. term assurance;
6. Padi4Life; and
7. Sure4Life.

Corporate distribution:

1. group life assurance.

INSURANCE

STRATEGY

FBN Insurance's strategy is designed to deliver sustainable and profitable growth in a dynamic and competitive business landscape. It builds on the strengths of our owners (FBNHoldings and Sanlam Group) and it places our customers' needs at the centre of our business.

In a highly competitive sector, such as the insurance industry, key players tend to appear very similar in terms of product and service delivery. At FBN Insurance, we focus on, and exploit, our competitive advantages in the industry. We are convinced the following key factors differentiate us from the rest:

- **Brand strength of our owners**
  In an industry plagued by a persistent lack of trust and confidence from customers, the reputation of an insurer in Nigeria is critical to its success. We are proud that the brand strength of our owners, FBNHoldings and Sanlam, echoes stability, financial strength, expertise and reliability. Consequently, we believe customers who truly want to protect the people they love will put their trust in us.
- **Access to FirstBank's retail network**
  Our status as a member of the FBNHoldings Group affiliates us to FirstBank, the biggest retail bank in Nigeria. This relationship grants us access to an extensive array of insurance opportunities particularly as it pertains to permissible bancassurance transactions such as credit life.
- **Commitment to excellence and innovation**
  Our products and services are competitively priced without sacrificing quality. As we design products we ensure flexibility by carefully considering the unique needs of our customers to develop fit-for-purpose products. As the pioneers of mobile insurance in Nigeria, we will continue championing innovation in the industry.

Within the 2014-2016 planning period, our strategic aspiration is to become a top five insurer in Nigeria based on revenue and profitability. In line with this aspiration, our strategic priorities for 2015 are to:

- **Exploit the retail growth potential in Nigeria**
  We maintain a strong resolve to exploit the low penetration of retail insurance in Nigeria. As witnessed in 2014, we have begun to consolidate on the positive results generated in the retail space from previous years. We will continue to strengthen our agency distribution network accordingly, with a view to improving agents' productivity.
- **Enhance sales through alternative channels**
  In line with the FBNHoldings Group's strategic focus of harnessing the cross-selling potential among its subsidiaries, we will continue to focus on identifying and exploring synergies between FBN Insurance and other subsidiaries with particular focus on FirstBank. We will continue to strengthen bancassurance capabilities (as permitted by key regulators) to drive revenue. Similarly, we will be establishing business relationships with other financial institutions for insurance opportunities.
- **Build excellent service delivery capabilities**
  In a country where customers are often suspicious of underwriters, we consider efficient underwriting, claims processing and overall service delivery as critical elements of our strategy. To this end, we shall be optimising the use of technology as a service delivery enabler across all touch points with customers. In 2015, we will be finalising the process of implementing the automation of key processes.
- **Attract, retain and build a talented workforce**
  As we continue to grow, the need to attract and retain the best insurance workforce remains apparent. As a result, we place a strategic importance on the quality of our people. In 2014, we commenced on an extensive review of key human resource initiatives, chief of which was the review of our performance management system. This, and other related initiatives will be implemented in 2015 with a view to stimulating a high performance culture.

BUSINESS MODEL

Our business is structured to promote operational and service excellence across all touch points. We are organised into key customer segments and distribution channels. This structure allows us to interact with our customers through the following key divisions:

- **Retail distribution** arm is primarily responsible for the sales of our products to different customer categories, which include the mass market, mass affluent, affluent and HNIs (high net worth individuals). Our products are developed to address the specific insurance needs of these customer segments, some of whom we engage via our robust agency network across the country.
- **Corporate distribution** division drives the sale of our group life scheme and other life products to corporate organisations, governments and other public sector parastatals. We continue to build and strengthen our relationships with key stakeholders such as insurance brokers in order to deepen our footprints in the corporate insurance segment.
- **Alternative distribution** consists of other channels through which we reach out to our target customers in the retail and corporate segments. This arm of our business oversees our mobile insurance and bancassurance business lines.

OPERATING ENVIRONMENT

2014 was characterised by the progressive recovery of the world economy, at a slower pace than anticipated. The underlying dynamics are changing, and the risks to the forecast remain on the downside which could pose risks for emerging market economies. As a result, new policy challenges are arising and policy spillovers may pose greater concern. Global growth remains in low gear, averaging only 2.5% during the first half of 2014, which is about the same pace as in the second half of 2013. However, global growth is expected to pick up in 2015 as estimates forecast growth at 3.6%. In a departure from previous developments since the Great Recession, advanced economies have recently gained some speed, while the emerging market has slowed. In Nigeria, insecurity and a tough economic climate persisted in 2014. Despite efforts by the Government to diversify its revenue stream, oil receipts still accounted for a large part of government revenues.

In the Nigeria insurance sector, the regulatory environment was relatively stable, which stimulated the insurance penetration rate in Nigeria to grow from 0.4% to 0.77% in 2014, and further attracted foreign players into the industry through various M&A (mergers and acquisitions). The renewed interests of foreign investors in the insurance industry during the year stimulated the competitive landscape and continue to shape the ethical milieu. However, many of the insurance companies have not fully recovered from the impact of the 'no premium no cover' (premium payment as a condition for inception of insurance cover) policies, as well as the CBN restriction on the sale of bancassurance products.

PERFORMANCE

FINANCIAL

FBN Insurance has consistently maintained strong operating results in the last four years, recording cumulative annual growth rate (CAGR) in gross premium income of 80% and 280% in profitability. Total assets also witnessed modest growth of 54% CAGR of 72 to close at ₦17.4 billion in December 2014 (2013: ₦11.3 billion).

Despite a generally cautious customer approach and sustained apathy to the insurance business, our year-on-year gross premium totalled ₦8.7 billion at the end of 2014. This achievement further lends credence to our sound corporate governance and management policies, as well as exceptional commitment to our goals by employees. We recorded modest top-line financial figures in the year under review, including a profit before tax of ₦1.3 billion. Net claims ratio reduced from 13% to 12% despite increase in net claims from ₦499 million in 2013 to ₦1.04 billion.

INSURANCE

Total assets closed at ₦17.4 billion, an increase of 50.2% (Dec 2013: ₦11.3 billion). This improvement in performance was driven by strong top-line and bottom-line growth in the life assurance business benefiting from improvements in business volumes and improved market penetration. The synergy arising from the acquisition of general insurance business has contributed to enhanced market share of about 2%.

NON-FINANCIAL

During the year, FBN Insurance acquired general insurance business from the former Oasis Insurance, having acquired controlling interest in the general business in February 2014 and subsequently 100% acquisition in December 2014.

FBN Insurance won an award from World Finance as the Best Life Insurance Company in Nigeria 2014. The recorded performance in 2014 was due to our focus on the business model and strategy anchored on best and acceptable ethical practices and regulatory compliance.

KEY RISKS

The company issues contracts that transfer insurance or financial risk or both. This section summarises the nature and management of these risks.

INSURANCE RISKS

The group is exposed to different kinds of risk while conducting its business. Some of these include:

MARKET RISK/INVESTMENT RISK

This is the risk to the group's financial condition resulting from adverse movements in the level or volatility of market prices. The group has a structured process and basis for measuring and calculating the probability of loss and possible impact on the group's capital resources caused by adverse changes in the price of stock and shares, property, exchange rates and other market conditions that are relevant. The company has established investment limits in its operational guidelines and policy of assets diversification in line with NAICOM regulations to prevent over concentration and over exposure to any particular market.

CREDIT RISK

This is the risk that a counterparty will default on payment or fail to perform an obligation to the group. The group has a system for conducting due diligence on the credit worthiness of any party to which it has credit exposure. The group does not ordinarily grant credit facilities to third parties in the course of its business but could have credit risk associated with insurance brokers consequent upon the 'no premium no cover' enforcement by NAICOM.

OPERATIONAL RISK

This is the risk of loss from inadequate or failed internal processes, people and systems or from external events, which arise from the potential of inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes. The Group has policies that cover risk that may arise from people, systems and internal process failures. The policies include staff recruitment, training, retention plans, succession plans, remuneration and welfare benefits, designing standard operating procedure and policies, driving compliance culture, process automation, information technology (IT) support systems, data integrity, IT systems access, etc.

LIQUIDITY RISK

Liquidity risk exists when there is insufficient cash flow to meet the Group's operational and financial obligations, and is usually associated with inability to liquidate assets or obtain funding from external sources to pay claims and other liabilities when due. The company manages its liquidity risk through appropriate assets and liability management strategy through the Investment Management Committee. Monthly reports and review of liquidity gaps is conducted to assess the level of liquidity risk.

REINSURANCE RISK

This is the risk of inadequate reinsurance cover to mitigate underwriting risk. It usually occurs when there is insolvency of a reinsurer, discovery of exposures without current reinsurance coverage, or exhaustion of reinsurance covers through multiple losses. The group has documented reinsurance policies for adequate reinsurance arrangements and treaties for all categories of insurance business transacted. The policies include the process for reinsurer selection, monitoring, claims recovery, etc.

UNDERWRITING RISK

Underwriting are the process by which an insurer determines the conditions necessary and suitable to accept insurance of a risk. The risk crystallises when there are severe and frequent claims against the group's projected capacity. The group has embedded internal control processes to guide its insurance business and guide against the risk of unexpected losses and capital erosion. There are well-documented underwriting policies and procedures that are enforced throughout the organisation.

BUSINESS RISK

The group's business risk is associated with gaining market shares and remains profitable. This risk is considered through documented processes for product development and launch, business segment profitability analysis and stakeholder engagement, as well as being embedded in our brand promise.

REPUTATIONAL RISK

This is the risk of events that could cause public distrust and damage to the group's integrity, reputation and goodwill especially in the eyes of the customers, regulators, competitors and the general public. We manage reputational risk through a structured approach for defining and implementing core values and acceptable standards of behaviour, which the staff are expected to follow while conducting the day-to-day business of the group. The group risk assessment and monitoring process has embedded controls for testing reputational risk and the outcome of such exercise is communicated to the Board Risk Committee on a quarterly basis.

OUTLOOK

Insurance business in the emerging markets, including Africa, is increasingly receiving attention as a future investment destination especially with the increase in contribution to GDP and investment returns.

In Nigeria, the market is strong and stable with increasing demands for insurance products and services. The relative stability in the regulatory environment and the risk-based supervision will attract foreign investors into the industry. Altogether, these steps will shape the competitive landscape. Again the fiscal policy tightening by the Federal Government on account of dwindling oil revenues and foreign exchange reserves might cause some forms of rationalisation in public services which might slow insurance policy purchase. As we expect contraction in revenue accruing to insurance companies in the coming years, the implementation of cost-effective business models as well as deploying flexible innovative products and distribution channels will be the game changers.

INSURANCE

FBN INSURANCE BROKERS

OVERVIEW

FBN Insurance Brokers Limited is a fully owned subsidiary of FBN Holdings Plc. FBN Insurance Brokers combines expert broking knowledge and capabilities for risk assessment and analysis, structuring and overall servicing that has resulted in increased insurance portfolios since it started insurance brokerage on 1 July 2000.

With a total of 46 core staff across our growing branch network, FBN Insurance Brokers focuses on our clients and provides services that exceed their expectations. Our team comprises qualified professionals poised to bring genuinely fresh propositions to risk management, using their expertise, knowledge and successful track records to provide our clients with the best solutions.

We also work on a range of value-added risk management services through foreign re-insurance brokers such as United Insurance Brokers (UIB) and Marsh to handle some of our offshore and sophisticated/complex risks. These international re-insurance brokers are renowned for their expertise and unrivalled experience in special risk management and re-insurance services. These operational and corporate alliances with international brokers are geared towards building infrastructure for the industry in terms of capabilities, skills, knowledge, professionalism and best business practices.

Over the years, FBN Insurance Brokers has increased its branch network. Currently we are present in all the geo-political regions: Lagos, Abuja, Port Harcourt, Ibadan, Onitsha, Benin and Kaduna.

Finally, as part of our commitment to our shareholders, FBN Insurance Brokers has continued to meet its dividend obligation.

BUSINESS MODEL

Our core responsibilities include providing insurance advisory services, risk management and placement of risks for FBN Holdings Plc, the public and private sectors and the general public.

We render specialist services as an intermediary in all classes of insurance including, but not limited to, the following:

- Agriculture insurance
- Energy (oil and gas) insurance
- Fire and special perils insurance
- Burglary/housebreaking
- Fidelity guarantee
- Accident insurances - group personal accident, transit, etc.
- Group life scheme
- Professional indemnity
- Directors' and officers' liability
- Motor vehicle insurance
- Bonds/guarantee
- Engineering and construction insurance
- General third-party liability
- Marine/aviation insurance - hull and cargo, etc.
- Sabotage and terrorism
- Health/medical insurance
- Travel insurance.

The company operates a model that offers our clients professionalised insurance brokerage and risk management services. We reach our clients through our dedicated team of relationship officers and our branch network.

Our core operating income is primarily derived from brokerage commission on premium paid by our clients on various classes of insurance placed on their behalf with reputable and secured insurance companies.

The growth of our gross income is a function of prompt and efficient services delivered to our clients in the area of risk identification and placement, effective claims management and return on investments - both money and capital markets, and management fees.

The retention of our existing clients and winning of new accounts are germane to our level of profitability. These are achieved through continuous improvement in our internal processing methods, training of our personnel and massive IT deployment.

At FBN Insurance Brokers we are conscious of our enviable position in the industry. We have put in place a robust system of corporate governance, built upon the key elements of honesty, trust, integrity, transparency and accountability, as well as unwavering commitment to our organisational goals and corporate strategy initiatives.

INSURANCE

OPERATING ENVIRONMENT

The existing economic meltdown and the Boko Haram crisis in the northern parts of the country, coupled with the worsening socio-economic conditions driven by decaying infrastructure, remained focal and made a substantial impact on the year's performance.

The manufacturing sector and service industries are experiencing poor performance of essential public utilities, electricity blackouts, system failures, poor roads, an inefficient transport system and an incessant shortage of petroleum products leading to very high cost of operation.

The National Insurance Commission (NAICOM) is pressing hard for strict compliance with all compulsory insurances in Nigeria. This comes hard on the heels of the recent marketing development restructuring initiatives aimed at creating public awareness and improved insurance purchases.

NAICOM is vigorously promoting best practices and improved professionalism in the areas of filing of returns and compliance with the Anti-Money Laundering Act, and discouraging sharp/unethical practices.

STRATEGIC PRIORITIES FOR 2015

FBN Insurance Brokers aspires to be the leading insurance broking company in Nigeria in terms of excellent customer service delivery, income generation, profitability and reward to shareholders.

We will continue to harness all opportunities available in the Nigerian insurance market to achieve optimum revenue growth and profit margin.

Our key priority customer segments are institutions, government and the manufacturing sector; our key products are special risks policies (political violence, kidnap and ransom, sabotage and terrorism), medical insurances and compulsory insurances, alongside, of course, all other classes of insurance.

We will continue to restructure our internal processes and operations for effective marketing, claims management and business administration, continuous capacity building and knowledge update, both locally and internationally, aimed at closing knowledge gaps and improving service delivery.

In order to achieve our vision we are focusing on the following strategic priorities:

- achieve efficient service delivery to increase customer satisfaction and retention;
- aggressive marketing in the manufacturing, agriculture and construction sectors of the economy for increased revenue generation;
- increased marketing and business development drive on special risks accounts, oil and gas, aviation, terrorism, and kidnap and ransom;
- continuous capacity building and knowledge update, both locally and internationally;
- continuous compliance with regulatory authorities; and
- continued cross-selling within FBN Holdings Group.

PERFORMANCE

FINANCIAL HIGHLIGHTS

The operating environment in 2014 remained challenging. Competition intensified, regulators continued to introduce stricter and tighter regulations and costs of doing business increased. In spite of these challenges, however, the company's performance in 2014 can be said to be above average with positive changes in a number of indices.

Overall operating expenses of ₦552.7 million were incurred and a profit before tax of ₦234.4 million was recorded for the period ended 31 December 2014.

In the coming year we will continue to pursue our vision of becoming the leading insurance broking company. We plan to achieve this by diversifying beyond public sector and corporate clients to include other segments such as agriculture, manufacturing, and oil and gas.

NON-FINANCIAL HIGHLIGHTS

Compliance with regulatory requirements

FBN Insurance Brokers continues to maintain its commitment to achieving 100% compliance with statutory and other regulatory requirements. In order to ensure effectiveness of our compliance system, the level of compliance is monitored on a daily basis.

Achieve efficient service delivery to increase customer satisfaction and retention

We aim to promote excellent service delivery as a competitive advantage in our bid to consolidate our leadership in the industry. We execute efficient service delivery initiatives on the premise of a high-quality risk assessment/advisory service, cost optimisation and an excellent claims process.

Review of operations

In order to have a proper focus and better service delivery, our marketing/business development operations continue to be restructured along regional lines as follows:

- The Eastern Regional Office will coordinate all business development activities in Rivers, Cross River, Enugu, Anambra, Abia, Akwa Ibom and Bayelsa states (Eastern and South zone).
- The Western Regional Office will coordinate all business development activities in Edo, Delta, Ondo, Ekiti, Oyo, Ogun and Kwara states.
- The Northern Regional office will coordinate the business development activities of Abuja and its environs, including Kano, Jos, Katsina and the newly created Kaduna office.
- The Lagos Central Office will oversee business development activities in Lagos Mainland, Island and others within the axis including coordination of all the teams in Head Office.

BUSINESS OUTLOOK

We plan to outperform our targets and deliver superior returns to our stakeholders. To achieve this we plan to increase our gross income by 71%, based on the assumption that we will achieve more commission income from other segments including, but not limited to, oil and gas and agriculture, and also leverage on the FBN Group, especially the Bank's corporate clients.

OTHER FINANCIAL SERVICES

The Other Financial Services business group currently serves as a quasi-incubator for our smaller non-banking financial services businesses including a microfinance bank – FBN MFB.

OTHER FINANCIAL SERVICES[24]

FBN MICROFINANCE BANK LTD

KAKAWA DISCOUNT HOUSE LTD

BUSINESS GROUP OVERVIEW

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

GROSS REVENUES

₦7.8bn

PROFIT BEFORE TAX

₦1.4bn

FBN MICROFINANCE

OVERVIEW

The bank operates from 28 locations in Lagos, Ibadan and Abuja, and offers a wide number of services to the economically active poor, including:

- deposit mobilisation;
- risk assets/credit creation;
- electronic banking; and
- business advisory services.

FBN MFB also offers numerous other specialised products and services specific to the financial needs of microenterprises.

The vision is to 'be Nigeria's microfinance bank (MFB) of first choice' when it comes to the provision of banking and other financial services to micro and small businesses and salary earners, while the mission is 'to consistently develop a new generation of microentrepreneurs by providing market-driven products and services in a profitable and sustainable manner, thereby boosting economic development'.

FBN MFB, in line with the parent company's stance, is committed to implementing initiatives that would improve corporate governance principles for the benefit of all its stakeholders. In this regard, the FBN MFB Board of Directors has the primary responsibility for ensuring adherence to rules and regulations and fostering good ethical practices. The Board is responsible for establishing strategic objectives, policies and procedures that will guide and direct the activities of the Bank and the means to attain them, as well as the mechanism for monitoring management performance.

FBN MFB renders financial services to micro entrepreneurs as well as the poor and low-income population, on a sustainable basis. In line with the Central Bank of Nigeria's (CBN) objective of economic development and poverty reduction, the Board strives to promote entrepreneurship by granting loans to small and micro businesses for their improvement and expansion.

FBN MFB converted its licence from 'state' to 'national' in order to realise its growth aspirations within Lagos and other states of the federation including FCT, as well as expand into other value-adding business opportunities.

BUSINESS MODEL

FBN MFB operates from 28 locations in Lagos, Ibadan and Abuja; it is involved in the provision of microfinance products and services (loan and deposit products) to the economically active poor, small and micro entrepreneurs, and salary earners. Its service offerings to micro enterprises include banking services such as deposit mobilisation, risk assets and credit creation, electronic banking, business advisory services and numerous other specialised products and services unique to the financial needs of the micro enterprises.

The Bank has invested in a robust IT infrastructure across its network of functional, friendly and cost-effective service outlets from where it serves its growing client base.

STRATEGY

Given the low-income nature of the country, as well as its largely informal structure, the market for microfinance services is huge. With a market of more than 35 million potential customers and total loans across the industry of more than ₦85 billion, there has been the need to selectively increase risk assets, strengthen risk review processes, increase customer base by opening new branches and enhance savings through the My Daily Savings Account (MDSA) product.

The Bank is focused on increasing its reach and the number of clients it serves through branch expansion, enhancement of product features, aggressive marketing and mobile banking. The Bank has developed enhanced risk management requirements for loans, strengthened the control function with the appointment of a substantive Head of Internal Audit and recruitment of additional Internal Control Officers, while a new loan recovery unit was created to help support legal services recovery activities. The Bank also introduced a number of measures to retain and expand its customer base and increase its market share including improved service delivery, robust product offerings, fund transfers across the country using the FirstBank platform and online real-time banking services across all the branches.

24 FBN MFB and Other Financial Services.

OTHER FINANCIAL SERVICES

Through customers' forums, we hear directly from our clients and respond to their challenges. We have also introduced incentive and reward systems for loyal customers such as quicker and easier repeat loans, negotiation or waivers of some fees, recognition, scholarships to wards of loyal customers and the opportunity to win various prizes from savings promotions raffles. The CBN policy on cash-based transactions (cashless economy) equally presented an opportunity for the Bank to market products such as ATMs, cheque books, internal transfers, POS transactions and the FirstBank mobile money, Firstmonie.

There was an improvement in the Bank's performance in 2014, despite the challenging market conditions and increasingly stiffer competition. Given our recent recapitalisation and reorganisation, we are of the opinion that the Bank is better positioned to harness the growing opportunities in the microfinance market.

In the discharge of its oversight functions, the Board ensures management runs the Bank or Company in the most efficient manner that safeguards the interests of all stakeholders. In between scheduled meetings, management is sometimes requested to provide details via email on crucial issues for the attention of Board members and appropriate measures.

Industry practice is often relied upon or used as a benchmark before a proposal is approved. Most importantly, there is a cordial relationship between Board members that enhances teamwork. The management and Board members have unhindered access to the management of the parent company. This is in addition to the quarterly meetings of the Group Management Committee where the performances of the subsidiary companies are reviewed to ensure compliance with the Group's goals.

OPERATING ENVIRONMENT

The operating environment has remained substantially challenging with the tense political atmosphere caused by the upcoming 2015 general election, security issues in the country, Boko Haram activities in the North East, declining infrastructure, particularly electricity, etc. These, coupled with the continuous drop in crude oil prices and devaluation of the naira in the last quarter of the year, have resulted in the microfinance subsector being impacted substantially and credit, deposits and loan repayments performing below expectation. Despite the intervention in the sector by the Government through the ₦220 billion MSME fund to address some of these challenges, particularly loan creation to micro and small enterprises, microfinance banks have declined to access the fund due to its qualifying requirements.

The operating environment has impacted the economic environment such that credit creation in the sector, particularly in the last quarter, declined contrary to previous years when there was credit expansion due to stockpiling in anticipation of increased sales during the festive period of Christmas and New Year. The dwindling oil prices and devaluation of the naira have also dampened business growth in the sector as over 75% of our business is commerce (import dependent) related, i.e., buying and selling. Our customers, who are mainly low-income earners and are at the bottom of the standard of living index, are impacted more by the environment. The decline in their real income therefore led to a drop in sales and turnover and ultimately decline in business activities for the microfinance sector. The innovative and liquid microfinance banks are the ones left to advance the business of growing the micro and small businesses and contribute to poverty alleviation.

CHALLENGES

The sector has witnessed the entrance of international microfinance organisations with good track records and experience in the sector. While there is increased competition among the 'state licensed' banks, there has been a reduction of 'unit licensed' microfinance banks due to capital requirements and the high cost structure. Consequently, we expect to see more consolidation in the sector over coming periods. The Boko Haram bombings and other security issues in the country equally impacted on the quality of risk assets as consumer demand declined, funds were trapped with suppliers in the north, and business was lost.

Competition has intensified as a result of a cheaper source of funds, which includes a ₦220 million SME fund released to MFBs by the CBN.

PERFORMANCE HIGHLIGHTS

FINANCIAL HIGHLIGHTS

The Bank achieved a profit before tax of ₦311.0 million from ₦64.0 million in 2013. FBN MFB gross earnings increased 13.2% to ₦1.3 billion (2013: ₦1.1 billion) as a result of strategic initiatives on key drivers of revenue, efficient utilisation of the earning assets and maintaining quality asset mix, which resulted in increased loan portfolio. Net interest income also grew by 4.6% to ₦839.7 million (Dec 2013: ₦802.7 million) while net fee and commission was ₦170.8 million (Dec 2013: ₦119.9 million). Cost containment was a key part of management initiative which resulted in a 12.7% reduction in operating expenses to ₦903.8 million (Dec 2013: ₦1.03 billion). Noteworthy is the first time adoption of IFRS on the 2013 financial statements. Total assets declined 24% to ₦6.6 billion (Dec 2013: ₦8.6 billion).

NON-FINANCIAL HIGHLIGHTS

The Bank, in order to reduce risks, reviewed its lending methodology by focusing more on Group loans in line with its strategy. It adopted the loan strategy of 60% Group, 20% small and medium enterprises, and 20% individual loans. Recovery efforts were also intensified.

The annual Customers' Forum, which aims to retain and expand our customers' base and provide an avenue for interaction between customers and the Bank with a view to understanding their needs, was held in January 2015. It was a huge success with the star prize of a Kia Picanto car, which was won by an MDSA customer of the Ebute Metta branch.

The bank can now issue instant cards and PINs to its various customers through the acquisition of the instant card printer and POS terminals; and this has improved the turnaround time of production.

Head office extension was completed and staff relocated accordingly to address space constraints.

OTHER FINANCIAL SERVICES

OUTLOOK AND 2015 PRIORITIES

The sector is expected to witness an increase in business activities arising from single-digit unit funds that will be available to most MFBs from the CBN and a ₦220 billion SME intervention fund. This is because many of the state governments have drawn, or will draw, on their ₦2.0 billion accessible fund under the micro small and medium enterprises (MSME) fund and are, or will, disburse the same through select MFBs operating in the states.

We expect some state governments to disburse for onward disbursement to various cooperatives in the respective states. We will remain well positioned to participate in this process.

The CBN intends to support the microfinance banks' operations with other initiatives to ensure seamless transactions and thus reduce defaults. However, given that 2015 is an election year, we expect that most microfinance banks would trade with caution.

The outlook is bright for FBN MFB in view of the expansion drive that would increase business activities within the year under consideration. The CBN had earlier approved the opening of branches in Akwa-Ibom, Rivers, Delta, Edo states and six additional branches for Abuja and Ibadan. We expect that these branches when operational will lead to increase in loans and deposits, which will impact positively on the Bank's profitability. However, the above expectation is dependent on the outcome of the divestment from FBN MFB by FBNHoldings.

OTHER FINANCIAL SERVICES

KAKAWA DISCOUNT HOUSE

OVERVIEW

Kakawa Discount House Limited carries out the business of FBNHoldings in the discount house sub-sector. Kakawa is a primary dealer and market maker (PDMM) in fixed income securities and is an active player in the Nigerian interbank and money market. It also provides wealth management and corporate finance services to its clientele of high net worth individuals, institutional and corporate customers.

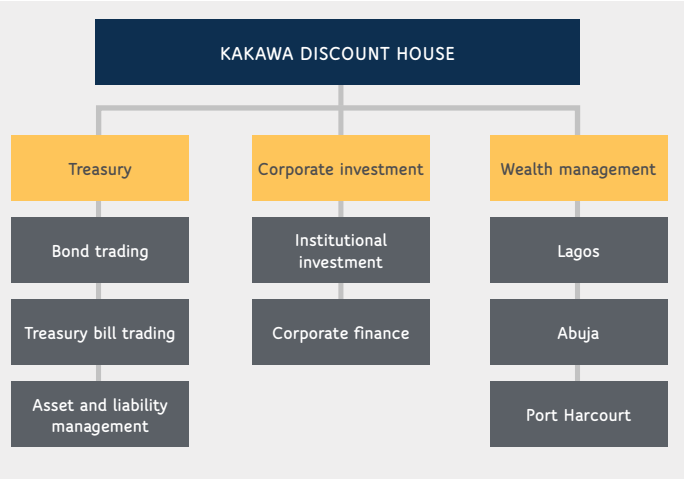
OPERATING ENVIRONMENT

Having survived the crises that engulfed the discount house sub-sector in 2013, which saw the failure of two other discount houses, Kakawa made giant strides to reposition itself from a transition to merchant banking services. It did this by securing an approval in principle (AIP) to operate as a merchant bank from the Central Bank of Nigeria (CBN) in July 2014, and by submitting all relevant documents for the final Merchant Banking licence to the CBN in November 2014.

The operating environment in 2014 was characterised by several headwinds, such as security challenges, uncertainties arising from the electioneering process and a decline in oil prices of more than 50%, with their attendant impact on fiscal and monetary policies, exchange rates, foreign reserves and financial markets. The various policy decisions taken by the CBN to deal with this impact led to a rise in yields on government securities and interest rates, and increased volatility in the foreign exchange and fixed income securities markets. These affected our margins, as well as securities trading income.

Given the longer-term outlook of the underlying economic issues, deliberate steps were taken to close funding gaps and maintain flat trading positions, while taking advantage of the volatility swings, and to minimise exposure to sectors that are prone to shocks from a fall in oil prices or currency devaluation.

BUSINESS MODEL



Kakawa, as a discount house, has three Strategic Business Units (SBUs). The Treasury SBU is the vehicle through which Kakawa performs its functions as a PDMM in FGN bonds, as well as a market maker and dealer (MMD) in money market instruments. It undertakes fixed income securities trading, money market trading and assets and liabilities management. Kakawa uses it as a channel for pursuing a strong element of its mission statement of enhancing the depth and growth of our markets.

The Corporate Investment SBU undertakes corporate finance activities, and generates wholesale funding from non-bank financial institutions and other corporate investors. It provides a platform to deliver excellent financial services on a personalised basis to its corporate customers, financial institutions and institutional investors. Our clients span all sectors of the economy and, by ensuring that we fully understand their specific needs, we are uniquely positioned to provide bespoke financial solutions across the full range of investment management, financing and advisory services.

The Wealth Management SBU undertakes the generation of deposit liabilities from HNIs and individual investors, using the three business offices in Lagos, Abuja and Port Harcourt. The Group's activities are driven by the high value Kakawa places on long-term customer relationships, thereby encouraging clients to entrust their wealth to us in recognition of the expertise we bring to bear through our team of experienced professionals.

2014 STRATEGY

In addition to the business strategy of changing from the discount house business model to merchant banking, the main thrust of Kakawa's strategy in the 2014 financial year was to deploy to the fullest its relationship management capability in order to grow its core deposit liability base, maximising the benefits from its existing alliances and creating value for its interbank and money market clients.

2015 PRIORITIES

For the financial year 2015, the primary strategy will be to obtain the final merchant banking licence from the CBN and commence full merchant banking operations. In addition, Kakawa will seek to leverage the synergies existing between it and FBNHoldings. This is to allow growth within its non-bank deposit liabilities of 25%, while enhancing the skills and capabilities of its people, in preparation for the commencement of the merchant banking business.

PERFORMANCE HIGHLIGHTS

FINANCIAL

In the three months to December 2014, Kakawa contributed interest income of ₦4.2 billion and a profit before tax of ₦503.7 million. If the acquisition had occurred on 1 January 2014 the Group interest income and profit before tax would be higher by ₦8.31 billion and ₦1.3 billion respectively.

OTHER FINANCIAL SERVICES

NON-FINANCIAL

Key achievements in 2014 include the stabilisation and full recovery from the 2013 sub-sector crises. Our new product, Kakawa Easy Retirement Account (KERA) – launched in 2012 to target intending retirees – recorded tremendous growth of 186% in 2014, from ₦3.6 billion at the close of 2013 to ₦10.3 billion at the end of 2014.

Overall, Kakawa pushed through its market penetration strategy and increased its customer loyalty in 2014.

Other major highlights include obtaining the AIP for merchant banking from the CBN in July, and submission of the application for the final licence in November, with most of the conditions and requirements already met.

KEY RISKS

Risks inherent in Kakawa's business are market, credit and operational risks.

- Market risks remain the major inherent risk. The major market risk factors in the 2014 financial year include the uncertainties around the 2015 general elections and the fall in crude oil prices of more than 50% in the last quarter of 2014. The major attendant economic effects of these risk factors include falling foreign reserves, devaluation of the local currency, rising interest rates, unstable currency markets and rising yields on government securities.
- The major credit risk factors are the fall in oil prices and the devaluation of the local currency, with material uncertainties in exposures to the oil and gas sector.
- Operational risks are inherent in our business because of the higher level of automation of systems and processes involved in our operations. In addition, we are heavily reliant on third parties and correspondent banks to deliver service to our valued customers.

To manage market risks, we will seek to maintain our current investment and trading strategy in the fixed income securities market of not increasing positions in the 'over five years' maturity bucket. This is in addition to the regular monitoring and reporting of positions by the Risk Management Group.

To manage credit risks, Kakawa has suspended further activities in the oil and gas sector, and we will closely monitor the performance of the existing portfolio, while strengthening relationships with our existing alliances, and in addition, the internal policies and limits that guide our risk assets creation.

OUTLOOK

Kakawa is excited that it is now a full member of FBNHoldings and that the process towards securing the merchant banking licence is nearing completion. While working on its readiness to commence merchant banking operations in 2015, it will continue to strengthen its existing internal skills and capabilities. In the meantime, efforts will also be geared towards maximising the benefits that the FBNHoldings brand adds to its brand value, while being conscious of the market headwinds and uncertainties.

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GOVERNANCE

The Board is committed to achieving sustainable long-term success for the Group, and governance plays an integral part in ensuring consistency and rigour in decision-making to ensure shareholder value is maximised over time.

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Chairman's introduction

DEAR SHAREHOLDER,

We started operations in 2012 without a set of defined guidelines for regulating financial holding companies in Nigeria until August 2014. The absence of these rules, however, did not deter us in our unflinching dedication to adhere to best corporate governance practice.

With the continuing drop in the prices of Nigeria's main export, crude oil, and the expected austere economy for 2015, never has there been a more important time to ensure activities are prudently executed and investments are given maximum return for value. The easiest route to achieving this is to ensure that businesses are run in a transparent and acceptable manner, and in compliance with good corporate governance practices.

We can only achieve our strategic objectives by building a sound reputation founded on the highest standards of responsible behaviour. Over the years, our Group has been recognised for its strong commitment to corporate values and governance. With good corporate practices having a positive effect on the way we run the Group, we ensure the tone at the top is filtered down through the Group and dictates the manner in which our business is run at both Group and subsidiary level.

Our resolve to do business the 'proper' way remains unrelenting and persistent. This is because, as a Board, we fully comprehend our responsibilities to clients, customers, staff, communities in which we operate and the general public. Therefore, our pledge to our shareholders is to always ensure that in the discharge of our duties we shall endeavour to continue to meet and exceed the expectations of our stakeholders.

THE CBN/NDIC JOINT EXAMINATION REPORT AND THE NIGERIA STOCK EXCHANGE/CONVENTION FOR BUSINESS INTEGRITY CORPORATE GOVERNANCE RATING SYSTEM

During the course of the year, we were commended by the CBN in its joint examination report with the Nigeria Deposit Insurance Corporation (NDIC), which was based on the requirements of different codes of corporate governance and international best practices. The report noted that FBNHoldings met and exceeded the corporate governance standards expected of a financial holding company, despite the absence of regulations and guidelines.

Similarly, our commitment to good practices was recognised at the announcement of results of the Nigerian Stock Exchange (NSE) Corporate Governance Rating System (CGRS).

You will recall that in last year's report, we explained that we had signed up as one of the first companies to participate in the pilot stage of the Corporate Governance Rating System, anchored jointly by the NSE and the Convention for Business Integrity. The rating system is intended to strengthen good corporate governance in the financial industry by publishing to the public a company's level of compliance with governance practices. Our participation was influenced by our unwavering commitment to transparency and accountability.

Thirteen companies volunteered for the pilot phase of the project; eight of these passed the rigorous year-long process, including FBNHoldings, which was also the only financial holding company. Similarly, FBNHoldings recorded a 100% score in the director certification segment of the CGRS.

We do not however think we have achieved perfection. We will continue to strive to improve on our strengths and reduce our shortfalls to ensure our shareholders get the best value for equity. As noted in the report of the CGRS, there was a need to improve our corporate governance perception among industry experts and various stakeholders. We intend to improve on this by stepping up on our engagement with these stakeholders, gain feedback and improve on areas that may be considered defective.

REGULATORY DIRECTIVE ON APPOINTMENT OF DIRECTORS

As part of the fall-out of the CBN's Guidelines for Licensing and Regulating Financial Holding Companies in Nigeria, as mentioned earlier, and subsequent engagement with the regulator, the CBN issued a directive to appoint additional directors to the Board, necessitating the appointment of Omatseyin Ayida and Adebola Osibogun. Aside from the need to comply with the regulatory directive, the aforementioned directors both bring a wealth of experience acquired across various industries to the Board. The latter also aids the gender diversity of our Board.

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CHAIRMAN'S INTRODUCTION

OUR GOVERNANCE FRAMEWORK

All companies within the Group have distinct Boards and ensure compliance with the statutory and regulatory requirements of the industries in which they operate. They align their respective governance frameworks to that of the Group.

We have put in place structures to ensure strict observance of global best practices in corporate governance, including making key appointments from inside and outside the Group to aid coordination within the Group.

We continue to take a long-term approach to refreshing the Board, balancing both our need to maintain longevity and stability of the Board with regularly refreshing its composition. As part of this plan, in the year under review, we effected the appointment, subject to ratification at the Annual General Meeting (AGM), of a second independent director – Dr Hamzat Wuro Bokki, a seasoned administrator and business manager – to the Board. His appointment has added significant experience to the Board, as well as bringing fresh perspectives and diverse experience.

We appreciate and encourage diversity and inclusion in all its forms including gender, age and ethnicity; underpinned by a strong ethos of meritocracy. It is important our employees and leadership teams are representative of our markets, stakeholders and client profile. Although not in favour of quotas, in formulating our Board succession plan we have been mindful to ensure we continue to enhance the Board's diversity.

We are regulated principally by the CBN through the provisions of the Guidelines for Licensing and Regulation of Financial Holding Companies in Nigeria. On corporate governance, we are regulated by the Securities and Exchange Commission's (SEC) Code of Corporate Governance.

As with the preceding year, we are pleased to state that, for the year under review, we had no sanctions imposed by any of our regulatory bodies.

HOW IS GOOD GOVERNANCE ACHIEVED?

Effective corporate governance practices are largely dependent on the skills, integrity and experience of individuals on the Board.

As Chairman of the Board, I am responsible for the effective performance of the Board and, in that regard, one of my areas of focus has been to ensure we have a strong and well-functioning Board, comprising individuals with the right abilities and the personal qualities required to be effective, dedicated and committed stewards to the Company.

We have revisited the range of skills and competencies we require around the boardroom and what the Board needs to have are non-executive directors with financial services experience and also access to other skills and experiences, particularly in the management of various companies across the Group.

HOW DO WE GOVERN FOR LONG-TERM SUSTAINABILITY?

We acknowledge that good governance practices are best initiated and observed in the boardroom. Hence, we shall ensure that the 'tone at the top' continually drives adherence to good corporate practices throughout the Company.

We recognise that the task of embedding high standards of corporate governance is never complete; yet, we remain committed to implanting the same across the Group. This, we believe, will help us perform well in our chosen markets, ultimately resulting in a higher return on capital.

Across the Group, we shall continue to ensure that ethical practices are not substituted with sharp dealings and we will also remain unrelenting in upholding values while doing business. These practices not only keep us ahead of the competition, they also ensure the sustainability of our business.

HOW OUR CORE VALUES REFLECT ON OUR EMPLOYEES

In line with FBNHoldings' strategic objectives as outlined in the Group's HR policy manual ('Policy') which was approved by the Board, the Group's core values that reinforce the brand and guide behaviours of the member companies and employees of FBNHoldings are communicated and articulated to employees clearly and periodically.

Core values are key culture drivers that guide corporate and individual behaviour of employees across FBNHoldings and all member companies are expected to actively uphold FBNHoldings culture and reinforce adherence to the core values.

The Policy ensures that business policies, procedures and activities shall be driven by these core values and all employees shall actively uphold the Group core values by exhibiting behaviour that reinforces the culture in performing their roles and responsibilities.

The Policy similarly provides that there shall be a formal programme of confirmation that individual employees are aware of, have read, understood and are in compliance with the core values of FBNHoldings, and the interpretation of Group core values shall be periodically reviewed to ensure relevance with business realities and aspirations of the Group.

Conclusively, the Policy provides that non-compliance with these corporate values in corporate and individual behaviour, decisions and actions by employees shall be unacceptable and such instances shall be investigated and appropriate sanctions applied in line with the Policy.

QUALITY OF DISCLOSURE

We continue to attach great importance to disclosure. As part of our commitment to transparency and disclosure in our financial reports, the Group continually ensures that our report is detailed and comprehensive enough to sensitise our shareholders to how we have run the business. We believe that in doing this, we are able to enhance shareholder value as well as bring added benefits to our business relationships with our overseas correspondent banks, multilateral organisations and international investors who require financial statements to make informed decisions about the Group.

OUR CULTURE

Our corporate culture is influenced by the Board and dictated by the values exhibited in running our business. We believe it is the duty of the Board to ensure the common objectives of both the management and the Board are in line and implemented institution-wide.

Dr OBA OTUDEKO, CFR
Group Chairman, Board of Directors

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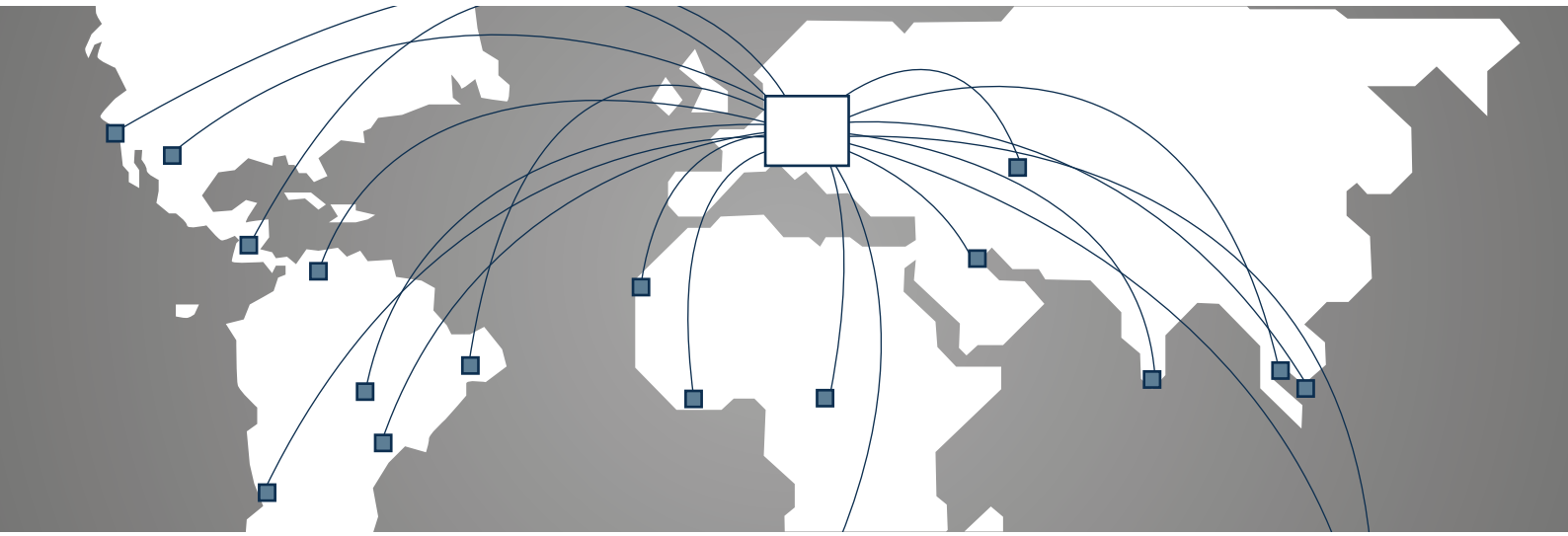
Contemporary issues on corporate governance

GLOBAL CORPORATE GOVERNANCE DEVELOPMENTS IN 2014

With recent events surrounding the development of corporate governance, it is evident that, across the globe, investors are increasingly appreciating the impact good corporate governance practices are having on their investments. To understand the corporate governance developments and culture in Nigeria, we offer a brief update on some recent developments in global corporate governance practices.



EUROPE

UNITED KINGDOM

FRC REVISES CORPORATE GOVERNANCE CODE[25]

In 2014 the Financial Reporting Council (FRC) overhauled its Corporate Governance Code for UK companies to make them safer for investors by giving more information about how they are run and an assessment of any potential risks facing the business. Among the changes announced by the FRC to foster longer term thinking by companies and investors, are a host of new rules over risk management, remuneration policy and shareholder engagement.

According to the FRC, 'the changes to the Code are designed to strengthen the focus of companies and investors on the longer term and the sustainability of value creation'. Among the changes companies will need to 'robustly assess' are identifying the main risks facing their business and explaining how they are being managed or mitigated. The FRC also said that companies should state whether they consider it appropriate to adopt the going concern basis of accounting and identify any material uncertainties over their ability to continue to do so.

In particular it stated that companies 'should disclose whether they believe they will be able to continue in operation and meet their liabilities taking account of their current position and principal risks, and specify the period covered by this statement and why they consider it appropriate'. The FRC further added that, 'It is expected that the period assessed will be significantly longer than 12 months'.

On executive pay, the FRC stated 'companies should put in place plans to recoup or hold back variable pay, and place greater emphasis on designing pay plans with the long-term health of the company in mind, while firms should also say how they intend to engage with shareholders when a significant number vote down resolutions'.

The revised Code took effect on 1 October 2014.

25 Source: Reuters Online – 2 October 2014

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CONTEMPORARY ISSUES ON CORPORATE GOVERNANCE

ASIA

MALAYSIA

MALAYSIA LIFTS CORPORATE GOVERNANCE ASSESSMENT[26]

Malaysia strengthened its regional standing in corporate governance in 2014 after recording higher scores in the biennial Corporate Governance Watch 2014 report.

According to the report by the Asian Corporate Governance Association in collaboration with CLSA (Credit Lyonnais Securities Asia, Asia's leading equity brokers and investment groups focused on institutional broking, investment banking and asset management to corporate and institutional clients around the world), Malaysia achieved an overall score of 58% in 2014 compared to 49% in 2007, maintaining its rank of fourth in the region. The report drew attention to the sustained and concerted efforts by Malaysia in driving governance reforms, resulting in Malaysia becoming the only market out of the Asia Pacific countries assessed that consistently improved its scores in each of the last four surveys.

Malaysia was also recognised for its strength in financial reporting and auditing standards, ranking equal first with Singapore in the category of accounting and auditing. The Securities Commission's (SC) Audit Oversight Board described Malaysia's audit authorities as 'one of the better organised and transparent audit regulators in the region'. Malaysia also showed commendable improvement in the area of enforcement, with scores in this category rising by 8% from the 2012 assessment.

JAPAN

The Japanese Government recently revealed plans to establish the nation's first Corporate Governance Code. The introduction of the code, which will require stronger oversight of executives by independent board directors, is the latest in a series of steps Japan has taken in recent months to transform longstanding cultures at companies to make them more efficient and profitable.

The report further revealed that for years, low profitability has been cited as a shortcoming of companies that discouraged foreign investors from investing in Japan. Aside from the squeeze that the strong yen posed on corporate profits, investors say that in the absence of independent directors, Japanese companies sometimes fail to make effective decisions on how to allocate resources and which businesses should be shut down.

PHILIPPINES

A recent report states that the Securities and Exchange Commission (SEC) in the Philippines is seeking stakeholders' insights in line with efforts to improve the corporate governance scores of Philippine publicly listed companies (PLCs). The report added that the corporate regulator is requesting the public's inputs to ensure the next Association of Southeast Asian Nations (ASEAN) Corporate Governance Scorecard Country Report and Assessment will accurately reflect the level of corporate governance of the Philippine PLCs.

AFRICA

SOUTH AFRICA

Recent reports show that the extent to which South Africa lags behind its international peers when it comes to corporate stakeholder rights is inappropriate, given that South Africa's executive pay scales are at least equal to the top international scales. The reports explained that the South African Companies Act obliges companies to disclose what directors are paid. Also, listed companies have to adhere to the King Report recommendations, but this adherence is on an 'apply or explain' basis, which allows for considerable gaps in the way companies report on executive pay. The 'apply or explain' approach allows companies to apply the recommendations as they deem appropriate.

In South Africa, there is only a non-binding advisory vote on remuneration policy whereas countries such as Australia require far more detailed disclosure. The 'two strikes rule' in South Africa provides that if 25% or more of the shareholders vote against the remuneration report at two successive annual general meetings, the directors – excluding the CEO – can be voted off the board. Further to this, in the US, shareholders have a mandatory say on pay and companies are obliged to get approval for golden-parachute and golden-handshake agreements. The UK Government recently overhauled legislation dealing with executive pay, and now has some of the most detailed disclosure requirements in the world. UK law now requires companies to hold binding shareholder votes to approve remuneration policies at least once every three years.

TANZANIA

Tanzania was recently advised to introduce a Code of Corporate Governance that sets standards and principles for companies to operate in the country. The advice, which was given by the Chairperson of African Corporate Governance Network (ACGN) Jane Valls, when addressing a news conference in Dar es Salaam, stated that 'governance is important for the sustainability and success of any country'. She further added that 'the growing trend of intercontinental business transactions and increase in the flow of DFIs (direct foreign investments) in Africa is giving rise to the importance of corporate governance in the continent. It has become imperative to come up with initiatives that guide the formulation of Africa-specific guidelines to corporate governance that champion the business dynamics of the continent and capitulate with global standards'.

NIGERIA

The Nigerian Communications Commission (NCC) launched its new Code of Corporate Governance for the Telecommunications Industry in 2014. The Code, which is not mandatory until after two years, is targeted at safeguarding the USD25 billion-plus investments in the telecommunications industry.

Another significant update in Nigeria is that the Nigerian Electricity Regulation Commission (NERC) is set to impose a Corporate Governance Code on the electricity sector as concerns over governance practices in the sector mount.

NEW CODE OF CORPORATE GOVERNANCE FOR BANKS AND DISCOUNT HOUSES RELEASED BY THE CBN

In 2014, the Central Bank of Nigeria (CBN) released a new Code of Corporate Governance for Banks and Discount Houses in Nigeria and Guidelines for Whistleblowing in the Nigerian banking industry. The new guideline Code of Corporate Governance superseded the one released in March 2006 and became effective from October 2014.

The notice came via a CBN circular (reference number FPR/DIR/GEN/01/004) entitled: Code of Corporate Governance for Banks and Discount Houses in Nigeria and Guidelines for Whistleblowing in the Nigerian Banking Industry; it was directed to all banks and discount houses and signed by the Director, Financial Policy and Regulation Department, Kevin Amugo.

According to the circular, banks and discount houses operating in the Nigerian banking industry are mandated to submit a quarterly report of their compliance with the provisions of the Code of Corporate Governance not later than seven days after the end of each quarter.

THE NSE BECOMES FULL MEMBER OF WFE[27]

The World Federation of Exchanges (WFE) voted unanimously in 2014 to admit the Nigerian Stock Exchange (NSE) as a full member of the global trade association for the operators of regulated securities exchanges. The NSE was elected as a federation member during the 54th General Assembly and Annual Meeting of the WFE, held in the capital city of Korea, Seoul. The decision makes the NSE the first West African stock exchange to be granted full federation membership status.

26 Source: *Saudi Gazette* – 13 October 2014
27 Source: *This Day Online* – 29 October 2014

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CONTEMPORARY ISSUES ON CORPORATE GOVERNANCE

SEC TO LAUNCH CORPORATE GOVERNANCE SCORECARDS FOR QUOTED COMPANIES

Towards the end of the year, the Securities and Exchange Commission (SEC) outlined its plan to launch a corporate governance scorecard for listed companies in the Nigerian capital market, in line with its goal of boosting investors' confidence and deepening corporate governance practices in Nigeria.

SEC had explained that the corporate governance scorecard will assess the level of compliance with the SEC's Code of Corporate Governance by Nigeria's public companies on an annual basis. According to the Commission, this had become necessary because the SEC, having the widest coverage when it comes to corporate governance, covering all publicly listed companies and capital market operators, should therefore be the reference point on corporate governance.

NSE TO LAUNCH NEW PREMIUM BOARD FOR LARGE BLUE CHIPS

Similarly, in 2014, the NSE announced that it was concluding arrangements to launch its new high-end listing board that will showcase the stock market's largest and most compliant companies. The new board, to be known as the Premium Board, is designed as a market for the most-capitalised stocks with the best corporate governance practices and liquidity. It is meant to showcase Nigeria's best stocks to the global market.

The NSE further announced that it was also working on a new board that will focus on emerging companies with growth potential. This board will be known as the Growth Board.

The addition of the new Premium Board and Growth Board will effectively make the Exchange a four-tier trading platform. The existing listing boards, the main board and the Alternative Securities Market (ASeM), will also continue to run concurrently with the new Premium and Growth Boards. The existing listing rules will continue to apply to companies currently on the main board and ASeM.

The initiative was part of the NSE's efforts to further promote and continuously develop a more transparent, liquid, accessible market, with a modern market structure to support the delivery of a wide range of investment products. The Director General of the NSE, Oscar Onyema, reiterated that the Premium Board would be exclusively for companies with minimum market capitalisation of USD1 billion and high corporate governance standards as measured by the NSE's corporate governance rating system (CGRS) and that the NSE aims to become the African exchange of choice for African issuers and global investors.

CORPORATE GOVERNANCE IN FBN HOLDINGS PLC, 2014

A gleaning of the foregoing global trends will show that there is increased recognition that the more compliant businesses are with best corporate governance practices, the more likely it is for the business to be sustained. In recognition of this, the Board of FBNHoldings constantly challenges itself to always raise the bar and participate in endeavours that will improve its corporate governance practices.

Arguably the most significant milestone achieved by the Group in the sphere of corporate governance was the successful completion of the Corporate Governance Rating System pilot phase, within the year under review. The ripple effect of this is that by successfully completing the pilot phase FBNHoldings becomes a prime candidate to be a member on the Premium Board of the NSE.

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Leadership

BOARD OF DIRECTORS

Top row (from left to right): Omatseyin Ayida, Dr Hamza Wuro Bokki, Tijjani Borodo (Company Secretary), Abdullahi Mahmoud, Chidi Anya, Oye Hassan-Odukale.
Bottom row (from left to right): Bisi Onasanya, Bello Maccido, Dr Oba Otudeko, CFR, Adebola Osibogun.

The Group's Board is a considered blend of experience and knowledge. The Board continuously seeks to review and refresh its composition to ensure that new ideas and experience are added to its decision-making process. The Board is currently composed of nine directors, made up of eight non-executive directors and one executive director who is the Group Chief Executive Officer (GCEO). This is in line with international best practice, which stipulates that the number of non-executive directors should exceed that of executive directors. With 88.9% of the Board's composition independent of the Company's management, the FBNHoldings' Board is positioned to be independent and free of management's influence in upholding its supervisory role over the management team of the Group.

THE BOARD IS MADE UP OF THE FOLLOWING:

Dr Oba Otudeko, CFR
Group Chairman

Dr Oba Otudeko (CFR) is Chairman, FBN Holdings Plc and Honeywell Group Limited. He is a foremost and visionary Nigerian entrepreneur reputed for his highly successful domestic and foreign investments cutting across diverse sectors of the economy. He served on the Board of FirstBank between May 1997 and December 2010 when he retired as Chairman. He was also the founding Chairman of FBNBank (UK) Limited. He has, at various times, served on the Boards of the Central Bank of Nigeria (1990-1997), Guinness Nigeria Plc (1999-2003), British American Tobacco Ltd (2001-2004) and Ecobank Transnational Incorporated, headquartered in Lome, Togo (2002-2010). Between September 2006 and August 2009, he was the 16th President and Chairman of the Council of the Nigerian Stock Exchange. He was awarded the Nigerian National Honour of Commander of the Order of the Federal Republic (CFR) in 2011. He is a Chartered Banker, Chartered Accountant and Chartered Corporate Secretary. He was Chancellor of the Olabisi Onabanjo University, Ogun State, and currently serves as a member of the Office of Distinguished Friends of London Business School (UK). He is the founder of Oba Otudeko Foundation (OOF), a not-for-profit organisation. He is happily married with children.

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LEADERSHIP

Bello Maccido

Group Chief Executive Officer

Bello Maccido was until his appointment as the Group Chief Executive Officer of FBNHoldings, the Executive Director, Retail Banking, North at FirstBank. As Chief Executive, he brings over 29 years' postgraduate experience; 25 years of which represent hands-on experience in the financial services industry handling a wide spectrum of financial services. An accomplished corporate and investment banker, his varied financial services experience covers retail, corporate and investment banking at various institutions including Ecobank Nigeria Plc, New Africa Merchant Bank Limited, and FSB International Bank Plc, where he rose to become Acting Managing Director/Chief Executive. He left FSB International Bank Plc to set up Legacy Pension Managers, a Pension Fund Administration (PFA) company as pioneer Managing Director and Chief Executive, a position he held before joining the Board of FirstBank in January 2011. His broad and diverse experiences in financial services are also evident in other national assignments he has handled, which include sitting as a National Council Member of the Nigerian Stock Exchange between March 2009 and June 2012. He was also a member of the Finance Committee, National Council on Privatisation, the Implementation Committee of Financial System Strategy (FSS) 2020, and Presidential Monitoring Committee on NDDC, among others. A Chartered Stockbroker, Bello is happily married with children. He holds the traditional title 'Wakilin Sokoto' and loves basketball.

Bisi Onasanya

Non-Executive Director

Bisi Onasanya is the Group Managing Director/Chief Executive Officer of First Bank of Nigeria Limited, the Commercial Banking group of FBN Holdings Plc. He was previously Executive Director, Banking Operations & Services and pioneer 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 board of several companies as well as the Presidential Jobs Board. Bisi has served as a member of the Chartered Institute of Bankers' Sub-Committee on Fiscal & Monetary Policies and 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.

Oye Hassan-Odukale, MFR

Non-Executive Director

Oye Hassan-Odukale holds bachelor's and master's degrees in Business Administration from the University of Houston, and since 1994 has held the position of Managing Director/CEO of Leadway Assurance Company Limited, a foremost underwriting firm in Nigeria. His appointment was preceded by over 14 years of experience in insurance brokerage, underwriting, investments and general management. Hassan-Odukale is a recipient of the national honour, Member of the Order of the Federal Republic (MFR) and sits on the board of several blue-chip companies in Nigeria. He is the Chairman of FBNBank (UK) Limited, a wholly owned subsidiary of FirstBank in the city of London. Hassan-Odukale is a Munich Re scholar, Securities and Exchange Commission accredited Investment Manager and Portfolio Advisor. He is married with children and enjoys listening to music, reading and travelling.

Abdullahi Mahmoud

Non-Executive Director

Abdullahi Mahmoud was the pioneer New York Representative/General Manager of the United Bank for Africa in the USA from 1982 to 1986. He held the position of Managing Director/CEO of the African International Bank Limited from 1991 to 1995. He was the pioneer Executive Director (Operations) of the Nigeria Deposit Insurance Corporation (NDIC). Abdullahi served as Group Managing Director of New Nigeria Development Company and as Non-Executive Director of NAL Bank from 1998 to 2004. He is a Fellow of the Association of Chartered Certified Accountants of the UK (FCCA), the Institute of Chartered Accountants of Nigeria (FCA), the Chartered Institute of Bankers of Nigeria (FCIB) and the Institute of Directors, Nigeria (FIOD). He is also an alumnus of Harvard Business School (AMP - 1992). He is married with four sons and loves scouting, travelling and photography.

Chidi Anya

Independent Non-Executive Director

Chidi has over 25 years' post call experience within the Nigerian legal system and is the Managing Partner of the Channings Law Firm, established in 1997. He provides leadership and strategic direction for the firm, and has for many years been recognised by his clients and peers as a leading commercial and corporate law specialist. His initial pupillage was with LN Mbanefo SAN, followed by a period as an Associate Counsel at Akin Delano & Company, Ibadan, Nigeria, and Senior Associate Counsel at Debo Akande & Company, Lagos, Nigeria, prior to the setting up of his firm, Channings Law Firm. His legal career has equipped him with high-level skills in negotiation, administration, communication, management, advocacy and ethical leadership, which he brings to the Board. Chidi also acts as Company Secretary to a number of leading indigenous conglomerates operating in strategic sectors of the Nigerian economy, where he provides guidance on corporate governance and compliance matters. He is a member of the Nigerian Bar Association (NBA). Chidi is married with three children and loves gardening, reading, writing, intellectual debate and philanthropy.

Dr Hamza Wuro Bokki

Independent Non-Executive Director

Dr Hamza Wuro Bokki (PhD) joined the Board of FBN Holdings Plc as an Independent Non-Executive Director in August 2014. He brings to the Board his expertise spanning over two decades in asset management and pension administration. He was the first student to be awarded a first-class degree in Public Administration from the University of Maiduguri. He also holds a master's degree and PhD in Public Administration and Policy Analysis. He is a Fellow of the Chartered Pension Institute of Nigeria and a member of the Nigerian Institute of Management. He serves on the boards and audit committees of several companies in public and private sectors. He serves on the boards of ARMECO Nigeria Limited, NPF Pensions Limited and Williams Street Trustees Limited. He was Managing Director of the Gombe State Investment and Property Development Company Limited where he revamped the financial position of the company, as well as the pioneer MD/CEO of APT Pensions which he brought to profitability within four years. He also served as Honourable Commissioner for Trade & Industry, Gombe State, between 2012 and 2014, where he successfully ran the GMSG/BOI entrepreneurship development program which was adjudged the best in the country. He has attended several executive programmes on corporate governance and audit committees in Kenya, The Gambia and the USA. He is married with children and enjoys reading and travelling.

Adebola Osibogun

Non-Executive Director

Adebola Osibogun was appointed to the Board of FBN Holdings Plc in January 2015. She brings to the Board 30 years of immense financial services experience covering real estate financing, retail savings and loans at various institutions. She holds a Master of Science degree in Banking and Finance and a Bachelor of Education in Economics, both from the prestigious University of Ibadan. A Fellow and current President of the Chartered Institute of Bankers of Nigeria, she is also a Fellow of the Chartered Institute of Taxation of Nigeria and the Nigerian Institute of Management. She had an illustrious financial services career cutting across Co-operative Bank Plc, Coop Savings & Loans Limited, Skye Bank Plc and Skye Trustees Limited. She was previously the Managing Director of Skye Trustees Limited and currently sits on the boards of Imowo

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LEADERSHIP

Microfinance Bank Limited and Davidfinn Global Concept Limited. An astute researcher and writer, she has published several articles expounding on primary mortgage institutions and creation of mortgages. She has also served on the board of leading mortgage institutions including FBN Mortgages Limited as a Non-Executive Director, Coop Savings & Loans Limited and was the National President of the Mortgage Bankers Association of Nigeria. Adebola has also served in several national capacities as a Member of the Presidential Committee on Housing and Urban Development, the Presidential Committee on Mortgage Finance and the Nigerian Real Estate Developers Association. She is happily married and loves basketball, polo and golf.

Omatseyin Ayida

Non-Executive Director

Omatseyin Ayida joined the Board of FBN Holdings Plc in January 2015. He brings to the Board his expertise spanning over two decades in portfolio management, risk and strategic human resource management. He is the Managing Director of Ruyat Oil Limited. He holds a Bachelor of Arts in Economics and Politics from the University of Kent, Canterbury, UK. He was previously the Managing Director of Capital Bank International Plc where he led the successful buyout of the bank and merger of the lender with Access Bank Plc and Marina International Bank in 2005, creating value for the shareholders. Before joining Capital Bank International in 2001, he served with Commercial Bank (Credit Lyonnais) Nigeria Limited in various capacities in the Corporate Finance Department, Multinational Corporate Banking, and Human Resource Management for the institution and rose to become the Deputy Managing Director in 1998. He also led the successful transformation of Credit Lyonnais to Capital Bank over an 11-month period in 2001. He also sits on the Boards of Ruyat Oil Limited, Jurewa Investment Limited, Victoria Properties Limited, Apricot Securities Limited and Alemaje & Co Limited. An honorary member of the Chartered Institute of Bankers, Omatseyin has in the past also served on the board of several institutions. He has attended several executive programmes at Harvard Business School, Lagos Business School and Centre International de Management et D'enseigment Strategique (CIMES). He is a golf lover and is married with children.

Tijjani Borodo

Company Secretary

Tijjani Borodo, who has over three decades of legal practice, was appointed pioneer Company Secretary, FBN Holdings Plc in September 2012. Before this appointment, he was the Company Secretary for First Bank of Nigeria Limited (FirstBank) for over a decade. His career at FirstBank spans over 26 years and he has occupied various managerial positions within the Bank. He was in charge of the Bank's Secretariat as well as the Secretary to the Board of Directors and Annual General Meeting for 14 years. Before joining FirstBank, he served with the Ministry of Justice, Kano state, and rose to the position of Director, Public Prosecutions. Tijjani brings his wealth of experience to bear on the Board of FBN Holdings Plc. He is a Fellow, Institute of Directors, Nigeria, and the Society for Corporate Governance Nigeria; Member, International Bar Association, Nigerian Bar Association, and an Honorary Senior Member, Chartered Institute of Bankers of Nigeria. He has attended courses and programmes in various first-rate business and management schools abroad, including Harvard Business School, USA, the Wharton School, University of Pennsylvania, Kellogg School of Management, Illinois, and the London College of Management Studies. Tijjani is married with four children and loves swimming, listening to music and travelling.

A COMMITMENT TO GOOD GOVERNANCE

The Board is committed to achieving long-term success for the Group, and governance plays an integral part in ensuring consistency and rigour in decision-making to ensure shareholder value is maximised over time.

This remains uppermost in our minds when applying the principles described in relevant provisions relating to the Combined Code on Corporate Governance, published by the Financial Reporting Council.

The Board aims to exceed these requirements as we believe good governance is a key contributor to the Group's long-term success.

THE ROLE OF OUR BOARD

The principal responsibility of the Board is to promote the long-term success of the Group by creating and delivering sustainable shareholder value. The Board leads and provides direction for the management by formulating strategy, giving policy directions and overseeing its implementation. The Board seeks to ensure that management delivers both on its short-term objectives and its long-term growth targets, striking the right balance on both goals. In setting and monitoring the execution of our strategy, consideration is given to the impact that those decisions will have on the Group's obligations to various stakeholders, such as shareholders, employees, suppliers and the community in which the Group operates as a whole.

The Board is also responsible for ensuring an effective system of internal control is maintained and that management maintains an effective risk management and oversight process across the Group to ensure growth is delivered in a controlled and sustainable way. In addition, the Board is responsible for determining and promoting the collective vision of the Group's purpose, values, culture and behaviours. Specific key decisions and matters have been reserved for approval by the Board. These include decisions on the Group's strategy, approval of risk appetite, capital and liquidity matters, major acquisitions, mergers or disposals, Board membership, financial results and governance issues, including the approval of the corporate governance framework.

WHAT ARE THE RESPONSIBILITIES OF THE BOARD?

The Board has a formal charter that is reviewed and reassessed at least every three years or earlier, as required, to ensure it remains consistent with the Board's purpose and responsibilities in a changing and dynamic environment. The charter covers policies regarding Board memberships and composition, Board procedures, conduct of directors, risk management, remuneration, Board evaluation and induction. Some of the Board's tasks as enumerated in the charter are:

- overseeing, guiding and monitoring the performance of management against Key Performance Indicators (KPIs);
- reviewing and approving KPIs and tracking progress towards targets;
- planning for succession of key positions and developing senior executive management;
- overseeing risk and internal controls;
- protecting shareholders' rights;
- preparing and conducting statutory meetings such as AGMs and EGMs;
- ensuring compliance with corporate ethical standards;
- selecting and reviewing the external auditor;
- approving related-party transactions;
- promoting disclosure and transparency;
- ensuring prompt and timely discussions of all material information, including financial results, the Company's corporate governance practices, codes and charters for the Board and its committees, and details of compliance or non-compliance with those codes and charters;
- approving strategic direction and policies;
- approving, reviewing and monitoring corporate strategy following the lead of the executive management team; and
- other ancillary matters.

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LEADERSHIP

THE ROLE OF OUR CHAIRMAN

The principal role of the Chairman of the Board is to manage and to provide leadership to the Board of Directors of the Group. The Chairman is accountable to the Board and acts as a direct liaison between the Board and the management of the Company, through the GCEO.

The Chairman acts as the communicator for Board decisions, where appropriate. He is also responsible for the effective and orderly conduct of Board meetings. The concept of separation of the role of the Chairman from that of the GCEO implies that the Chairman should be independent from management and free from any interest and any business or other relationship that could interfere with the Chairman's independent judgement. At FBNHoldings, the role of the Chairman is clearly separated from that of the Chief Executive Officer and the roles are held by two different people.

THE ROLE OF OUR GROUP CHIEF EXECUTIVE OFFICER

The Group Chief Executive Officer (GCEO) has overall responsibility for leading the development and execution of the Group's long-term strategy with a view to creating sustainable shareholder value. The mandate of the GCEO is to manage the day-to-day operations of FBNHoldings and ensure that operations are consistent with the policies developed by the Board of Directors and are carried out effectively. The GCEO's leadership role also entails being ultimately responsible for all day-to-day management decisions and for implementing the Group's long- and short-term plans.

BOARD CHANGES DURING THE YEAR

At the beginning of the 2014 financial year, the Board was composed of six non-executive directors and the Group Chief Executive Officer.

Three additional appointments were recently made to the Board. Prior to this, a member of the Board, Lt. General Garba Duba (rtd) resigned from the Board after years of meritorious service. Dr Hamza Wuro Bokki was appointed in his stead as an independent non-executive director and he brings to our Board several years of diverse experience acquired in both the public and private sectors.

Additionally, following a directive of the CBN to make additional appointments to the Board, Omatseyin Ayida and Adebola Osibogun were appointed as non-executive directors.

In the case of the latter, Adebola Osibogun brings not only her years of experience acquired in the banking industry to bear on the Board but also enhances the Board's gender diversity. Their respective appointments will be presented for ratification at the AGM in May 2015. As a result of these changes, the Group's current Board consists of nine directors (eight non-executive directors and one executive director in the form of the GCEO) with a considered blend of experience and knowledge. This is in line with international best practice, which stipulates that the number of non-executive directors should exceed that of executive directors. With 88.9% of the Board's composition independent of the Company's management, the FBNHoldings Board is positioned to be independent, devoid of management's influence in upholding its supervisory role over the Management Team of the Group.

We are committed to ensuring we have the right balance of skills and experience within the Board, and we annually review its composition and the diversity of its members' backgrounds.

BOARD APPOINTMENT PROCESS

APPOINTMENT PHILOSOPHY AND INDUCTION PROCESS

The first step towards having an effective board is to ensure the right people, who have previously displayed excellent business knowledge and board experience, are appointed. We believe there is a close alignment between the effectiveness of the Board and the disposition of individual members of the Board to effectively observe sound corporate governance principles.

Effective observance of Codes of Corporate Governance has to be complemented by an ethical board. It is essential that members of the board are persons of integrity, willing to comply not just with the letter of the Codes, but also with its spirit. With an understanding of the above, we have ensured the composition of the present Board is an optimal mix of the competencies and experiences required for a company primarily designed for the enhancement of shareholder value.

Our appointment philosophy is guided by relevant regulatory guidelines and laws. Our directors are usually selected based on their skills, competencies and experience over the years on different boards of blue chip companies across both the private and public sectors.

According to FBNHoldings' extant policy, appointments to the Board are considered by the Board based on recommendations from the Board Governance Committee.

The Board Governance Committee is saddled with the responsibility of recommending potential appointments and re-election of directors (including the GCEO) to the Board, in line with FBNHoldings' approved director selection criteria. At the request of the Board, the Board Governance Committee begins the selection by identifying qualified individuals based on the extant director selection criteria. The resumes of qualified individuals are reviewed and the most suitable individual for the role is presented to the Board for consideration and appointment, subject to the approval of the CBN and at the AGM.

INDUCTION PROGRAMME

Where appointments are duly approved in line with the process outlined above, an induction programme anchored by independent consultants is held for the newly appointed directors. The induction programme for the new appointees to the Board has been scheduled after the Group's AGM.

The directors' trainings do not stop at this; the Board also ensures its knowledge base is constantly refreshed through continuous training and development programmes.

THE ROLE OF INDEPENDENT DIRECTORS

According to the SEC (Securities and Exchange Commission) Code of Corporate Governance (SEC Code), independent directors are non-executive directors whose shareholding does not exceed 0.1% of the shares of the Company. The independent director is defined as a non-executive director who is neither a substantial shareholder, a representative of a controlling shareholder, an employee of the Company, member of the immediate family of an individual in the employment of the Company, a professional advisor to the Company, a significant supplier or customer of the Company nor a partner or an executive of the Company's statutory audit firm. In other words, the independent director must have no significant affiliation directly or indirectly with the Company as to impair or influence his or her ability to make independent judgements. Their position on the Board is to enforce good corporate governance practices through independence of judgement and opinion, as there needs to be a member on the Board who has no principal business interest other than that of ensuring good management and development.

While the SEC Code prescribes the appointment of one independent director on the Board, the appointments of Chidi Anya and Dr Hamza Wuro Bokki give us two independent directors on our Board, resulting in more independence for the Board and underscoring our resolve to meet and exceed regulatory and global corporate governance demands.

THE ROLES OF EXECUTIVE AND NON-EXECUTIVE DIRECTORS

The SEC Code clearly states the duties and relationship between the executive and non-executive directors of a company. It spells out the working relationship between the two, while outlining the distinction between them.

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The SEC Code recommends that executive directors should be persons knowledgeable in relevant areas of the Company's activities. They should not be involved in the determination of their remuneration and should not be entitled to sitting allowances or other directors' fees paid to non-executive directors. On the other hand, non-executive directors are to be provided with an enabling environment for the effective discharge of their duties and must be given adequate and comprehensive information on all Board matters in a timely and detailed manner.

THE ROLE OF THE COMPANY SECRETARY

The Company Secretary's duties are regulated by statutes, regulations and the Articles of Association of the Company. The duties of a Company Secretary include the following:

a. Attendance at meetings of the Company, Board of Directors meetings, Board committee meetings and rendering all necessary secretarial services in respect of such meetings and advising on compliance and regulatory issues.

b. Maintaining statutory registers and other records of the Company.

c. Rendering proper and timely returns as required under CAMA (Companies & Allied Matters Act).

d. Carrying out such administrative and other secretarial duties as directed by the directors or the Company.

e. The Company Secretary may, where duly authorised by the Board of Directors, exercise any powers vested in the directors.

   The SEC Code provides that in addition to their statutory functions enumerated above, the Company Secretary should carry out the following duties and responsibilities:

   i. Provide the Board and directors individually, with detailed guidance as to how their responsibilities should be discharged in the best interest of the Company.

   ii. Coordinate the orientation and training of new directors.

   iii. Assist the Chairman and CEO/MD to determine the annual Board plan and with the administration of other strategic issues at the Board level.

   iv. Compilation of the Board papers and ensuring that the Board's decisions and discussions are clearly and properly recorded and communicated to the relevant persons.

   v. Notify the Board members of matters that warrant their attention.

   vi. Provide a central source of guidance and advice to the Board and the Company, on matters of ethics, conflict of interest and good corporate governance.

It is safe to then state that behind every successful board is a competent company secretary.

THE COMPANY SECRETARY AND CORPORATE GOVERNANCE

The way and manner in which a company is managed will determine whether that company will succeed or fail. Every company must have a corporate governance structure in place and, most importantly, a person who oversees the implementation of the structure. This is one of the key roles of the Company Secretary.

BOARD OVERSIGHT – KEY TOPICS

Throughout 2014, the Board continued to review the Group's corporate strategy, the operation of the business and its results within a framework of prudent and effective controls, including the assessment and management of risks. This framework has allowed us to deal with key issues arising throughout the year, including making new appointments and putting emphasis on embedding a culture of 'doing the right thing'.

MAKING BOARD MEETINGS EFFECTIVE

The Board meets quarterly and extra meetings are convened as required. The annual calendar of Board meetings is approved in advance at the last meeting of the Board in the preceding year, and all directors are expected to attend each meeting. Material decisions may be taken between meetings through written resolutions as provided for by the Company's Articles of Association. The following highlights may be noted with regards to Board meetings:

- The annual calendar of Board activities usually includes a Board retreat at an off-site location, to consider strategic matters and Group policy directions, and review opportunities and challenges facing the Group. Members of the Board, senior management and key management staff across the Group are invited. This promotes interaction and gives opportunities to work together in crafting the strategy for the Group.
- Urgent and material decisions may be taken between meetings through written resolutions.
- The Group's Board met nine times in 2014.
- Notices for meetings are usually sent out at least 14 days before the scheduled meeting.
- The Company Secretary is responsible for setting the agenda of topics to be covered in the meetings and does so through consultations with the Chairman and the CEO.
- The Group's Company Secretariat operates an electronic circulation of memoranda to members of the Board exemplifying the Group's cost efficiency, dynamism and embracement of technology.
- All directors are provided with notices, an agenda and meeting papers in advance of each meeting. Board memoranda are dispatched in advance to enable directors have adequate time to review and prepare for meetings and where a director is unable to attend a meeting he or she is still provided with the relevant papers for the meeting. Such directors reserve the right to discuss with the Chairman matters they may wish to raise at the meeting.
- Each meeting takes an average of three hours.
- Any director may request a topic be considered at meetings. In addition, any director may bring up any issue deemed deserving of discussion and the same is usually taken under any other business (AOB) during the course of the meeting.
- The number of issues identified for deliberation and, above all, the complexity of the issues, are major factors in determining the duration of the meetings.

ADOPTION OF THE BOARD EFFECT SOFTWARE

As part of the Board's desire to improve the efficacy of Board meetings, the Group adopted the use of the Board Effect software in 2014. Board Effect is a web-based secure portal application designed to provide Board meeting materials in a secure electronic format accessible over the internet.

The platform drives efficiency, and allows easy management of Board information and circulation. It presents Board papers as a meeting book for easy review, prevents disjointed email circulation and moving physical copies around.

Similarly, it solves the problem of multiple files and necessary email exchanges, large attachments and dealing with late papers. The advantage of this technology adoption is to reduce the cost of production of Board papers, increase information security levels of sensitive Board documents and make Board meetings seamless and more effective.

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OPERATIONAL STRUCTURE

The Group's organisational design was driven by the following key guiding principles:

- lean holding company – this is in line with the regulators' mandate to be a non-operating entity;
- critical corporate central functions – finance, risk management, Company secretariat, strategy, internal audit, investor relations, marketing and corporate communications;
- focus on setting Group standards and monitoring compliance for the Group, e.g., HR and IT standards;
- synergy benefits from operating structure to be balanced against incremental costs; and
- giving policy directions for the banking and non-banking subsidiaries to ensure proper capital utilisation across subsidiaries.

These principles were the central considerations for the identification of the Group's functions and the roles and responsibilities of each of those functions.

The diagram below shows the organisational structure and operating model of FBNHoldings.

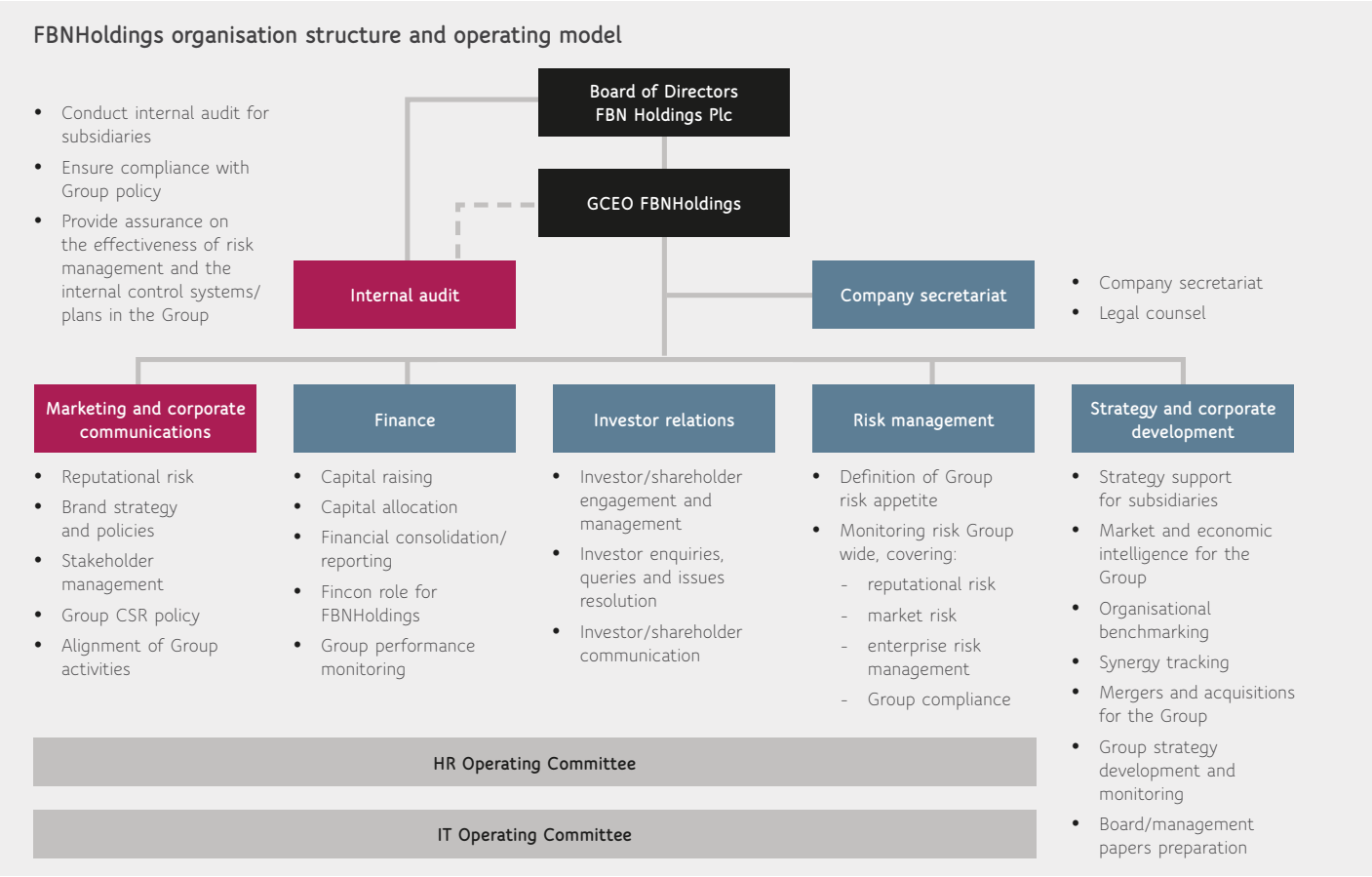
BOARD DISCUSSION IN 2014

BOARD FOCUS AREAS IN 2014

Over the course of the last financial year, considerable time and effort were channeled into discussions on giving effect to the directives contained in the Guidelines for Licensing and Regulation of Financial Holding Companies in Nigeria released by the CBN. Similarly, time and effort were also devoted to giving effect to recommendations contained in the report of the joint examination exercise which had been conducted by the CBN and the Nigeria Deposit Insurance Corporation (NDIC). In addition to these, the Board took time to discuss the following issues.

HOW THE BOARD SPENT ITS TIME IN 2014

- The Group's acquisition of a merchant banking licence. The process culminating in the Group's acquisition of Kakawa Discount House through FBN Capital was deliberated extensively. The move was necessitated by the Group's ultimate desire to have a presence in the merchant banking sphere of the banking industry. Kakawa is currently in the process of acquiring a merchant banking licence and it is expected that this will be concluded before the end of the second quarter in 2015.



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- Acquisition of Oasis Insurance (Oasis). The process for acquisition of Oasis was concluded in the year under review. As part of the Group's desire to offer general insurance services to the public, it has, through FBN Insurance, acquired controlling shares in Oasis Insurance.
- Board strategy retreat held as planned at an off-site location. The Group's strategy, focus and challenges were discussed in detail on the retreat. This was borne out of the need for the Group to strategise its businesses in the face of falling oil prices and an unsteady economy occasioned by the impending general elections.
- Identification of synergies across the subsidiaries as well as modes for optimal cross-selling. This became expedient in order to identify synergies that can be leveraged upon across the Group to enhance the overall shareholder value for the Group.
- Focus on shared services across the Group. Consideration on this became necessary to minimise cost across the Group and due to the guidelines released by the CBN on shared services.
- Consideration of policies and standard operating procedures for some areas of the Group's operations. Time was spent on considering the various policies upon which the operations of the Group would be based. Due to the nascent operations of the Group and the absence of some of the policies in place, there was a need to develop a guidebook on the Group's processes and procedures. This process, which started last year, was accelerated with the effect that most of these operational policies have now been considered and approved by the Board.

  In line with our pledge, during the year under review we dedicated considerable time, effort and energy to the review and approve the following policies which are central to the operations of the Group:
  - Board Audit & Risk Assessment Committee charter
  - Board of Directors' charter
  - Board Evaluation Policy
  - Board Finance and Investment Committee charter
  - Board Governance and Nomination Committee charter
  - Conflict of Interest and Related Party Transaction Policy
  - Board of Directors' Delegation of Authority Policy
  - Directors' Appointment and Succession Planning Policy
  - Directors' Code of Conduct
  - Directors' Development Policy
  - Statutory Audit Committee charter
  - Group Disclosure Policy
  - Whistleblowing Policy
  - Investment Policy
  - Capital Allocation Policy
  - Standard operating procedures for finance.
- Divestment from FBN Microfinance Bank (FBN MFB). The Board had engaged consultants to undertake a review of FBN MFB's financial viability and despite witnessing improved performance in 2014, it had been decided that the value proposition to the Group was minimal. Consequently, it had been decided that the Bank would be sold off for the value price. This move was in line with the Group's intent to ensure maximum returns for resources. It is expected that the sale of the Bank will be concluded by the end of the second quarter of 2015.

WHAT IS OUR ACTION PLAN FOR 2015?

The priorities of the Group for the coming year shall be to focus on consolidating and maximising the synergies across the Group while also ensuring that our operating cost is reduced to its barest minimum. Therefore, the primary focus of the Group will be to allocate financial, capital and human resources effectively across companies within the Group to ensure the Group, as a whole, maximises shareholder value.

We plan, where necessary, to restructure some of our subsidiary companies to ensure they provide adequate contributions to consolidated earnings and to adjust our equity exposure to such companies based on our assessment of whether or not they are able to meet centrally defined operational and financial targets.

2015 BOARD PRIORITIES

The priorities of the Board for 2015 shall be as follows:

- fostering increased collaboration in order to exploit the strong natural synergies and cross-selling opportunities that exist between banking and the other financial services sectors we are active in;
- maximising revenue through effective monitoring of the Group strategy;
- concluding divestment from FBN MFB;
- effectively concluding on the acquisition of Kakawa Discount House;
- overseeing the management of reputational risk;
- ensuring effective capital allocation and capital investment among the subsidiaries; and
- increasing the contribution of non-banking businesses.

ATTENDANCE AT BOARD MEETINGS

The Group's Board met nine times in 2014. The record of attendance is provided below:

Name	27 Jan	25 March	29 April	5 May	21 May	3 July	12 Aug	6 Oct	18 Dec
Dr Oba Otudeko, CFR	✔	✔	✔	✔	✔	✔	✔	✔	✔
Bello Maccido	✔	✔	✔	✔	✔	✔	✔	✔	✔
Lt. General Garba Duba, rtd	✔	✔	✔	✔	✔	✔	Resigned	N/A	N/A
Abdullahi Mahmoud	✔	✔	✔	✘	✔	✔	✔	✔	✔
Oye Hassan-Odukale, MFR	✔	✔	✔	✔	✔	✔	✔	✔	✔
Bisi Onasanya	✔	✔	✔	✔	✔	✔	✔	✔	✔
Chidi Anya	✔	✔	✔	✔	✔	✔	✔	✔	✔
Dr Hamza Wuro Bokki	Not yet appointed	Not yet appointed	Not yet appointed	Not yet appointed	Not yet appointed	Not yet appointed	✔	✔	✔
Omatseyin Ayida	Not yet appointed	Not yet appointed	Not yet appointed	Not yet appointed	Not yet appointed	Not yet appointed	Not yet appointed	Not yet appointed	Not yet appointed
Adebola Osibogun	Not yet appointed	Not yet appointed	Not yet appointed	Not yet appointed	Not yet appointed	Not yet appointed	Not yet appointed	Not yet appointed	Not yet appointed

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BOARD COMMITTEES

BOARD AND COMMITTEE GOVERNANCE STRUCTURE

Following the formation of FBNHoldings in late 2012 and the identification of standing committees in 2013, these committees were effectively constituted in 2014.

The Board carries out its oversight function through its five standing committees, each of which has a charter that clearly defines its purpose, composition and structure, frequency of meetings, duties, tenure and reporting lines to the Board. The Board monitors these responsibilities to ensure effective coverage of, and control over, the operations of the Group. In line with best practice, the Chairman of the Board does not sit on any of the committees.

FBNHoldings has constituted the following Board Committees:

BOARD GOVERNANCE COMMITTEE

MEMBERSHIP

Abdullahi Mahmoud
Chidi Anya
Omatseyin Ayida

ROLE AND FOCUS

The primary purpose of the Board Governance Committee is to:

- oversee and advise the Group Board on its oversight responsibilities;
- determine the composition of the Board and Board committees;
- design and execute the process for appointment of new Board members; and
- remove non-performing Board members.

KEY RESPONSIBILITIES

The responsibilities of the Committee are to:

- develop and maintain an appropriate corporate governance framework for the Group;
- develop and maintain an appropriate policy on remuneration of directors, both executive and non-executive;
- evaluate the role of the Board committees and Boards of subsidiary companies, and ratify the performance appraisals of the executive directors as presented by the Group CEO;
- ensure proper succession planning for the Group; and
- ensure compliance with the SEC Code of Corporate Governance and other global best practices on corporate governance.

BOARD AUDIT & RISK ASSESSMENT COMMITTEE

MEMBERSHIP

Adebola Osibogun
Bello Maccido
Chidi Anya
Dr Hamza Wuro Bokki

ROLE AND FOCUS

The overall purpose of the Committee is to protect the interest of the Group's shareholders and other stakeholders by overseeing, on behalf of the Board, the:

- integrity of financial reporting;
- adequacy of the control environment;
- management of risk;
- internal and external audit function; and
- compliance function.

BOARD FINANCE AND INVESTMENT COMMITTEE

MEMBERSHIP

Oye Hassan-Odukale, MFR
Bisi Onasanya
Dr Hamza Wuro Bokki
Bello Maccido

ROLE AND FOCUS

The role of this Committee is to:

- consider and approve the Group's capital expenditure plan and specific capital projects above the approval limit of the Operational Committee and to make recommendations for the consideration of the Board;
- advise the Board on its oversight responsibilities in relation to recruitment, compensation and benefits, promotions and disciplinary issues affecting senior officers of FBNHoldings and across the Group; and
- advise the Board on investment opportunities and allocation of capital across the Group.

KEY RESPONSIBILITIES

The Committee is responsible for the following:

- approval of capital expenditure within the monetary amounts specified by the Board;
- regularly reviewing and recommending to the Board, limits of capital expenditure for the various levels of management, subsidiaries and committees;
- recommending capital expenditures exceeding the approval limits granted to the Committee to the Board;
- recommending approval of the Group's Procurement Policy to the Board;
- ensuring that the Group complies with all laws and regulations in respect of director-related party transactions;
- reviewing and recommending the Group's organisation structure, Remuneration Policy, and the Group's policies covering the evaluation, compensation and provision of benefits to employees and any other human capital issues for approval by the Board;
- reviewing and recommending the Group's human resource strategies for approval by the Board; and
- reviewing and recommending the Group's Secondment and Mobility Policy, and any proposed amendments for approval by the Board.

GROUP EXECUTIVE COMMITTEE (GEC)

The GEC usually invites to its meetings any attendee, as may be required, and meets biannually, or as required. It met once in 2014.

MEMBERSHIP

The GCEO of FBNHoldings serves as Chairman, while other members are:

- Group Managing Director - FirstBank;
- Managing Directors of other FBNHoldings subsidiary companies including
  - FBN Capital
  - FBN Insurance
  - FBN Insurance Brokers
  - FBN MFB;
- Chief Risk Officer - FirstBank;
- Chief Finance Officer - FirstBank;
- Head, Strategy and Corporate Development; and
- Company Secretary - FBNHoldings.

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ROLE AND FOCUS

The Group Executive Committee is responsible for the following:

- ensuring overall alignment of Group strategy and plans;
- reviewing strategic and business performance against approved plans and budget of the Group, and agreeing recommendations and corrective actions;
- promoting the identification of synergies and ensuring the implementation of synergy initiatives;
- monitoring progress of Group synergy realisation initiatives and making recommendations in respect of the same;
- discussing and monitoring compliance with Group policies such as risk management, internal audit etc.; and
- reviewing and recommending modifications to Group policies.

STATUTORY AUDIT COMMITTEE (SAC)

Section 359(3) of the Companies & Allied Matters Act (CAMA) requires every public company to establish a SAC composed of an equal number of directors and representatives of its shareholders, provided there is a maximum of six members of the SAC.

INDEPENDENCE OF THE STATUTORY AUDIT COMMITTEE

Recognising that the independence of statutory auditors is fundamental to upholding public confidence in the reliability of the SAC's reports and the Company's financials, we have strived to ensure the independence of our SAC.

The executive directors do not sit on the SAC. Of the six members of the Committee, as is required under CAMA, three are shareholder representatives, including the Chairman of the SAC. The shareholder representatives are independent and answerable to the shareholders.

The other three members comprise two non-executive directors independent of the management of the Company and an independent non-executive director. With this composition, it is clear that the SAC's independence is not in doubt.

FINANCIAL EXPERTS ON THE STATUTORY AUDIT COMMITTEE

All the shareholder representatives on the SAC are finance experts, as may be gleaned from their educational qualifications stated below. The Chairman of the Committee is a Fellow of the Chartered Institute of Bankers, London and Nigeria (ACIB) and also holds a Master of Science (MSc) degree in Banking and Finance. He is a veteran banker with over three decades of banking experience. The other members are non-executive directors with extensive Board experience and financial experts.

ROLE AND FOCUS

The statutory duties and role of the SAC are clearly encapsulated in Section 359 (3) and (4) of CAMA. In addition, the various Codes of Corporate Governance - the CBN, SEC and NAICOM Codes - set out the corporate governance roles and responsibilities of the SAC to include the following:

- ascertain whether the accounting and reporting policies of the Company are in accordance with legal requirements and agreed ethical practices;
- review the scope and planning of audit requirements;
- review the findings on management matters in conjunction with the external auditor and departmental responses thereon (management letter);
- keep under review the effectiveness of the Company's system of accounting and internal control;
- make recommendations to the Board with regard to the appointment, removal and remuneration of the external auditors of the Company, ensuring the independence and objectivity of the external auditors and that there is no conflict of interest that could impair the independent judgement of the external auditors;
- authorise the internal auditor to carry out investigations into any Committee; and
- assist in the oversight of the integrity of the Company's financial statements and establish and develop the internal audit function.

The SAC has a responsibility to ensure that the Company's financials are void of any misrepresentation or misleading information. The SAC may also play a significant role in the oversight of the Group's risk management policies and programmes where there is no Board Risk Management Committee charged with this function.

The SAC was established in accordance with CAMA and below are details of the SAC, including the joint auditors.

TRAINING FOR AUDIT COMMITTEE MEMBERS

There is an understanding of the need to ensure that the Audit Committee members are well equipped to carry out their statutory oversight functions. Management ensured that training programmes were organised for members of the Committee. All members of the Committee were sponsored by management to IFRS training programmes organised by the NSE on 9 October 2014 and the Institute of Chartered Accountants of Nigeria (ICAN) on 15 August 2014.

STATUTORY AUDIT COMMITTEE: SHAREHOLDER REPRESENTATIVE PROFILES

Job Onwughara (Chairman)

Job hails from Abia State. He is a veteran banker, with considerable experience in corporate banking and branch operations. He has over three decades of banking experience garnered with African Continental Bank and Savannah Bank. He is a Fellow of the Chartered Institute of Bankers, London and Nigeria (ACIB). He also holds a Master of Science (MSc) degree in Banking and Finance from the University of Ibadan. He is an Associate of the Institute of Credit Management, London, and a member of the British Institute of Management. Job also holds an LLB degree in Law. He has served on the Audit Committee of several blue-chip companies for several years. He also worked in Crown Flour Mills from 1997-2003. He is currently a Management Consultant. He is married with children and enjoys writing, reading and travelling.

Waheed Adegbite

Waheed hails from Ogun State. He is an alumnus of the Lagos Business School and a Fellow of the Institute of Chartered Accountants of Nigeria. He is an Associate Member of the Chartered Institute of Marketing, London, Chartered Institute of Taxation, and Nigeria Institute of Management. He has attended several courses including a course on operational costing/financial management organised by Carnaud Metal Box, Kenya. He also attended the Senior Management Course (SMP3) organised by the Lagos Business School, IESE University, Barcelona, Spain. He was Chief Examiner, ICAN Accounting Technical Scheme Examination and Reviewer, ICAN Examination (MA and MDCS). He was Chairman, Audit Committee of Lasaco Assurance Company. Waheed's accounting experience spans over four decades. He was Accounting Assistant with Comsac Telecom Nigeria (1971-1973), Assistant Accountant with Brossettee Nigeria and Chief Accountant with Upjohn Nigeria Property (1981-1987). He served as the Finance Manager of Carnaud Metal Box Nigeria between 1991 and 1997 and has been in public practice as a Chartered Accountant since 1997. He is married with three children.

Abubakar Yahyah

Abubakar hails from Katsina State and holds a BSc degree in Business Administration from Bayero University, Kano. He has extensive experience in construction and power projects and brings sectorial diversity to the SAC's cumulative business experience. He was Project Coordinator of the Rural Electrification Project for the Zamfara State 2.5 MVA/33KVA Substation at Maru, Zamfara State from 2004 to 2005. He was in charge of managing the provision of 33-11 KVA electricity to 19 villages in Zamfara from 2006 to 2008. He has acted as Supervisor in Empire Group, Jigawa State Modern Abattoir and Yobe State Modern Abattoir. He coordinated the construction of deluxe suites superior accommodation, Kaduna, and is now Director with Rosehill Group. Abubakar is happily married.

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LEADERSHIP

Summary of educational qualifications of Audit Committee members

S/N	Name	Role	Status	Educational qualification
1	Job Onwughara	Chairman	Shareholder representative	ACIB, FCIB, MSc (Banking and Finance)
2	Abubakar Yahyah	Member	Shareholder Representative	BSc Bus Admin
3	Waheed Adegbite	Member	Shareholder Representative	FCA, ACIM, ACIT, AMNIM
4	Abdullahi Mahmoud	Member	Non-Executive Director	FCA, ACA, FCCA,ACCA, AMNIN, FCIB, FIMC, F-IOD, M-IOD
5	Oye Hassan-Odukale, MFR	Member	Non-Executive Director	BBA (BSc Bus Admin) MBA Finance
6	Chidi Anya	Member	Non-Executive Director	LLB, BL, MILD

The record of SAC attendance for the 2014 financial year is provided below:

Name	28 January 2015	12 March 2015
Job Onwughara	✔	✔
Waheed Adegbite	✔	✔
Abubakar Yahyah	✔	✔
Abdullahi Mahmoud	✔	✔
Oye Hassan-Odukale, MFR	✘	✔
Chidi Anya	✔	✔

A Statutory Audit Committee meeting had been scheduled for 19 May 2015. The record of the meeting is not reflected in the above table as the meeting was yet to happen at the time of going to press.

EXTERNAL AUDITORS AND ROTATION

The external auditors for the 2014 financial year were PricewaterhouseCoopers (PwC).

Section 33 of the Securities and Exchange Commission (SEC)'s Code (the Code) of Corporate Governance regulates the rotation of external auditors and provides that in order to safeguard the integrity of the external audit process and guarantee the independence of the external auditors, companies should rotate both the audit firms and audit partners.

It further provides that companies should require external audit firms to rotate audit partners assigned to undertake external audit of the Company from time to time.

Audit personnel should be regularly changed without compromising the continuity of the external audit process.

The Code also stipulates that external audit firms should be retained for no longer than 10 years continuously. External audit firms disengaged after continuous service to the Company of 10 years, may be reappointed after another seven years since their disengagement.

Similarly, the CBN Code of Corporate Governance for Banks provides that the tenure of the auditors in a given bank shall be for a maximum period of 10 years, after which the audit firm shall not be reappointed in the Bank until after a period of another 10 years.

FBNHoldings is in full compliance with the Code as its external auditors were appointed as sole auditors starting from the 2014 financial year and hence have been retained for only a year. They are subject to re-election annually and hence will be considered for re-election at FBNHoldings' 2014 Annual General Meeting (AGM).

2014 AUDIT FEES

The ratio of our audit fees to our non-audit fees for the 2014 financial year is 100:0 as there were no non-audit fees paid to the external auditors.

GOING CONCERN

On the recommendation of the SAC, the Board annually considers and assesses the going concern basis for the preparation of the financial statements at the year end. The Board continues to view the Company as a going concern for the foreseeable future.

FIRST AD HOC COMMITTEE ON REVIEW OF GROUP POLICIES AND STANDARD OPERATING PROCEDURES

The Board of Directors constituted an Ad Hoc Committee to review Management's submission on the underlisted Group's Policies and Standard Operating Procedures.

- Board of Directors' charter
- Board Governance & Nomination Committee charter
- Board Audit and Risk Assessment Committee charter
- Board Evaluation Policy
- Board Finance and Investment Committee charter
- Board of Directors' delegation of authority charter
- Directors' appointment and succession planning
- Directors' Code of Conduct
- Directors' Development Policy
- Directors' Remuneration Policy
- Conflict of Interest and Related-party Transaction Policy
- Statutory Audit Committee charter.

MEMBERSHIP

- Chidi Anya
- Bello Maccido

Attendance at meetings

Name	Meeting of 23 June 2014
Chidi Anya	✔
Bello Maccido	✔

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LEADERSHIP

During its only meeting in June 2014, the Committee, with all the members in attendance, also had the following in attendance.

- Tijjani Borodo, Company Secretary
- Douglas Elisha, Technical Assistant to Group CEO
- Ayokunle Ayoko, Company Secretary's Department.

The recommendations of the Board Ad Hoc Committee were presented to the Board during its meeting on 3 July 2014 with the Board subsequently approving the policies.

SECOND AD HOC COMMITTEE ON REVIEW OF GROUP POLICIES AND STANDARD OPERATIVE PROCEDURES

The Board of Directors similarly constituted an Ad Hoc Committee to review the management's submission on the underlisted Group's policies and standard operating procedures.

- Group Disclosure Policy
- Whistleblowing Policy
- Investment Policy
- Capital Allocation Policy
- Standard operating procedures for the Finance Department.

MEMBERSHIP

- Oye Hassan-Odukale, MFR
- Chidi Anya
- Bello Maccido

During its only meeting in 2014, on 18 September, the Committee, with all the members in attendance, also had the following in attendance:

- Adesola Adeduntan, Chief Financial Officer - FirstBank;
- Tijjani Borodo, Company Secretary;
- Wale Ariyibi, Head of Finance;
- Douglas Elisha, Tech Assistant to Group CEO;
- Segun Zachaeus, KPMG Professional Services; and
- Ayokunle Ayoko, Company Secretary's Department.

The Committee's recommendations have been presented to the Board.

Name	Meeting of 18 September 2014
Oye Hassan-Odukale, MFR	✔
Bello Maccido	✔
Chidi Anya	✔

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Effectiveness

ENSURING BOARD EFFECTIVENESS

Today's boards have to contend with a host of new pressures, challenges and risks. Held ever more accountable for an organisation's performance and vitality, a board must set its strategic direction, often across diverse product markets and geographies, and monitor the firm's risk profile. It also must evaluate the performance of the GCEO and other senior executives.

We recognise the fact that an effective board is one that observes good corporate governance principles. The board is no doubt the most important body in ensuring an organisation's implementation of good corporate governance practices. The right attitude and approach towards good corporate governance practices are most appropriately cascaded through the organisation from the top. Therefore, our broad approach to ensuring our Board's effectiveness is principally threefold – through composition, training and board appraisal.

COMPOSITION

The first step towards having an effective board is to ensure the right people, who have excellent business skills, knowledge and board experience, are appointed. We believe there is a close alignment between the effectiveness of a board and the disposition of individual members of the board towards the observance of sound corporate governance principles.

Effective observance of codes of corporate governance is possible only if complemented by an ethical board. It is essential members of a board are persons of integrity, who are willing to comply not just with the letter of the codes, but also with its spirit. With an understanding of the above, we have ensured the composition of the present Board is an optimal mix of the competencies and experiences required for a company primarily designed for the enhancement of shareholder value.

THE ROLE OF THE NON-EXECUTIVE DIRECTORS

Global best practice recommends that the number of non-executive directors exceed the number of executive directors on a board. This is to ensure that there is sufficient independence of the majority of the board from the management of the company. Non-executive directors are expected to focus on board matters and not stray into 'executive direction', thus providing an independent view of the company that is removed from the day-to-day running. Non-executive directors are therefore appointed to bring the following key attributes to our Board:

- independence;
- impartiality;
- wide experience;
- special knowledge; and
- personal qualities.

In strategy formation, the non-executive director is also expected to provide monitoring, contribute creative and informed ideas to the company, and to act as a constructive critic in looking at the objectives and plans devised by the executive team.

With an understanding of the above therefore, a perusal of the Board composition of FBNHoldings reveals not only the dominance of non-executive directors as is best practice, but that our Board's executive director to non-executive director ratio is one to eight. This underscores the overwhelming independence of the Board.

APPOINTMENT PHILOSOPHY AND INDUCTION PROCESS

Our appointment philosophy is guided by relevant regulatory guidelines and laws. Our directors were selected based on their skills, competencies and experience over the years on the Board of FirstBank and other blue-chip companies. The process of selection and appointment was, and will continue to remain, transparent. Usually, a pool of candidates is identified and considered for appointment by the Board Governance Committee. Thereafter, recommendations on candidates' suitability are made to the full Board, which then makes a decision on the appointment of the candidate subject to the ratification of the general assembly.

The Board ensures that directors' knowledge base is constantly refreshed through continuous training and development programmes.

FBNHOLDINGS' REMUNERATION STRUCTURE

INTRODUCTION

This section provides stakeholders with an understanding of the remuneration philosophy and policy applied at FBNHoldings for non-executive directors, executive directors and employees.

REMUNERATION PHILOSOPHY

FBNHoldings' compensation and reward philosophy represents the values and beliefs that drive compensation policy in the organisation.

Our compensation philosophy is in line with the Group's quest to attract and retain highly skilled personnel that will keep the Group ahead of competition. In reviewing our compensation package, some of the triggers for compensation review include organisational policy, market positioning and financial performance of the Company, government policies, regulations, industry trends, inflation and the cost of living index.

REMUNERATION STRATEGY

FBNHoldings' compensation and reward strategy is aimed at attracting, rewarding and retaining a motivated talent pool to drive FBNHoldings' values, ideology and strategic aspirations. FBNHoldings' 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 FBNHoldings as an employer of choice within its pay market by offering an attractive and sustainable compensation package. Compensation is equitable and rewards officers based on the relative worth of jobs (within the system), competencies and performance.

Compensation is also differentiating and it is used as a tool for retaining high potential talent and driving desired culture and values.

REMUNERATION POLICY

FBNHoldings' compensation policy includes remuneration, perquisites and benefits. The remuneration includes base pay and allowances, as well as performance-based bonuses and incentives, as follows:

- **Base pay** – includes the salary component for the defined job grade and 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 other 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 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.

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- **Bonuses/incentives** – these are related to achievement of certain targets and may be cash or non-cash such as paid holidays. Profit sharing also includes payments made for organisational achievements, e.g., profit sharing and end-of-year bonuses.

Perquisites/perks are usually lifestyle-induced and designed to ensure comfort, motivation, commitment and retention of staff, particularly at the senior level, or high-potential staff, e.g., status cars. They are acquired by FBNHoldings 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, in line with FBNHoldings' ethical stance of being socially responsible and a good corporate citizen, payments are structured so that while staff remain liquid, the Company does not run contrary to tax laws and other statutory regulations.

REMUNERATION STRUCTURE

The pay structure, i.e., FBNHoldings' adopted methods of administering its pay philosophy, recognises and differentiates along the following lines:

- **pay for position/role** – each job is properly evaluated and compensation for the position is in line with similar benchmarked jobs. Salaries are graded, i.e., consist of a series of pay bands on each grade that represent elevations within the same grade and there are five bands within each grade;
- **pay for person** – in this case, the Group pays a premium for special skills, experience or competencies. This may require sign-on bonuses, repatriation fees, special contracts, etc;
- **pay for performance** – these include special bonus and incentive schemes and differentiating pay for performance level/career tracks; and
- **pay for role** – pay is structured to recognise the role types within the Company.

EXECUTIVE REMUNERATION POLICY

As a company, we are aware of the views of our various stakeholders on executive remuneration. We seek to motivate, incentivise and retain our talent while remaining mindful of the current economic outlook.

As examples of the justified restraint in the current circumstances, we have made no changes to our directors' remuneration for 2014.

The remuneration for executive directors is determined by the Board and usually reflects the industry average while ensuring the remuneration will be such as to adequately attract and retain the best and most experienced individuals for the role. The same underlying principle applies to the non-executive directors who are entitled to director fees, reimbursable expenses and sitting allowances.

BOARD COMPENSATION

NON-EXECUTIVE DIRECTORS

In line with the SEC Code, non-executive directors receive fixed annual fees and sitting allowances for service rendered on the Board and Board Committee meetings. There are no contractual arrangements for compensation for loss of office. Non-executive directors do not receive short-term incentives, nor do they participate in any long-term incentive schemes.

EXECUTIVE DIRECTORS

Remuneration for executive directors is performance-driven and restricted to base salaries, allowances and performance bonuses. Executive directors are not entitled to sitting allowances.

The amounts specified below represent the total remuneration paid to executive and non-executive directors for the Group in the period under review.

	31 December 2013 ₦ million	31 December 2014 ₦ million
Fees and sitting allowance	54	57
Executive compensation	104	83
Total	**158**	**140**

FBNHoldings has continually ensured that its remuneration policies and practices remain competitive, incentivise driven performance and are in line with its core values.

PERFORMANCE MONITORING

As part of its oversight role, the Board continuously engages with management and contributes ideas to the Company's strategy from the planning to the execution phase. The Board usually holds an annual Board retreat wherein the strategy for the coming year is rigorously debated and agreed or revalidated between management and the Board. Once a strategy is defined, updates on specific strategic objectives become part of the ongoing Board agenda, providing the Board with access to sufficient detail to critique the implementation of the strategy. During this process, the Board will continuously be updated on significant issues, risks or challenges encountered in the course of strategy implementation across the Group, and steps being taken to alleviate those risks. On a quarterly basis, FBNHoldings' financial and performance indicators are reviewed by the Board. The Board also assesses progress and confirms alignment or otherwise with the strategic goals and objectives on a continuous basis.

The Company's actual performance is compared relative to planned/budgeted performance, to provide the Board with ongoing insight into the level of achievement. In addition, peer comparison forms a continuous part of our Board meetings in order to benchmark FBNHoldings against the performance of our competitors.

BOARD APPRAISAL

In compliance with the SEC Code of Corporate Governance (the Code), and due to our commitment to strengthening the Group's corporate governance practices and enhancing the capacity of the Board in the effective discharge of its responsibilities, the Board engaged the services of an independent consultant, KPMG Professional Services (KPMG), to conduct an appraisal of the Board of Directors and individual directors' peer appraisal for the year ending 31 December 2014. The Board appraisal covered the Board's structure and composition, processes, relationships, competencies, roles and responsibilities. The scope of work covered the following activities:

- review of Board operations and existing governance documentation;
- observation of a meeting of the Board of Directors;
- facilitation of a director peer review; and
- feedback session with the entire Board.

The evaluation criteria also focused on the following five key areas of Board responsibility:

- operations (the Board's ability to manage its own activities);
- strategy (the Board's role in the strategy process);
- corporate culture (the Board's role in setting and communicating standards of ethical organisational behaviour);
- monitoring and evaluation (the Board's role in monitoring management and evaluating its performance against defined goals); and

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EFFECTIVENESS

- stewardship towards shareholders and other stakeholders (the Board's responsibility towards shareholders and other stakeholders and responsibility for their interests).

WORK APPROACH

KPMG's work approach incorporated the following corporate governance models:

- the Central Bank of Nigeria's Guidelines For Licensing and Regulation of Financial Holding Companies In Nigeria 2014;
- the Central Bank of Nigeria's Code of Corporate Governance for Banks and Discount Houses 2014;
- the Securities and Exchange Commission's (SEC) Code of Corporate Governance (Nigeria);
- King III Report on Corporate Governance (South Africa); and
- the UK Corporate Governance Code.

WHAT DO WE EXPECT TO LEARN FROM THIS PROCESS?

The appraisal process provides a mechanism whereby the directors' performances will be measured against expected performance. The appraisal report and recommendations on areas of improvement will be presented to the Board for deliberations. The outcome of the Board evaluation will feed back, as appropriate, into reviews of the Board's composition, the design of induction and development programmes and other relevant areas of the Board's operations.

In addition to the general Board evaluation, individual directors were also evaluated and the assessments communicated to the Chairman. The cumulative results of the performance of the Board and individual directors will be considered by the Board as a guide in deciding eligibility for re-election and other decisions. The evaluation report is included in the full Annual Report and Accounts.

TENURE OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent non-executive directors are appointed for an initial term of four years and can be re-elected for a maximum of one subsequent term, subject to performance and approval of the shareholders. Consequently, the maximum tenure of independent non-executive directors is eight years.

NON-EXECUTIVE DIRECTORS

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 four years each, subject to satisfactory performance and approval of the shareholders. Consequently, the maximum tenure of non-executive directors is 12 years.

Non-executive directors are subject to a retirement age of 70 years. However, by a resolution of the Company, a person may continue as a director or be appointed a director notwithstanding that he is 70 years of age or more.

EXECUTIVE DIRECTORS

The Chief Executive Officer and executive directors are appointed for a term of three years. The appointments can be renewed subject to satisfactory performance. This will, however, require formal justification and unanimous approval of the Board. However, the maximum tenure for the GCEO and executive directors shall be 10 years, subject to the age limit as may be defined from time to time by the Board, but presently 60 years. Executive directors are discouraged from holding other directorships outside the Group.

TRAINING

Regardless of the expected depth of knowledge and experience of persons who are appointed to the Board, we also ensure regular domestic and international training programmes are organised for members of the Board to enrich their decision-making capacity, thereby contributing to the overall effectiveness of the Board. It is expected that each director undergoes two or three major training programmes within a financial year.

ACCESS TO INDEPENDENT PROFESSIONAL ADVICE

The Board has the power to obtain advice and assistance from, and to retain at the Group's expense and subject to the prior approval of the Chairman, such independent or external professional advisers and experts as it deems necessary or appropriate to aid the Board's effectiveness. This option was exercised within the 2014 financial year, particularly during the 2014 Board Strategy Retreat, which was held in November 2014 at Four Seasons Hotel, San Francisco, US.

SECURITY TRADING POLICY

PRE-RESULT 'QUIET' PERIODS

As part of our commitment to transparency and in compliance with the Listing Regulations of the NSE, our Group Disclosure Policy (Policy) approved by the Board outlines our Securities Trading Policy. In order to prevent inadvertent disclosure of material price sensitive information, the Policy provides that during the periods between the end of its financial reporting and the actual results release, FBNHoldings and its subsidiaries will not discuss any financial information, broker estimates and forecasts, with institutional investors, individual investors, analysts, or the media unless the materially price sensitive information being discussed has previously been disclosed to the NSE.

Directors, officers and other employees of FBNHoldings are also mandated to observe this 'quiet period' commencing at each quarter end and expiring upon the public release of the earnings for the quarter.

TRADING RESTRICTIONS AND BLACKOUT PERIODS

Similarly, the Policy forbids any director, officer or other employee of the Group to trade in securities of the Group with knowledge of material information affecting the Group that has not been publicly disclosed. The Policy, in addition to setting out the rules guiding the disclosure of confidential matters with third parties and non-employees, further provides that except in the necessary course of business, it shall also be illegal for any director, officer or other employee of the Group to inform any other person of material non-public information, and questions regarding the application of this Disclosure Policy in any particular circumstance are to be directed to the Company Secretary.

A copy of the Policy has been circulated to all directors, officers and employees of FBNHoldings, including subsidiaries, and those authorised to speak on the Group's behalf as well as new employees of FBNHoldings have been provided with a copy of the Policy.

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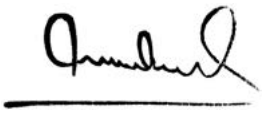
EFFECTIVENESS

STATEMENT OF COMPLIANCE WITH THE LISTING RULES OF THE NIGERIAN STOCK EXCHANGE

In compliance with Section 14 of the Listings Rules of the Nigerian Stock Exchange, we wish to state that, as stated above, we have adopted a Directors' Code of Conduct, which had been approved by the Board. On behalf of members of the Board of FBNHoldings, we hereby confirm that the provisions of the Code of Conduct regarding securities transactions are in line with the standards set out in the Listing Rules and global best practices.

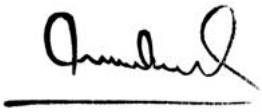


Dr Oba Otudeko, CFR
Group Chairman

Tijjani Borodo
Company Secretary

STATEMENT OF COMPLIANCE WITH THE SEC CODE OF CORPORATE GOVERNANCE

In compliance with Section 4.2 of the Listings Rules of the Nigerian Stock Exchange on Listing on the Premium Board, we wish to state that the SEC Code of Corporate Governance governs the operations of FBN Holdings Plc. On behalf of members of the Board of FBNHoldings, we hereby confirm that we are in compliance with the Code.



Dr Oba Otudeko, CFR
Group Chairman

Tijjani Borodo
Company Secretary

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Accountability

RISK GOVERNANCE FRAMEWORK

Effective management of risk requires a robust governance structure where everyone knows their individual and collective accountabilities for risk management, risk oversight and risk assurance. This is further reinforced by appropriate delegation of authority from the Board, which sets the appropriate tone down through the management hierarchy, and is supported by a committee-based structure designed to ensure that the risk management system across the Group is in line with regulations and leading practices.

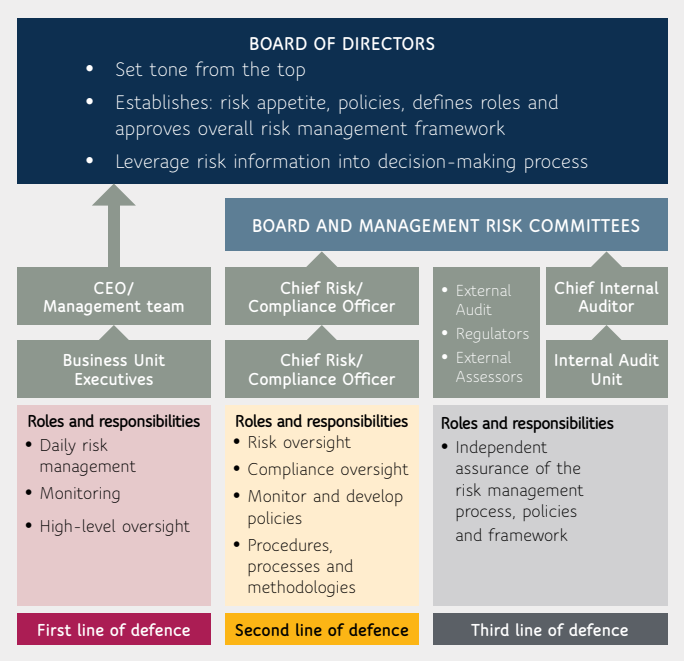
The various components of risk governance include:

- clearly defined accountabilities and expectations of relevant parties in the risk management process;
- a clearly defined policy for the management of various risks; and
- a system of internal control and appropriate assurance in the risk management process.

Presented below is a summary of the risk governance model in the Group.

- **The Board**, at the top of the pyramid, has ultimate responsibility for risk management and is responsible for approving all risk management policies and associated amendments.
- **The Executive Committee** is responsible for reviewing and challenging risk information and escalating issues to the Board.
- **Risk Management department** facilitates and coordinates risk management activities.
- **Business units and departments** are the risk takers responsible for identifying, assessing, measuring, monitoring and reporting risks associated with their respective function.
- **Internal control, internal/external audit and Resident Internal Control Officer (RICO)** are responsible for independently assessing the effectiveness of risk management process and practices and for providing timely objective assurance and control of risk.

In reinforcing the risk governance framework of FBNHoldings, the 'three lines of defence model' is also adopted as presented below.



The above model helps improve the effectiveness of the Group risk management framework by identifying and documenting the responsibilities and accountabilities for risk management and internal control across the business units within the Group. The model also helps to ensure clarity between the roles and responsibilities within each line, all of which play an integral role in ultimately providing assurance as to the effectiveness of risk management and the systems of internal control.

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For further details of responsibilities for risk management across the Group in the 'three lines of defence model', the table below describes the respective accountabilities of each line of defence.

RESPONSIBILITIES AND ACCOUNTABILITIES IN THE THREE LINES OF DEFENCE

First line of defence	Business line responsibilities
Risk identification and control	• Identify and manage risks on a day-to-day basis. • Ensure activities are within the Group risk appetite. • Design, implement and maintain effective internal control within the business lines. • Implement risk-based approval process for new activities and products. • Monitor and report on risk profile.
Second line of defence	**Governance, risk and oversight function responsibilities**
Standard setting and challenging	• Develop ERM (Enterprise Risk Management) framework, risk and control strategies and practices. • Provide oversight and independent challenge on the first line of defence through review, enquiry and discussion. • Develop and communicate governance, risk and control policies. • Provide training, tools and advice to support the first line of defence. • Monitor and report on compliance with risk appetite and policies. • Review policies and framework where and when necessary.
Third line of defence	**Internal audit responsibilities**
Independent assurance	• Verify that the Group's risk management framework is operating effectively. • Validates the effectiveness of the first two lines of defence (first and second line of defence).

During the year under review a leading risk consulting firm was engaged to review the Group Enterprise Risk Management (ERM) framework, and the targeted operating model (risk governance framework) being proposed will be characterised primarily by the following:

- The Board of Directors at the holding company (assisted by the Board Audit & Risk Assessment Committee) will provide robust oversight of the Group's risk strategy, approve the Group risk appetite and review the adequacy of the risk management framework and control effectiveness.
- The Group Risk Stakeholders Committee comprises committee of Chief Risk Officers (CROs) and Chief Compliance Officers (CCOs) of the business units and the Group Risk Manager, and will ensure a strong and effective relationship between the risk management function of the business units and the holding company, as well as enhance the risk coordination process across the Group. The committee will be accountable to the Group Management Committee and the Group Board Audit & Risk Assessment Committee.

The above operating model will further ensure clarity and simplicity of the risk management process and also enhance a robust and practical risk governance structure in the Group.

Presented in the subsequent sections are the governance framework and the role and responsibilities of the various risk committees in each of the business units.

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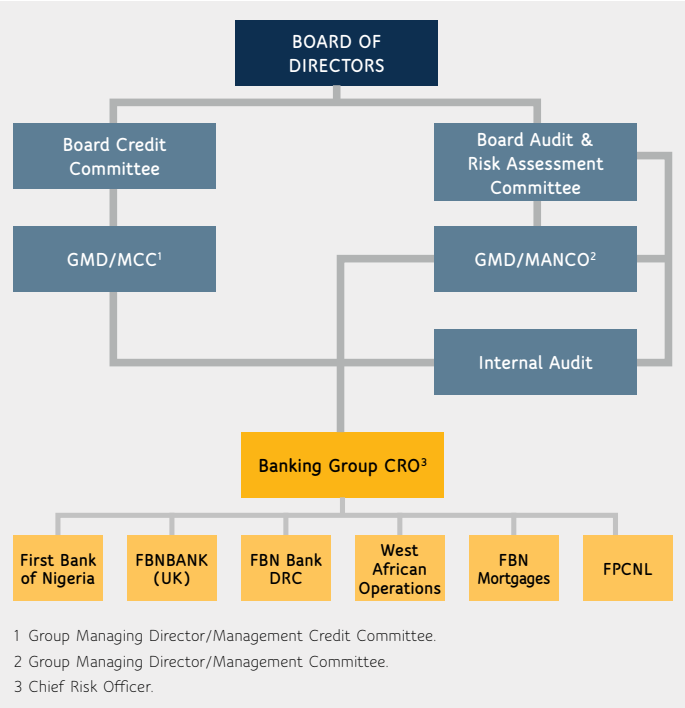
COMMERCIAL BANKING BUSINESS GROUP

RISK MANAGEMENT GOVERNANCE FRAMEWORK

The Banking Group risk management governance framework is outlined in the diagram below.



1 Group Managing Director/Management Credit Committee.
2 Group Managing Director/Management Committee.
3 Chief Risk Officer.

ROLES AND RESPONSIBILITIES

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 reviews 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;

- Board Audit & Risk Assessment Committee; and
- Board Credit Committee.

Without prejudice to the roles of these committees, the Board shall retain ultimate responsibility for risk management.

Board Audit & Risk Assessment Committee (BARAC)

The primary role of the Committee is to report to the Board and provide appropriate advice and recommendations on matters relevant to risk management, control and audit. The Committee is made up of the Group Managing Director, three executive and two non-executive directors, with a non-executive director as chairman. The Chief Risk Officer (CRO) reports to this Committee and is a non-voting member.

Specific roles of the Committee for risk management are:

a) Evaluating internal processes for identifying, assessing, monitoring and managing key risk areas, particularly;
   - important 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 the plan to achieve these actions; and
   - reviewing the processes the Bank has in place for assessing and continuously improving internal controls, particularly those related to areas of significant risk.

c) Approving the provision of risk management services by external providers.

Board Credit Committee

Roles and responsibilities include:

- 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 Committee (Credit);
- 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;
- 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; and
- 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.

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Senior management committees

Roles and responsibilities include:

- implement risk strategy approved by the Board of Directors;
- develop policies and procedures for identifying, measuring and controlling risk;
- provide appropriate resources to evaluate and control risk;
- review risk reports on a regular and timely basis;
- review periodic risk reports for operational and other risks separate from credit and market risks; and
- provide all reports required by the Board and its committees for the effective performance of risk management oversight functions.

The following management committees are directly responsible for risk management oversight:

- Management Committee;
- Management Credit Committee; and
- Assets & Liabilities Management Committee.

Management Committee (MANCO)

Roles and responsibilities include:

- formulate risk policies;
- monitor implementation of risk policies;
- review risk reports for presentation to the Board/Board committees; and
- implement Board decisions across the Group.

Management Credit Committee (MCC)

Roles and responsibilities include:

- 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 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 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, wherever 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 specified limit; and
- review and approve the relevant risk management unit's response to material events that may have an impact on the credit portfolio.

Assets & Liabilities Management Committee (ALCO)

Roles and responsibilities

Market risk includes:

- approval of ALM (asset and liability management) 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;
- limits setting for position, concentration, currency, dealing, gap, total portfolio and counterparty;
- appointment of dealers; and
- balance sheet management.

Liquidity risk includes:

- 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 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; and
- establishment of effective internal controls and limits over the liquidity risk management process.

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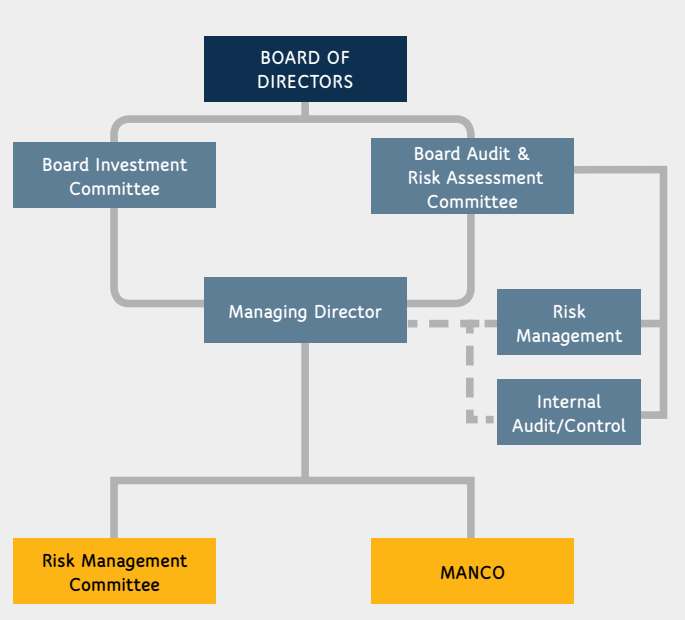
INVESTMENT BANKING AND ASSET MANAGEMENT BUSINESS GROUP

The Investment Banking and Asset Management group governance framework is outlined in the diagram below.



ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

- Approve and periodically review risk strategies and policies
- Approve the Group's risk appetite and monitor the risk profile against this appetite
- Ensure senior management takes steps necessary to monitor and control risks
- Ensure that management maintains an appropriate system of internal control and reviews its effectiveness
- Ensure risk strategy reflects the Company's tolerance for risk
- Review and approve changes and amendments to the risk management framework
- Periodically receive risk reports from management, highlighting key risk areas, control failures and remedial actions taken by management.

ROLES AND RESPONSIBILITIES OF BOARD COMMITTEES

The Board discharges the above responsibilities primarily through two committees, namely:

- Board Audit & Risk Assessment Committee (BARAC); and
- Board Investment Committee.

The full Board retains the responsibility for risk management without prejudice to the roles of these committees.

Roles and responsibilities of the Board Audit & Risk Assessment Committee (BARAC)

The primary role of the Committee is to report to the Board and provide appropriate advice and recommendations on matters relevant to risk management. It also includes the following:

- setting and approving the overall risk management framework and recommending the same to the Board;
- ensuring that all appropriate risk policies, controls and guidelines are set and maintained to ensure the business is run on a sound basis;
- ensuring that properly constituted responsibilities are formed, authorised and assigned to effectively manage risk throughout the business; and
- ensuring that the Board is notified of any significant risk issues that may arise.

Roles and responsibilities of the Board Investment Committee

The roles of the Committee include the following:

- ensuring the effective management of investment risk by the Company;
- approving investment risk management policies and standard proposals on the recommendation of the Management Committee (MANCO); and
- approving investment risk appetite and portfolio strategy.

Roles and responsibilities of the Risk Management Committee (RMC)

The Risk Management Committee has the following responsibilities:

- accountable to the Board Risk Committee and the Chief Executive Officer with respect to risk management in Investment Banking and Asset Management (IBAM);
- responsible for providing oversight and assurance to the BARAC with respect to the implementation of IBAM's risk management framework;
- ensures that appropriate staff are in place to effectively manage risks across IBAM;
- provides an independent opinion on risk management within the Group to the Board and management;
- acts as a gatekeeper on behalf of the Board to ensure that activities outside the Group's risk appetite are not introduced or engaged in; and
- maintains the integrity and quality of all data, systems and information required to manage risks within the Group.

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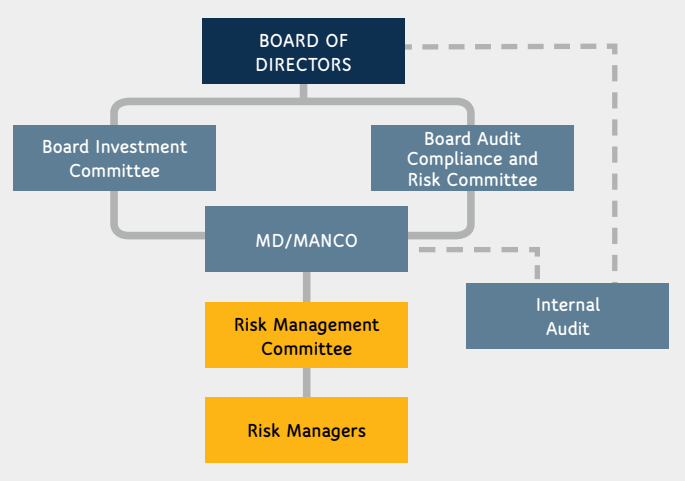
INSURANCE BUSINESS GROUP

The Insurance group governance framework is outlined in the diagram below.



The Insurance group governance framework and responsibilities is outlined in the table below.

Role	Responsibilities
FBN Insurance Board	• Oversight of the Enterprise Risk Management (ERM) process; proposing and approving the risk appetite level for the business • Oversight and challenge to key business risks and delegating responsibility for detailed oversight and challenge to the BARAC • Establishment of a risk aware culture within the business to support the delivery of ERM • Providing necessary support to the Risk Management Team, to enable them to achieve their objectives.
Risk Management Committee	• Evaluating the risks inherent within the business and ensuring that they are captured appropriately within the business risk profile • Challenging the assessment of risks and ensuring that the individual risk target and collective residual risk exposure is appropriate to business needs and market conditions • Monitoring residual risk exposures, gaining assurance as to adequacy of controls implemented to manage risks to the agreed level of appetite • Proposing the ERM framework to the FBN Insurance Board, receiving information regarding key internal loss events, ensuring rectification and preventative action has been taken and that financial loss data has been captured • Facilitating a risk aware culture within the business to support the delivery of the ERM.
Risk Management Function	• Ownership, development and delivery of the FBN Insurance's ERM framework • Ensuring complete linkage between ERM and the business strategy, planning and budgeting process, providing input from a risk and capital perspective • Facilitating an improved understanding of risk management throughout the organisation in order to embed, and continuously improve, a risk aware culture • Working with business management to review and update the risk and control matrices on a regular basis, challenge risk assessments and controls, and ensure that appropriate and timely actions are taken to manage all identified risks (see risk management terms of reference).
Actuarial Function	• Challenging the pricing, reserving and other technical activities of the business, facilitating the development of the capital model and reporting directly to the Risk Management Committee.
Internal Audit	• Preparing an internal audit plan based on the result of the assessment of the risks faced by the Company in line with the risk management framework • Providing independent assurance on the robustness and effectiveness of the Company's risk management process.

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Role	Responsibilities
Regional managers, heads and other senior managers	• Actively supporting a strong risk aware culture • Organisation and management of business areas in a professional manner • Operating appropriate controls on a timely basis to manage business risks.
All staff and outsourced providers	• Identification and escalation of control weaknesses and emerging risks • Timely reporting of all control and regulatory breaches to the Risk department and ensuring that the risk departments are advised of any material business changes.

ROLES AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS

- Oversight of the ERM process; proposing and approving the risk appetite level for the business
- Oversight and challenge the key business risks; delegating responsibility for detailed oversight and challenge to the Risk Committee
- Establishment of a risk aware culture within the business to support the delivery of ERM
- Providing necessary support to the risk management team, to enable them to achieve their objectives.

ROLES AND RESPONSIBILITIES OF BOARD COMMITTEES

The Board discharges the above responsibilities primarily through two committees, namely the:

- Board Audit, Compliance & Risk Committee; and
- Board Investment Committee.

Board Audit & Risk Assessment Committee (BARAC)

- Set and oversee the overall standard for financial and actuarial reporting, risk management and internal controls within the Insurance group
- Monitor the effectiveness of business risk management processes in the Insurance group
- Liaise with external and internal auditors on the quality and acceptability of the control environment and reporting structures.

Board Investment Committee

- Review policies and strategies for achieving investment objectives and review the outcome
- Review the investment and policies used by the Insurance group to achieve its objectives, the performance attained and the risks related thereto
- Review the performance of the major assets in the investment portfolios
- Review and approve investments over and above limits delegated to management
- Monitor the performance of the Company's investments against relevant benchmarks
- Choose and monitor the use of any providers of investment advice or management, in particular ensuring that providers are reputable, financially stable and practice good governance
- Monitor the Company's asset liability matching position
- Set policy for, and monitor, credit and concentration risk in the portfolios
- Set requirements for, and monitor, the use of risky assets such as derivatives and unlisted investments
- Govern the unit pricing process to ensure that prices are calculated accurately and customers are treated fairly
- Review compliance with regulatory requirements on investments
- Monitor the investment process from a governance point of view, e.g., avoiding conflicts of interest, insider trading and other ethically suspect practices.

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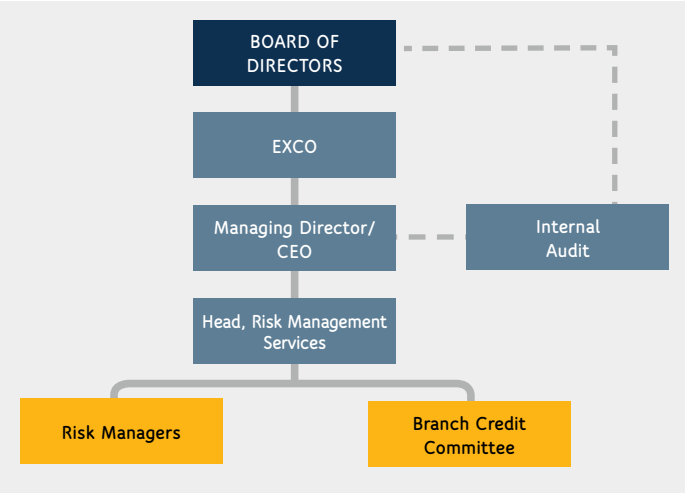
OTHER FINANCIAL SERVICES BUSINESS GROUP (FBN MFB)

FBN MFB's governance framework is outlined in the diagram below



RISK OVERSIGHT

A committee of senior management staff known as the Executive Committee (EXCO) provides a central oversight of risk management across the Company to ensure that the full spectrum of risk facing the Company is properly identified, measured and controlled to minimise divergence between expectations and outcomes. It is supported by the Compliance department.

BOARD OF DIRECTORS

The Board of Directors, among others, plays the following roles in the administration of the Company's risk management policies:

- review and approve the risk strategy and policies of the Company in line with current dictate of events in the industry;
- define and approve the Company's risk appetite and monitor the Company's risk profile against this appetite;
- ensure senior management takes steps necessary to monitor and control risks;
- ensure that management maintains an appropriate system of internal control and review its effectiveness;
- ensure that the investment strategy of the Company reflects its tolerance for risk;
- approve and monitor all changes and/or amendments to the risk management framework; and
- establish and monitor a feedback system with senior management to ensure that control failures are promptly reported and corrected.

EXECUTIVE COMMITTEE (EXCO)

Among other things, the EXCO has the following responsibilities in corporate risk governance:

- the Committee is responsible for implementing Board decisions as outlined from time to time;
- review risk reports before presentation to the Board of Directors;
- monitor implementation of risk policies; and
- guard against all actions that can cause the Company any embarrassment.

MANAGING DIRECTOR/CEO

- The MD/CEO receives monthly reports from the Head, Risk Management Services for the consideration of EXCO
- Has oversight function of all risk management processes.

RISK MANAGEMENT SERVICES

The following outlined are the roles of the Head, Risk Management Services:

- be the pivot of risk enterprise management processes in the entire organisation;
- coordinate all training programmes and ensure all risk management processes are being duly adhered to;
- receive monthly reports of risk management from the line managers and review them with the MD/CEO;
- compile exception reports and forward them to the relevant line managers for appropriate action(s);
- attend to auditors and compliance officers from the Group's head office on matters of risk management; and
- review the processes the Company has in place for assessing and continuously improving internal controls, particularly those related to areas of significant risk.

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WHISTLEBLOWING PROCEDURES

The Board places priority on high ethical standards and probity, and expects all employees and officers to observe such standards in all their dealings within the Group.

The Group's Whistleblowing Policy spans both internal whistleblowers: staff, contract employees, management or directors, and external whistleblowers: customers, service providers, applicants or auditors. The process creates a work environment in which concerns about misconduct, irregularities or malpractices can be raised without fear of harassment and/or victimisation. Concerns raised are taken seriously and investigated, and the outcome communicated to all concerned parties.

Due to the Group's evolving processes, whistleblowers may report misconduct, irregularities or malpractices to any of the phone lines listed below:

08022902268; 08127166777; 0700-34778-2668228; 01-4485500

Whistleblowers, whether internal or external, are expected to follow the process below in reporting their concern.

INTERNAL WHISTLEBLOWING PROCEDURE

Internal whistleblowing involves staff members across the Group raising a concern about unethical conduct. The following procedure is adopted for the purpose of internal whistleblowing:

Steps	Action
Step one Raising concern(s) by whistleblower – medium and format	An internal whistleblower may raise a concern through any of the following media (this can be done either by declaration or in confidence/anonymously): • formal letter to the Group CEO FBN Holdings Plc or the Group Chief Internal Auditor; • call or text a dedicated phone number 08127166777; 0802 290 2268; • all internal whistleblowers can use Microsoft Office Communicator; • dedicated email address: **whistleblowing@fbnholdings.com**; and • via FBNHoldings website: **www.fbnholdings.com/Whistle Blowing Policy & Procedure.pdf** Where the concern is received by staff other than the Group CEO or the Group Chief Internal Auditor, the recipient of such concerns is required to: • immediately pass the concern(s) to the Group Chief Internal Auditor and copy to the Group CEO, FBNHoldings; and • if the concerns affect the Group Chief Internal Auditor, the Group CEO FBNHoldings is notified, and where a director is involved, such concern should be directed at the Chairman, Board Audit & Risk Assessment Committee. The concern(s) should be presented in the following format: • background of the concerns (with relevant dates); and • reason(s) why the whistleblower is particularly concerned about the situation. Disciplinary measures in line with the staff handbook will be taken against any staff who receive concerns and fail to escalate. Also disciplinary measures will be taken against an internal whistleblower who acted out of malice.
Step two Investigation of concerns and update on progress of investigation	The Group Chief Internal Auditor will on receipt of the concern(s) acknowledge receipt of the concern from the whistleblower within five working days, and immediately commence investigation. The purposes of investigation are to: • establish if a wrongdoing has occurred based on the concern(s) raised, and if so to what extent; and • minimise the risk of further wrongdoing, prevent any further loss of assets, damage to the Group's reputation and if possible, protect all sources of evidence. If preliminary investigation shows that the concern falls within the whistleblowing reportable concerns, then further investigation will be carried out. If otherwise, or the concern is outside the reportable misconduct, then the Group Chief Internal Auditor should refer the matter to the appropriate quarter for further action. Where necessary the Group Chief Internal Auditor will give an update of the progress of the investigation to the whistleblower if the concerns fall within the reportable concerns. Finally, if the concern raised by the whistleblower is frivolous or unwarranted, the Group Chief Internal Auditor should ignore the concern, and if necessary, disciplinary measures in line with Human Resources Policy will apply to staff that raise concerns out of malice.
Step three Report of investigation and action on report	Upon conclusion of the investigation, the Group Chief Internal Auditor will report all whistleblowing cases to the Board through the Board Audit & Risk Assessment Committee and also submit his/her report to Human Resources or the appropriate authority for further action(s). Where necessary the Group Chief Internal Auditor will escalate to the Group CEO. However, quarterly reports to keep the Group CEO abreast of developments in whistleblowing should be submitted by the Group Chief Internal Auditor. All disciplinary action relating to the report will follow the Group's disciplinary procedure as contained in the staff handbook.

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Steps	Action
Step four Non-satisfaction with result of investigation/action	• In the event that the whistleblower is not satisfied with the extent of the investigation and/or the action taken based on the outcome of the investigation, the whistleblower is at liberty to report to the Chairman of the Board Audit & Risk Assessment Committee. • Or report directly to the CBN or send an email to **anticorruptionunit@cbn.gov.ng**
Any internal whistleblower who feels victimised can report his/her grievance(s) to the Chairman, Board Audit & Risk Assessment Committee. This is without prejudice to the fundamental right of the internal whistleblower to seek redress in the court of law.	

EXTERNAL WHISTLEBLOWING PROCEDURE

External whistleblowers are non-staff of the Group; they can fall into any of these categories: contractors, service providers, shareholders, depositors, analysts, consultant, job applicants and the general public.

External whistleblowing will follow the following procedure:

Steps	Action
Step one Raising concern(s) by whistleblower - medium and format	An external whistleblower may raise a concern through any of the following media (this can be done either by declaration or in confidence/anonymously): • by a formal letter to the Group CEO FBN Holdings Plc and or Group Chief Internal Auditor; • dedicated phone numbers as contained in the website: **www.fbnholdings.com**; • dedicated email address: **whistleblowing@fbnholdings.com**; • electronically log into: **www.fbnholdings.com**; • directly to the Group Chief Executive Officer, FBNHoldings (GCEO); and • directly to the Group Chief Internal Auditor, FirstBank Ltd. Where the concern is received by staff other than the Group CEO and the Group Chief Internal Auditor, the recipient of such concerns is required to: • immediately pass the concern(s) to the Group Chief Internal Auditor and copy to the Group CEO but ensuring the confidentiality of the concern; • if the concerns affect the Group Chief Internal Auditor, the Group CEO is notified, and where an executive director is involved, such concern should be directed at the Chairman, Board Audit & Risk Assessment Committee. The concern(s) should be presented in the following format: • background of the issue (with relevant dates); and • reason(s) why the whistleblower is particularly concerned about the situation. Disciplinary measures in line with the staff handbook will be taken against any member of staff who receives concerns from an external whistleblower and fails to pass the same to the appropriate authority.
Step two Investigation of concerns and update on progress of investigation	The Group Chief Internal Auditor will, on receipt of the concern(s), acknowledge receipt from the whistleblower within five working days and immediately commence investigation. The purpose of investigation is to: • establish if a wrongdoing has occurred based on the concern(s) raised, and if so to what extent; and • minimise the risk of further wrongdoing, prevent any further loss of assets, damage to the Group's reputation and, if possible, protect all sources of evidence. If preliminary investigation shows that the concerns fall within the whistleblowing reportable concerns, then further investigation will be carried out. If otherwise, the Group Chief Internal Auditor should refer the matter to the appropriate quarters for further action. However, if the concern raised by the whistleblower is frivolous or unwarranted, the Group Chief Internal Auditor should ignore such a concern. Where it is established that a criminal activity has taken place, the matter may be referred to the police, and where necessary, appropriate legal action taken. Where necessary, the Group Chief Internal Auditor will give an update of the progress of investigation to the whistleblower.

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Steps	Action
Step three Report of investigation and action on report	Upon conclusion of investigation, the Group Chief Internal Auditor will report all whistleblowing cases to the Board through the Board Audit & Risk Assessment Committee and also submit his/her report to Human Resources or the appropriate authority for further action(s). Where necessary the Group Chief Internal Auditor will escalate to the Group CEO. However, quarterly reports to keep the Group CEO abreast of developments in whistleblowing should be submitted by the Group Chief Internal Auditor. If the concern(s) relates to an executive director, the matter should be referred to the Chairman, Board Audit & Risk Assessment Committee for further action. If the concern(s) relates to an external party (service provider), and if the external party is found to be guilty after the conclusion of investigation, the Group should immediately review the Service Level Agreement with such service provider, and if deemed necessary, terminate the agreement.
Step four Non-satisfaction with result of investigation/action	In the event that the whistleblower is not satisfied with the extent of the investigation and/or the action taken based on the outcome of the investigation, the whistleblower is at liberty to report to the Chairman of the Board Audit & Risk Assessment Committee for further action.
An external whistleblower is at liberty to report to the appropriate regulatory body or even seek further redress in the court of law If he/she is not satisfied with the action taken to address the concern(s).	

THE CULTURE OF WHISTLEBLOWING

In the drive to entrench the culture of whistleblowing among members of staff, emails and fliers on the advantages of whistleblowing, and the channels through which whistleblowers could send in their concerns, were publicised on the Group's intranet during 2014.

The provisions of the Whistleblowing Policy, and the Group's core values, encourage members of staff to speak up when they believe something is wrong, with the assurance that management is always ready to address concerns and feedback as part of the process.

Whistleblowing	2013	2014
Probable irregularities and non-compliance to policies of the Group	1	7
Disciplinary measures	3	3
Cases under investigation	-	7
Unsuccessful attempts by outsiders to lure members of staff to committing fraud	1	2
Cases investigated but found to be untrue	-	2
TOTAL	**5**	**21**

INTERNAL CONTROL

Internal control in FBNHoldings and its subsidiaries refers to the overall operating framework of the practices, systems, organisational structures, management philosophy, code of conduct, policies, procedures and actions that exist in the Group and are designed to ensure:

1. essential business objectives are met, including the effectiveness and efficiency of operations and the safeguarding of assets against losses;
2. the reliability of financial reporting and compliance with general accounting principles;
3. compliance with applicable laws and regulations, including internal policies;
4. systematic and orderly recording of transactions; and
5. provision of reasonable assurance that undesired events will be prevented or detected and corrected.

The Group is committed to creating and maintaining a world-class internal control environment capable of sustaining its current leadership position in the financial services industry.

GROUP INTERNAL CONTROL FRAMEWORK

This is predicated on Committee of Sponsoring Organizations of the Treadway Commission (COSO) standards, which provide policies aimed at achieving internal control objectives of:

1. reliability of financial statements;
2. effectiveness and efficiency of operations; and
3. compliance with applicable laws and regulations.

It also aligns defence and controls the responsibilities of the Board of Directors, CEO, management and subsidiaries.

The Group has adopted the COSO framework for its internal control practices. This was created to address challenges by identifying critical activities in the Bank, assessing the risk exposures, determining appropriate preventive and detective control measures, and monitoring such measures to ensure compliance.

ADOPTION OF COSO 2013 INTERNAL CONTROL FRAMEWORK

In August 2008, FBNHoldings adopted the COSO Internal Control Integrated Framework. This was through the guidance provided by the Bank's appointed external consultant (Ernst and Young). This framework had been the basis for assessing and evaluating the effectiveness of internal control. In May 2013, COSO released an updated framework.

During the year, we internally initiated and commenced a project for the transition and upgrade of our internal controls with a view to adopting the COSO 2013 Internal Control Framework.

The objective of the project was to align FBNHoldings' internal control practices with the new 2013 COSO Framework in order to ensure that:

- risks are completely identified;
- controls adequately mitigate identified risks; and
- controls are effectively monitored on a continuous basis in line with leading practice.

In this regard, we engaged the services of KPMG Advisory Services to assist FBNHoldings in evaluating our adoption of the framework. The scope of work of the engagement included:

- reviewing the existing internal control framework to the requirements of COSO 2013;
- providing recommendations on how the identified gaps should be rectified to ensure the content of each segment of the framework meets expectations of the COSO 2013 updated internal control framework.

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ACCOUNTABILITY

The engagement of KPMG Advisory Services contributed immensely to the success of the project. Issues and identified control gaps against the COSO 2013 Framework, noted in the course of the engagement, were remedied, while recommended control process improvement opportunities are currently being implemented.

The adoption of the COSO 2013 Framework has been of immense benefit, as it has resulted in better entity level controls, improved control consciousness and a stronger control environment in FBNHoldings.

While absolute assurance cannot be achieved, as it relates to the non-existence of control failures, measures have been and will continue to be put in place to ensure reasonable assurance of control effectiveness in line with the achievement of the organisational objectives.

GROUP INTERNAL CONTROL POLICY AND GUIDELINES

The framework is supported by our Internal Control Policy and Guidelines.

The Internal Control Policy outlines best-practice control standards and the roles and responsibilities of directors, management, subsidiaries and staff of the Group, while the guidelines outline procedures for the identification, management and documentation of relevant processes and sub-processes, including the mapping of specific risks and control mitigants. The mission statement of our guidelines includes:

1. proactively identifying key risks and responding with appropriate internal controls;
2. ensuring the quality of internal and external financial reporting;
3. ensuring compliance;
4. identifying and exploring opportunities for improving efficiency of processes and controls; and
5. effectively managing our business operations and achieving our strategic objectives.

STRATEGY AND POLICY

FBNHoldings and its subsidiaries operate in an environment that is continuously exposed to uncertainties and change. Such risks may prevent the holding company from achieving its strategic business objectives. To manage these risks effectively, the Group has put in place internal control measures covering its subsidiaries, including the Bank.

The Group has also instituted effective and efficient internal controls that ensure minimal operational losses from fraud, operational lapses, armed robberies, customer dissatisfaction and complaints, and other risks.

Given the effect on the banking environment of advancing technology, IT control has been further strengthened to provide regular and frequent updates to the Group on activities that may constitute potential fraud.

ESTABLISHMENT OF A MINI SECURITY AND OPERATIONS CENTRE (SOC)

In line with the CBN's regulatory requirement on the operation of instant payments and other electronic payments options, we established a mini Security and Operations Centre (SOC) during the year.

SOC represents a state-of-the-art operations centre focused on behavioural monitoring designed to detect and prevent suspicious internet banking activities, as well as other doubtful transactions. The successful implementation of Phase 1 of the SOC has harnessed already existing applications, such as the Internal Control and Anti-Fraud Automated Solution (ICAFAS), the Easy2Comply Governance Dashboard and the FraudWatch application in FBNHoldings.

With this feat, we have joined the league of banks globally that use behavioural monitoring of internet banking transactions as a fraud prevention technique. This will enable FBNHoldings to attain milestones in fraud reduction and to provide a unique and exceptional service that will be of immense value to our customers.

INTERNAL CONTROL IMPROVEMENTS ACHIEVED IN 2014

We concluded the year with strategic priorities for improving the efficiency of internal control within the Group. Some of our achievements are as follows:

- Successfully strengthening awareness of internal control and the responsibility of front-line staff in risk management. We carried out regular 'control awareness campaigns' in the branches, in which control issues and adherence to policy and procedures were discussed exhaustively. We also carried out effective training, classroom simulation exercises and hands-on practical training, particularly for front-line staff. The outcome of these trainings has been remarkable over the year.
- Monitoring branch and subsidiary activities to ensure policies and procedures were adhered to. In this regard, cross-functional monitoring teams were constituted and periodic surprise visits were made to branches and subsidiaries to evaluate compliance.
- Commenced a process review of head office key control points. Head office processes were reviewed to determine possible synergies between our head office control point and branch controls.
- Expanding the scope of revenue assurance to additional income lines, thereby ensuring total elimination of income leakages. This is a planned activity that is being carried out on a quarterly basis.
- Strengthening and monitoring IT control to ensure adequate controls built around all the software used by the Group. During the year, user administration control was successfully extended to most user applications in the Group, and this was effectively administered and implemented by internal control.
- Preparing and presenting monthly reports to executive management and the Business Risk and Compliance Committee (BRCC), and quarterly reports to the Board Audit & Risk Assessment Committee (BARAC) on control failures and the actions taken to address such failures. This and the trend analysis are being tracked on a monthly basis to see how well recommendations are implemented.

INTERNAL CONTROL PRIORITIES FOR 2015

- Increased use of automated tools to monitor and improve turnaround time of issues, thereby improving control consciousness at all levels of management.
- Continuous process improvement and implementation of the adopted COSO 2013 Integrated Internal Control Framework.
- Expanding the scope of control monitoring and review to ensure compliance with policies and procedures.
- Institution of Internal Governance Committees, consisting of internal control and operations staff, to enhance inter-departmental collaboration with a view to enhancing service delivery within a control-conscious environment.
- Implementation of measurable processes to enhance and maintain high-quality documentation and reduce turnaround time of the external audit function in the performance of their duties.
- Complete the process review of head office key control points. We will continue with our culture of internal control improvements in this regard, which will hopefully minimise redundancies and improve efficiency.
- Creation of knowledge hubs to guide staff on control activities to ensure adequate communication and clarification of control policies and procedures, and that they are made easily accessible to all staff.

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Engagement

The Board is committed to engaging in constructive and meaningful communications with its owners: the Group's shareholders. We believe shareholder engagement, consistent with the Group's disclosure controls, is a fundamental and long-term aspect of the Board's oversight responsibility.

GLOBAL TRENDS IN BOARD-SHAREHOLDER ENGAGEMENT

Shareholder engagement has taken centre stage based on recent regulatory and corporate governance trends. The relationships between shareholders and issuers deserve more attention than most companies give; the impact of those relationships could have material consequences for both sides.

Recent global trends reveal the increasing clamour by shareholders, both individual and corporate, to demand greater roles in corporate decision-making and this is gaining much momentum.

In August 2013, the Australia-based Responsible Investment Association Australasia (RIAA) initiated a working group to tackle how best to foster collaboration between investors and issuers via engagement. This working group was established as a forum to test models of better collaboration and information sharing on engagements among RIAA's membership.

A few months later, the Global Network of Director Institutes published a paper reviewing some of the efforts of other director groups around the world and endorsing more shareowner-director engagement, including recommended best practices for those on both sides of the table.

Some of the recommendations for boards include:

- board oversight of important company and board disclosures;
- regular dialogue between company leaders and significant investors;
- having a channel of communication linking shareholders to the board;
- remaining open and responsive to face-to-face meetings; and
- ensuring that communications reach all shareholders.

FBNHoldings, in aligning with these trends, believes that engagement must not only be initiated, it must also be sustained. The purpose of engagement is to build trust and understanding between a company or its board and investors. If a board engages with shareholders only in a crisis, the benefits to both parties will be fleeting.

Our policy as a Board is that, as shareholder stewards, we should strive to build long-term, trust-based relationships with our investors by doing more than simply conveying factual information and projecting a positive image of the Company. Not only do these engagements prove beneficial to shareholders, they also enable members of the Board to better understand the shareholders' views as regards the Company, its management and its performance. Engagement is also an avenue to receive shareholder criticism and where such criticism is unfounded, we are provided with the opportunity to respond constructively.

ENGAGEMENT WITH INSTITUTIONAL INVESTORS

While we ensure engagement with all classes of shareholders, we do realise that institutional investors hold shares on behalf of millions of individuals and other entities, and that they have a fiduciary duty to ensure that their holdings are in the best interest of the underlying investors. This responsibility doesn't end with financial performance; rather, it extends to ensuring that the companies they invest in have adequate corporate governance mechanisms. Additionally, in the wake of the financial crisis, institutional investors are under increasing pressure to understand the companies in which they invest and use their influence to minimise corporate governance risk. Hence, we are unwavering in our resolve to undertake ongoing year-long engagements with our institutional investors to discuss our corporate governance practices, performance and other issues they may consider germane.

Similarly, engagement aids us in understanding external perspectives on the Group's performance and can provide us with an external measure of our Company's performance. Shareholders' views assist us in fine-tuning strategies and can provide validation of existing Company initiatives. Valuable insights may also be received from the Group's institutional shareholders, given their exposure to a broad spectrum of companies and business strategies in different sectors.

Our focus on building long-term relationships means regular meetings are important, as relationships and goodwill are built through repeated encounters. We will strive to promote direct interaction with our shareholders and conduct meetings in a spirit of candour, providing time for concerns to be addressed and not being afraid to admit to mistakes and differences of opinion.

In actualising the above, we will take steps to understand different views through the following means:

- engagement with analysts and investors across both executive and non-executive management teams;
- the investor relations department;
- the website;
- press releases;
- publications in newspapers;
- meetings with shareholder institutions;
- results conference calls;
- investor conferences;
- non-deal road shows;
- one-on-one meetings;
- social media; and
- annual general meetings or any extraordinary general meetings.

WHO ARE OUR SHAREHOLDERS?

FBNHoldings is a publicly quoted company with a diverse shareholder profile and owned by about 1.2 million shareholders. The Group has the largest shareholder base of any company listed on the Nigerian Stock Exchange.

With no beneficial shareholder having more than 5% of the issued ordinary shares, this makes the ownership structure one of the most diversified. As at year end, the shareholding structure was as follows:

Retail	16,362,839,868	50.14%
Domestic institutional	8,558,584,820	26.23%
Foreign institutional	7,073,621,707	21.68%
Government-related holdings	637,037,961	1.95%

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ENGAGEMENT

RIGHTS OF SHAREHOLDERS

The Companies & Allied Matters Act of 2004 (CAMA) provides several basic rights for shareholders relating to general meetings, which are as follows:

- Subject to section 228 of CAMA of 2004, every shareholder shall have the right to attend any general meeting of the Company in accordance with the provisions of section 81 (CAMA). It does not matter how many units of shares the person has in the Company. A shareholder has the right to query a company for not receiving notice to attend any general meeting.
- Shareholders have the right to speak and vote on any resolution before the meeting in accordance with the provision of section 81 of CAMA.
- Shareholders have the right to vote in person or in absentia, and equal effect shall be given to votes whether cast in person or in absentia.
- Shareholders should be furnished with sufficient and timely information concerning the date, location and agenda of the general meetings, as well as full and timely information regarding the issues to be decided at the meeting.
- They shall be given the opportunity to ask the Board questions and to place items on the agenda at the general meetings, subject to reasonable limitations.
- They have the right to be informed of any resolution appointing or approving the appointment of a director for the purpose of section 256 of CAMA.
- Shareholders have the right to sue for dividends in accordance with section 385 of CAMA.
- Shareholders have the right to a copy of the memorandum and articles, if any, and a copy of any enactment that alters the memorandum in accordance with section 42 of CAMA.
- Shareholders have the right of a preference share to more than one vote in accordance with section 143, subsection (1) (3) of CAMA.
- Shareholders have the right of conveying or transferring shares.
- Shareholders have the right of sharing in the residual profits of the Company.
- Shareholders have the right to bonus and rights issue of the Company.
- Shareholders have the right to inspect the register of members of the Company.
- Shareholders have the right to be issued within three months without any payment a certificate after the close of offer (S. 146 (1&2).
- Shareholders have the right vis-à-vis a prospectus that is being issued in an offer for sale or subscription of shares by an issuer.
- Shareholders have the right to be represented in the Statutory Audit Committee of the Company.
- Aggrieved shareholders have the right to seek redress. The Investment and Securities Tribunal (IST), the Administrative Proceedings Committee (APC) and the Securities and Exchange Commission mechanism can be used to address such grievances.
- Shareholders have the right to inspect the register of members and to a share certificate when a new share is bought.
- Shareholders have the right to transfer shares.
- Shareholders have the right to request an extra general meeting.

At FBNHoldings, we consider these rights sacrosanct and we always ensure they are upheld.

WHAT ARE OUR SHAREHOLDERS' RESPONSIBILITIES?

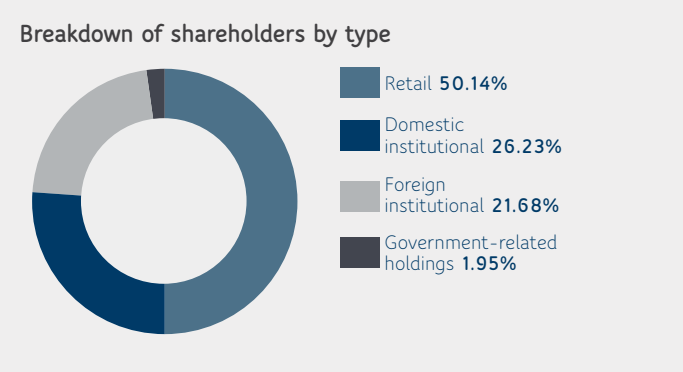
The Statutory Audit Committee (SAC) acts on behalf of the shareholders in overseeing the operations of the Group.

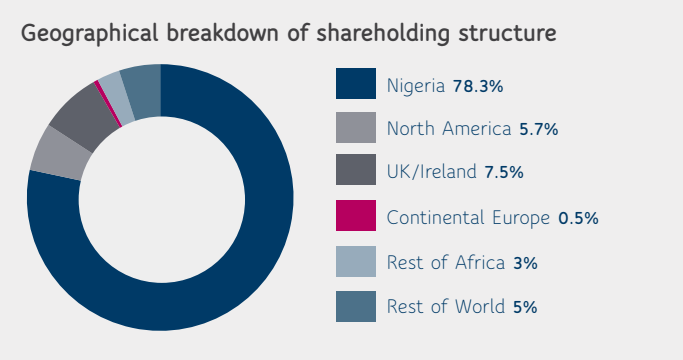
In an age of increasing transparency, our shareholders' perceptions of the Group, and expectations and understanding of the Group's operations matter to our business value. Hence, it is important for our shareholders to understand some of their expected roles (among other things) through representatives in the SAC, provided by Section 359 (2) & (3) as follows:

- to ascertain the accounting and reporting policies of the Group are in compliance with legal requirements and agreed ethical practices;
- to review the scope and planning of audit requirements;
- to review the findings on management matters in conjunction with the external auditor;
- to keep under review the effectiveness of the Company's system of accounting and internal controls;
- to make recommendations to the Board with regards to the appointment, removal and remuneration of external auditors to the Company; and
- to authorise the internal auditor to carry out investigations into any activities of the Company that may be of interest or concern to the Committee.

In addition, our shareholders' role extends to holding the Board accountable for the observance of effective corporate governance practices. They also have the responsibility of approving the appointment of the Board of Directors and the external auditors, as well as granting approval for certain corporate actions that are by legislation or the Company's articles of association specifically reserved for shareholders, such as approval of dividend payment. Decision-making is not restricted to the Board, but extends to shareholders who ultimately own the Group.

To improve the confidence of our shareholders/investors, we are in continuous dialogue; this provides us with a platform to provide regular updates on our strategy, performance and outlook. This forum also provides us with an opportunity to gather feedback, which could be used in shaping business decisions.





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ENGAGEMENT

WHAT DOES INVESTOR RELATIONS DO?

The investor relations (IR) function for the Group sits at FBNHoldings, while maintaining close contact with all subsidiary companies. In addition to the Company Secretariat, the IR department manages the relationships between FBNHoldings and its shareholders and investors, ensuring shareholders' views are understood by both management and the Board. In addition, quarterly, half-yearly and annual financial results are published in national newspapers. Essentially, the investor relations function aims to:

- provide active communication to better align investors' expectations with corporate goals;
- expand the potential pool of capital the Group can access to finance its growth objectives;
- increase market confidence for the management team;
- promote the fair value of the Company's shares;
- increase the liquidity of the shares; and
- create initiatives to increase shareholder value and positively impact share price.

At FBNHoldings, there is a clear and carefully researched pool of potential investors, with a well-thought-out programme of events laid out to ensure effective engagement with shareholders, investors and analysts. These activities are outlined in a well-documented IR programme, which includes detailed information of planned investor engagements for the year. The financial reporting calendar is published on the IR website, as well as the annual report.

The various activities hosted by representatives of executive/senior management are found in the table below.

Activity	Description	Frequency	Channel	Target audience
Results press release	Press release describing the performance of the Group for the period under review.	Quarterly	Website Email Newspapers	Shareholders Investors Analysts Credit rating agencies
Quarterly conference call	This activity occurs after publishing the quarterly results. A results presentation is prepared and uploaded to the investor relations (IR) website providing details of the performance of the business during the quarter. A question-and-answer (Q&A) session is held after the presentation of results by members of the executive management.	Quarterly	Telephone The audio recording of the call is usually available on the IR website 48 hours afterwards, while the transcript is available from one week after the call.	Shareholders Investors Analysts Credit rating agencies Others
International non-deal roadshows	Enable engagement with and update key international institutional investors and shareholders on overall performance, outlook and key strategic objectives. Helps to continually expand the available pool of capital leading to diversification of shareholder base, as well as a ready source of financing for strategic initiatives. Enhances international visibility. Key locations visited reflect where the majority of our international investors reside – largely the United States and Europe.	Semi-annually	One-to-one meetings Group meetings	International investors and shareholders
Key domestic institutional investor meetings	This is a forum where the Group's senior management interacts with and answers questions on the performance of the Group from shareholders/investors/analysts based in Nigeria. It creates access to senior management.	Semi-annually	One-to-one meetings Group meetings	Shareholders Investors Analysts
Pension fund administrators (PFA) day	This engagement is with top pension fund administrators in the country to ensure a better understanding of the Group's strategy, performance and outlook. It helps build confidence in the management team within this segment.	Annually	Group meeting One-to-one meetings before the Group meetings	Pension fund administrators

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Activity	Description	Frequency	Channel	Target audience
Investor conferences	These are conferences organised by investment banks – locally and internationally. They create an avenue for the Group's senior management to interact with and answer questions on the performance of the Group from key shareholders/investors/analysts. Creates access to senior management, builds confidence in the management team and enhances visibility locally and internationally. Conferences attended during 2014 include: the Renaissance Capital Africa Conference, Lagos; FBN Capital Investor Conference, Lagos; JP Morgan Global Emerging Market Corporate Conference, Florida; Standard Bank Africa Conference, Lagos.	At least once per quarter	One-to-one meetings Group meetings	Shareholders Investors Analysts
Nigerian Stock Exchange (NSE) facts behind the figures	This event engages the stockbrokers at the NSE on the Group's strategy, performance and outlook. Management presents the strategy and performance and also holds a Q&A session. During the year, one such session was held to discuss full year 2014 and first quarter 2015 FBNHoldings results.	Annually	Physical visit to the NSE	Stockbrokers and indirect retail investors Media The rest of the financial community

In addition to those presented above, other regular updates on the Company's progress via interactive conference calls, local and international investor engagements with the financial community include:

- email correspondence;
- telephone conversations; and
- in-house meetings.

Information regarding FBNHoldings is provided to shareholders and, in addition, is found on the investor relations and corporate websites where there is an opportunity to provide feedback.

To ensure effective shareholder engagement, an independent assessment of its quality is measured quarterly. Some of the feedback revealed that the activities are well-regarded providing reasonable, timely and adequate information to analysts and investors.

In addition to ongoing engagement being facilitated by the Company Secretary and the investor relations unit, the Group encourages shareholders to attend the AGM and other shareholder meetings where interaction is welcomed.

In ensuring we continue to develop and implement the feedback from shareholders, investors and analysts, executive management is provided with detailed information on the various engagement activities. In 2014, points of interest to investors and analysts focused on messaging, impact of regulatory pronouncements including traction in non-interest revenue, cost optimisation, clarity of guidance and performance, international expansion, capital management strategy and corporate governance.

WHAT HAPPENS AT OUR ANNUAL GENERAL MEETING (AGM)?

Section 213 of CAMA makes provision for holding an Annual General Meeting (AGM) and provides that every company shall in each year hold a general meeting as its AGM in addition to any other meetings in that year, and shall specify the meeting as such in the notices calling it.

All businesses transacted at the AGM are deemed special business, except declaring a dividend, the presentation of the financial statements and the reports of the directors and auditors, the election of directors in the place of those retiring, the appointment, and the fixing of the remuneration, of the auditors and the appointment of the members of the Audit Committee, which shall be ordinary business.

The usual practice at the AGM is to have shareholder meetings duly convened and held in an open manner, and in line with our Articles of Association and existing statutory and regulatory regimes, for the purposes of deliberating on issues affecting the strategic direction of the Group. This will involve a fair and transparent process, which will also serve as a medium for promoting interaction between the Board, management and shareholders.

Attendance at the AGM is open to shareholders or their proxies, and proceedings at the meeting will be monitored by members of the press, representatives of the Nigerian Stock Exchange, the Central Bank of Nigeria, the Securities and Exchange Commission and the Corporate Affairs Commission.

At the general meeting, the shareholders have the opportunity to comment/deliberate on all items on the agenda and vote for or against the proposed resolutions. At the meeting, shareholders are free to discuss anything of concern to them with regards to the Company, Board of Directors, management, etc.

The general meeting affords shareholders the opportunity to appraise the Company's performance, especially as they are not actively involved in the day-to-day running of the Group. This medium affords them the chance to give approvals on certain decisions, assess the Group's performance and, by implication, the performances of the directors responsible for the effective management of stakeholders' interest.

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Directors' report

The directors present their report on the affairs of FBN Holdings Plc ('the Company') together with the financial statements and auditors' report for the period ended 31 December 2014.

A. LEGAL FORM

The Company was incorporated as a private limited liability company in Nigeria in 2010 and was converted to a public company in September 2012, when it commenced operations. The Company's shares were listed on the floor of the Nigerian Stock Exchange on 26 November 2012 after the shares of First Bank of Nigeria Plc were delisted on 23 November 2012.

B. PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the Company is the raising and allocation of capital and resources.

The Company is also tasked with the responsibility of coordinating Group-wide financial reporting to shareholders and managing shareholder, investor and external relations to the Group, and the task of developing and coordinating implementation of Group strategies.

The Company consists of four groups, namely:

- Commercial Banking group made up of First Bank of Nigeria Limited, FBNBank (UK) Limited, FBN Mortgages Limited, First Pension Custodian Nigeria Limited, and FBNBank DRC Limited (formerly Banque Internationale de Crédit), FBNBank Ghana Limited, FBNBank Sierra Leone Limited, FBNBank Guinea Limited and FBNBank Gambia Limited.
- Investment Banking and Asset Management group (IBAM), made up of FBN Capital Limited, FBN Securities Limited, FBN Funds Limited and FBN Trustees Limited.
- Insurance group made up of FBN Insurance Limited, Oasis Insurance Limited and FBN Insurance Brokers Limited.
- Other Financial Services made up mainly of Kakawa Discount House Limited and FBN Microfinance Bank Limited.

The Company prepares separate and consolidated financial statements.

C. DIRECTORS' SHAREHOLDING

The direct and indirect interests of directors in the issued share capital of the Company as recorded in the register of directors' shareholding and/or as notified by the directors for the purposes of sections 275 and 276 of the Companies & Allied Matters Act and the listing requirements of the Nigerian Stock Exchange are noted:

Directors' shareholding

Name	Direct holdings	Indirect holdings
Dr Oba Otudeko, CFR	5,359,331	475,921,622
Bello Maccido	2,393,890	-
Abdullahi Mahmoud	50,870	-
Oye Hassan-Odukale, MFR	1,685,458	8,051,390
Dr Hamza Wuro Bokki	327,000	-
Bisi Onasanya	7,537,302	-
Chidi Anya	-	47,426

Dr Oba Otudeko, CFR has indirect shareholdings amounting to 475,921,622 through Metropolitan Trust Nigeria Ltd, Orbit International Ltd, Honeywell CT & CS, Springwater Ltd, Landbond Ltd, Coral Products Ltd and Networks Securities Ltd.

Oye Hassan Odukale, MFR has indirect shareholdings amounting to 8,051,390 through LAC Investments Ltd, Haskal Holdings Ltd and OHO Investments Ltd.

Chidi Anya, has indirect shareholdings amounting to 47,426 through Muonta & Guonta Ltd.

D. OPERATING RESULTS

The directors recommend for approval a dividend of 10 kobo per share, amounting to ₦3,263,208,436.60 and a scrip issue of one share for every 10 shares currently held. Highlights of the operating results for the period under review are as follows:

	Group	
	31 December 2014 ₦ million	31 December 2013 ₦ million
Gross earnings	480,602	396,235
Profit before tax	92,884	91,337
Taxation	(10,045)	(20,706)
Total profit for the year	82,839	70,631
Appropriation:		
Transfer to statutory reserves	13,204	8,727
Transfer to/(from) statutory credit reserve	38,686	(8,114)
Transfer to contingency reserves	110	57
Transfer to retained earnings reserve	31,059	69,465

	Company	
	31 December 2014 ₦ million	31 December 2013 ₦ million
Gross earnings	16,969	74,988
Profit before tax	5,683	70,631
Taxation	-	-
Total profit for the year	5,683	70,631
Appropriation:		
Transfer to statutory reserves	-	-
Transfer to/(from) statutory credit reserve	-	-
Transfer to contingency reserves	-	-
Transfer to retained earnings reserve	5,683	70,631

E. DIRECTORS' INTERESTS IN CONTRACTS

For the purpose of section 277 of the Companies & Allied Matters Act, CAP C20 LFN 2004, none of the directors had direct or indirect interest in contracts or proposed contracts with the Company during the year.

F. PROPERTY AND EQUIPMENT

Information relating to changes in property and equipment is given in Note 29 to the accounts. In the directors' opinion, the market value of FBNHoldings' properties is not less than the value shown in the financial statements.

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DIRECTORS' REPORT

G. SHAREHOLDING RANGE ANALYSIS

Range	No of holders	Holders %	Units	Units %
1-1,000	311,625	25.65	220,152,186	0.67
1,001-5,000	525,298	43.23	1,350,813,510	4.14
5,001-10,000	137,538	11.32	1,021,554,905	3.13
10,001-50,000	200,001	16.46	4,042,826,392	12.39
50,001-100,000	20,134	1.66	1,415,414,667	4.34
100,001-500,000	16,669	1.37	3,296,699,585	10.10
500,001-1,000,000	1,971	0.16	1,387,456,922	4.25
1,000,001-5,000,000	1,513	0.12	2,873,566,489	8.81
5,000,001-10,000,000	176	0.01	1,223,152,099	3.75
10,000,001-50,000,000	162	0.01	3,016,209,207	9.24
50,000,001-100,000,000	23	0.00	1,530,744,819	4.69
100,000,001-500,000,000	31	0.00	6,721,990,361	20.60
500,000,001-1,000,000,000	4	0.00	2,720,540,962	8.34
1,000,000,001-32,632,084,356	1	0.00	1,810,962,252	5.55
	1,215,146	**100**	**32,632,084,356**	**100**

Shareholding analysis as at 31 December 2014

Category	Holdings	Holdings %
Retail	16,362,839,868	50.14
Domestic institutional	8,558,584,820	26.23
Foreign institutional	7,073,621,707	21.68
Government-related holdings	637,037,961	1.95
	32,632,084,356	**100**

H. SUBSTANTIAL INTEREST IN SHARES

According to the register of members as at 31 December 2014, no individual shareholder held more than 5% of the issued share capital of FBN Holdings Plc. However, Stanbic Nominees Nigeria Ltd/002-Main, an account held under custody on behalf of a number of shareholders, held 1,810,962,252 units amounting to 5.5% of FBN Holdings Plc.

I. HUMAN RESOURCES

EMPLOYMENT OF DISABLED PERSONS

It is the policy of the Company that there should be no discrimination in considering applications for employment including those from physically challenged persons. All employees whether or not physically challenged are given equal opportunities to develop.

In the event of members of staff becoming disabled, efforts will be made to ensure that their employment with the Company continues and appropriate training arranged to ensure that they fit into the Company's working environment.

J. HEALTH, SAFETY AND WELFARE AT WORK

Health and safety regulations are in force within the Company's premises and employees are aware of existing regulations. The Company provides subsidy to all levels of employees for medical, transportation, housing, etc.

Fire prevention and fire-fighting equipment are installed in strategic locations within the Company's premises.

The Company has a Group life assurance cover and operates a defined contributory pension plan in line with the Pension Reform Act 2014. It also operates the Employees Compensation scheme (which replaced the Workmen Compensation scheme) in line with Employee's Compensation Act 2011 for the benefit of its employees.

K. EMPLOYEE INVOLVEMENT AND TRAINING

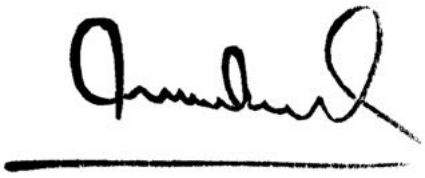
The Company ensures, through various fora, that employees are informed on matters concerning them. Formal and informal channels are also employed in communication with employees with an appropriate two-way feedback mechanism.

In accordance with the Company's policy of continuous development, training facilities are provided in a well-equipped training school. In addition, employees of the Company are sponsored to both local and foreign courses and trainings. These are complemented by on-the-job training.

L. AUDITORS

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue to act in that office.

BY ORDER OF THE BOARD



Tijjani Borodo
FRC/2013/NBA/00000002367
Company Secretary
Lagos, Nigeria

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REPORT OF THE INDEPENDENT CONSULTANT ON THE APPRAISAL OF THE BOARD OF DIRECTORS OF FBN HOLDINGS PLC

In compliance with the Central Bank of Nigeria (CBN) Code of Corporate Governance for Banks and Discount Houses in Nigeria ("the CBN Code") and the Securities and Exchange Commission (SEC) Code of Corporate Governance ("the SEC Code"), FBN Holdings Plc ("FBNHoldings") engaged KPMG Advisory Services to carry out an appraisal of the Board of Directors ("the Board") for the year ended 31 December 2014. The Codes mandate an annual appraisal of the Board 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 FBNHoldings' key corporate governance structures, policies and practices. This included the review of the corporate governance framework and representations obtained during one-to-one interviews with the members of the Board and management. We also reviewed FBNHoldings' Corporate Governance report prepared by the Board and included in the Annual Report for the year ended 31 December 2014, and assessed the level of compliance of the Board with the CBN Code and SEC Code.

On the basis of our review, except as noted below, FBNHoldings' corporate governance practices are largely in compliance with the key provisions of the CBN Code and SEC Code. Specific recommendations for further improving FBNHoldings' governance practices have been articulated and included in our detailed report to the Board. These include recommendations in the following areas: Board composition, risk management, structure of Directors' remuneration as well as Directors' induction and training.

Olumide Olayinka
Partner, KPMG Advisory Services
FRC/2013/ICAN/00000000427
21 April 2015

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RISK FACTORS

Our Group is exposed to certain risks, and we have robust policies and procedures in place to mitigate and manage these risks.

We proactively manage risks in a highly dynamic and competitive landscape to forestall credit and operational losses.

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RISK MANAGEMENT SUMMARY

In achieving the vision of being recognised as the leading middle African financial services group, FBNHoldings is faced with uncertainty, which presents both risks and opportunities. These uncertainties have the potential to erode or enhance the Group's value. The Group believes that effective risk management and selective risk taking is a major factor that determines our ability to deliver sustainable returns to the stakeholders. The risk management processes in the Group are designed to ensure that each business line understands the risks they face. Such risks can then be effectively managed.

PRINCIPAL RISKS

The type and degree of risks which the Group is exposed to varies and depends on a number of factors such as size of business, complexity of operations and the volume of activities in each business line. The major risks that the Group is exposed to include: credit risk, liquidity and market risk, operational risk, insurance underwriting risk, information security, reputational, compliance, legal, and strategic risk. Furthermore, our activities and operations as one of the larger financial conglomerates exposes us to other risks that only become apparent with the benefit of hindsight. Managing these risks through a dynamic and interactive process of identifying, measuring, assessing, quantifying and pricing (see the risk governance section on the structures in place for managing risks across the Group) is one of the major core competencies that had been developed across the Group. This is improved on through continuous training and state-of-the-art risk management technologies such as the SAS® OpRisk Management application and Moody's Analytics, to meet international best practice.

THE RISK LANDSCAPE

BANKING SEGMENT

To achieve stability and resilience of the financial system in Nigeria, the Central Bank of Nigeria (CBN) has consistently adopted the risk-based supervision of banks and discount houses in Nigeria within the year under review. In order to strengthen corporate governance in the industry, the CBN reviewed the Code of Corporate Governance for banks and discount houses and also issued guidelines for whistleblowing. A major requirement of the revised Code of Corporate Governance is the need for external auditors to render annual reports on banks' risk management practices to the CBN.

To facilitate sufficient and adequate capital build-up in banks, in line with their risk appetite, regulatory restriction on dividend pay out for deposit money banks and discount houses was put in place by the CBN. Banks and discount houses that do not meet the regulatory capital requirements or have a composite risk rating of 'high' or have a non-performing loan of above 10% are barred from paying dividend.

Basel II and III were implemented in January 2014, while the full adoption commenced on 1 October 2014. Basel II and III are the global regulatory standards on banks' capital measurement and liquidity standards issued by the Basel Committee on Banking Supervision (BCBS) of the International Bank for Settlements, Basel, Switzerland. The Committee comprises the Central Bank Governors and Supervisors of the G20 countries. This involved compliance with the Pillar 1 minimum capital requirements and Pillar 2 requirements on the Internal Capital Adequacy Assessment Process (ICAAP). In order to prudently manage foreign exchange risks of banks, in view of growing foreign borrowings by banks through foreign lines of credit and issuance of foreign currency denominated bonds (eurobonds), the aggregate foreign currency borrowing was limited to 75% of shareholders' fund. Meanwhile, the banking book's overall net open position (NOP) was limited to 20% of the shareholders' fund. The Group has consistently complied with all the banking sector regulations which help ensure banking systems remain stable.

REGULATORY REFORM

The CBN released the guidelines for licensing and regulation of financial holding companies in Nigeria. The guidelines cover licensing requirements, corporate governance, permissible and non-permissible activities. Although FBNHoldings commenced operations before the release of the regulation in August 2014, the regulation will have a major impact on the activities and operation of FBNHoldings.

The new Pension Reform Bill 2014, which repeals the previously enacted Pension Reform Act of 2004, introduced two major reforms aimed at increasing the volume of contribution and coverage. They are: upward review of the minimum rate of contribution from 15% to 18% (with employee and employer contributing 8% and 10% respectively), and expansion of the pension base by bringing organisations with employees as few as three to the scheme compared to a minimum of five employees in the 2004 Act. Also included in the Act was a better framework to sanction erring pension defaulters. Other major regulatory reform that came into operation in the year under review, includes:

- Increase in the minimum capital requirement of Bureau de Change from ₦5 million to ₦35 million aimed at sanitising the bureau de change market.
- The Internal Revenue Services (IRS) of the United States of America (US) promulgated the Foreign Account Tax Compliance Act (FATCA). This is a US tax legislation which requires all non-US financial institutions to identify US taxpayer-owned accounts and report information about those clients to the Internal Revenue Services.
- The Central Bank of Nigeria (CBN) on 5 August 2014 directed banks and discount houses to exclude non-distributable regulatory reserve and other reserves in the computation of capital adequacy.

IMPACT OF MONETARY AND FISCAL POLICY

The various factors that impacted on the monetary and fiscal environment within the year under review are as presented below:

- The outbreak of the Ebola virus within the quarter under review led to serious distortions of key sectors of the Nigerian economy with its associated financial consequences, especially in some West African countries where we have subsidiaries.
- The CBN maintained a tight monetary policy stance influenced by the need to maintain the exchange rate and stem the inflationary effect of excess liquidity in the banking system and spending ahead of 2015 elections.
- The naira came under tremendous pressure towards the end of the year. This led to a devaluation of the midpoint of the target band by 8% (₦168/USD1) to the naira and suspension of the Retail Dutch Auction System (RDAS). This implies that availability of US dollars can only be sourced from the interbank segment of the market. This resulted in the interbank exchange rate to trade of ₦181/USD1 towards the end of the year under review.
- Inflation rate remained in single-digits in 2014 but has been projected to cross the single-digit benchmark in 2015 due to currency devaluation, increase in electricity tariffs and election spending.

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RISK MANAGEMENT SUMMARY

- The Federal Government's revenue declined during the year due to the persistent fall in the price of crude oil. The drop in demand for oil and increasing supply from the US, now the world's highest oil producer, may have contributed to the decline in prices recorded. This has resulted in a wider fiscal deficit and the need to review downwards the oil benchmark for the 2015 budget. The wide deficit would increase government borrowing and investors may demand higher yields in 2015.

INVESTMENT BANKING AND ASSET MANAGEMENT

The granting of a merchant banking licence and increase in the minimum capital requirement of securities firm has made the Investment Banking and Asset Management segment more competitive. This competition is further boosted by the sale of most of the power assets in the country and divestment of internal oil companies, thereby creating more business opportunities in the Investment Banking and Asset Management segment.

INSURANCE

The regulatory environment in 2014 was stable, this stimulated the insurance penetration rate in Nigeria to grow from 0.4% to 0.77% in 2014 and further attracted foreign players into the industry through various mergers and acquisitions (M&A). The entry of foreign institutions has continued to raise the tempo of activities in an industry known for its inactivity. One of the major drivers of the entry of foreign insurance companies into the Nigerian insurance market was the ability of foreign companies to own insurance firms in full, with 100% stake, unlike banking. Also the reversal of the universal banking licence by the CBN which forced some banks to sell their insurance subsidiary to foreign investors, among other major reforms introduced by the National Insurance Commission (NAICOM), Nigeria in recent years also encouraged the entry of foreign insurance companies into the country. However many of the insurance companies have not fully recovered from the impact of the 'no premium no cover' policies as well as the CBN restriction on the sale of bancassurance products.

In summary, the operating environment was characterised by keen competition and the crystallisation of various regulatory headwinds introduced by the authorities trying to stabilise the financial system.

2015 is an election year in Nigeria and it is projected to witness a rough start. This is further compounded by the declining prices of international crude oil and the deliberate devaluation of the country's currency. A combination of these and the likely rationalisation of government institutions, based on proposed austerity measures, will slow down activities in the public sector, oil and gas, and retail insurance space. These challenges in the economic activities for 2015 have been identified, and we are poised to convert the challenges to opportunities through innovative insurance products (such as: Easy Save, Sure for Life, Padi for Life and First Family Shield, among others), cross selling, and effective cost management strategies. The Group will consistently respond to all the identified challenges by diligently pursuing its strategies to defend and extend its leadership position in key target markets while ensuring conformity to international best practice.

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RISK MANAGEMENT FRAMEWORK

The Group's risk management philosophy, as reflected in our values and culture, is characterised by the following key elements, as contained in the tables below.

GROUP RISK PHILOSOPHY

- The Group is in the business of taking risk to enhance shareholders' value
- Sound risk management is the foundation of a sustainable value creation across the Group
- The environment in which the Group operates is continually evolving, hence the risks the Group faces will continue to change
- Risk management functions across the Group shall be empowered to perform their function and shall be independent of the risk taking functions
- Risk governance structure in the Group is clearly defined and governed with well documented policies and procedures
- Risks shall be considered in all business decisions and a conservative balance, between risk and return, shall be maintained.

GROUP RISK CULTURE

- The Board is responsible for risk management across the Group
- The Board and senior management across the Group shall be required to set clear expectations for risk management across the Group by setting the tone at the top
- The Group shall avoid products, business and markets where it cannot objectively and adequately assess and manage the associated risks
- The Board and senior management shall give adequate attention to both quantifiable and non-quantifiable risks, and all risk information shall be communicated transparently
- Risk information shall be communicated in a timely manner and lessons, both positive and negative, shared from risk events
- In promoting risk awareness across the Group, adequate resources shall be devoted to training on risk management
- Adequate risk information shall support all business decisions and risk shall be considered in the reward and compensation system.

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RISK MANAGEMENT FRAMEWORK

RISK APPETITE

Risk appetite is used as a valuable tool for evaluating strategic options and communicating with major stakeholders; those risks the Group considers acceptable and those risks the Group intends to avoid. The Group's risk appetite is set at a level that minimises erosion of earnings or capital due to avoidable losses in all business lines either resulting from core activities or frauds and operational efficiency. The high-level risk appetite at the Group level which dictates the risk appetite of each of the business segments across the Group is influenced by the following indicators and parameters.

Quantitative indicators	Qualitative indicators	Zero tolerance
• Earnings volatility threshold • Return on capital (ROE) threshold • Return on assets (ROA) threshold • Capital ratios (regulatory and economic capital) • Targeted credit rating • Regulatory/ prudential limits • Operational losses.	• Business activities and expansion • Use of financial derivative instruments • Reputation and brand image • Exception reporting by auditors and regulators.	• Breach of laws and regulations • Internal fraud and breach of information security • Conflict of interest.

The risk appetites for each of the business lines in the group are outlined in subsequent sections.

COMMERCIAL BANKING GROUP

The risk appetite at the Commercial Banking group is governed by the following:

- Optimisation of capital deployed to every business line.
- High-quality risk assets measured by the following three key performance indicators:
  - ratio of non-performing loans to total loans;
  - ratio of loan loss expenses to interest revenue; and
  - ratio of loan loss provision to gross non-performing loans. The target is to record improved asset quality ratio year on year and be within the regulatory guidance limit of 5% of total loans.
- Predefined 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 litigation;
  - regulatory/other infractions and/or breaches; and
  - above industry average staff and customer attrition rate.

The Banking Group shall not compromise its reputation through unethical, illegal and/or 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.

The respective risk management units coordinate 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:

a) Risk Management shall set policies and define limits for other units in the Banking Group.

b) Risk Management shall perform risk monitoring and reporting and provide a framework for management of risk.

c) 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.

d) Risk Management shall collaborate with market-facing units in designing new products.

e) Risk Management and Internal Audit shall coordinate activities to provide a holistic view of risks across the Banking Group.

f) Risk Management shall make recommendations with respect to capital allocation, pricing and reward/sanctions based on risk reports.

g) Risk Management shall collaborate with Information Technology adopting tested and reliable software to automate the risk management process improvement initiatives.

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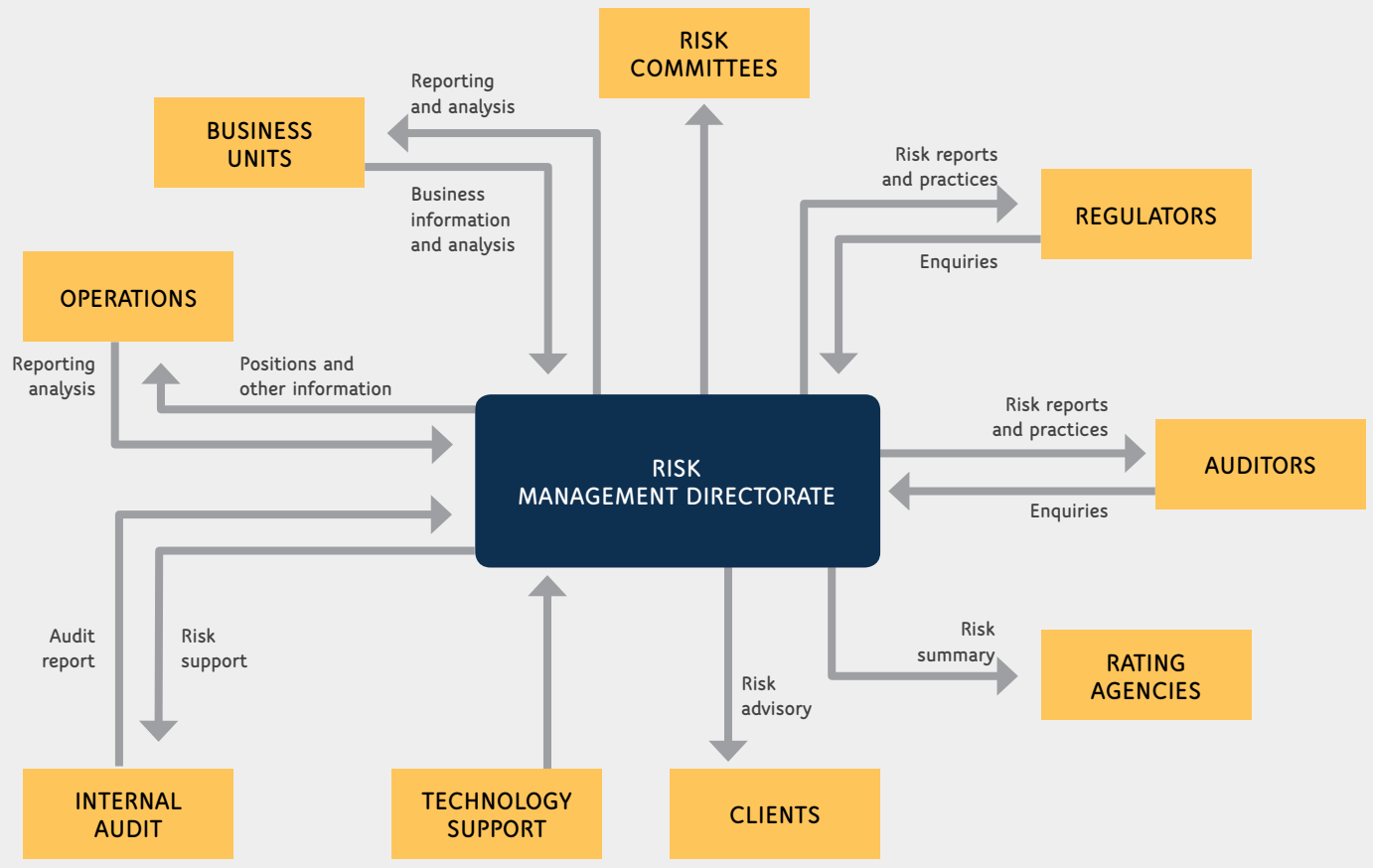
RISK MANAGEMENT FRAMEWORK

Risk Management Directorate – relationships with other sections of the Banking Group



INVESTMENT BANKING AND ASSET MANAGEMENT GROUP

The Group's appetite for risk is governed by the following principles:

- to meet all regulatory requirements and expectations;
- to maintain an adequate level of capital to support the businesses it is engaged in;
- to deliver stable earnings with equally stable earnings growth;
- to minimise exposure to losses from stress events; and
- to ensure stability in funding and liquidity through sound balance sheet management.

The IBAM group has further defined risk appetite in terms of the key areas of its risk exposures in the credit, market and operational risks. These are:

- The Group maintains low exposures to credit risk. Its existing business model is one that focuses primarily on facilitating and intermediating between the investment and financing needs of clients.
- The Group's appetite for fraud risk and other operational risks is extremely low. Maximum operational risk appetite is expressed as a ratio of earnings over a financial year and is required to be lower than industry average.
- The Group takes on market risk in some areas of its business. The appetite for this risk is expressed as a ratio of shareholders' funds; which represents the maximum amount of capital that the Group is willing to place 'at risk' of loss from market movements.

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RISK MANAGEMENT FRAMEWORK

INSURANCE GROUP

The Group's risk appetite considers all risks across the business in an integrated manner, comprising both quantitative and qualitative elements. This is also aligned with the Group's business strategy.

Risk appetite	Strategy
Regulatory capital target	To maintain a minimum of 25% over the required statutory capital of ₦2 billion.
Investment risk appetite (shareholders)	Shareholders' funds must be managed in line with the approved Board mandates.
Investment risk appetite (policyholders)	Policyholders' funds should be invested appropriately to match the liabilities and in accordance with the approved mandate.
Business target risk appetite	Achieve a minimum of 80% of the budgeted figures. Cumulative achieved figures must always be greater than 80% of the projected figures in the business plan.
Expense target	Maintain an expense that will not exceed the expense budget.
Return on embedded value (EV)	Maintain a minimum return on EV of 20%.
Reinsurance risk appetite	Reinsurance arrangement must be appropriate and reviewed regularly. The maximum claim per any one life must not exceed our retention limit of ₦10 million.
Facultative business exposure	Minimise our facultative business recovering exposure. We will only transact businesses with reputable and sound insurance institutions.
Compliance target	100% compliance with all regulatory/statutory requirements.
Operational risk appetite	FBN Insurance has an overall low tolerance for control breakdowns resulting from aspects around processes, people, systems or external events. Such incidents should be escalated to the appropriate forum.
Business continuity risk	Key business operations and supporting resources must at all times be recoverable within times specified in Business Continuity Management (BCM) plans. BCM plans must be signed off and tested every half year.
Liquidity risk	FBN Insurance must at all times maintain sufficient liquid assets in order to discharge its liabilities and contractual obligations.
Strategic risk	No strategy outside the agreed objectives of the Company will be implemented unless specifically approved by the Board.
Reputational/brand risk	Low appetite for reputational/brand risk. FBN Insurance will take immediate action to resolve: • policyholder complaints; • regulators' concerns; and/or • high priority internal and external audit concerns. FBN Insurance employs a zero tolerance policy for any fraud. All instances of fraud that are discovered and/or reported (including potential fraud) shall be investigated and, if relevant, prosecuted.

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RISK MANAGEMENT DISCLOSURES

RISK FACTORS

The scope of risk impacting on the Group's activities is as follows:

FINANCIAL RISKS

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 its inability either to meet its obligations or to fund increases in assets as they fall due.
INSURANCE RISK	Insurance underwriting risk is the risk of loss due to actual experience being different from that assumed when an insurance product was designed and priced.

NON-FINANCIAL RISKS

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.
INFORMATION SECURITY RISK	Unauthorised access, use, disclosure, modification, inspection, recording or destruction of information assets which could potentially cause disruption to operations.

A review of the key risks including how they affect the Group's operations and management are detailed in subsequent sections.

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CREDIT RISK

Credit risk arises when an obligor fails to perform its obligations under a trading or loan contract or when its ability to perform such obligation is impaired. It does not only arise when a borrower defaults on payment of a loan or settlement, but also when its repayment capability decreases (as reflected in a rating downgrade).

Credit risk arises from activities both on and off the balance sheet. These can include:

- trade finance and acceptances;
- interbank transactions;
- foreign exchange;
- financial futures;
- swaps;
- bonds;
- equities;
- options;
- commitments and guarantees; and
- settlement transactions.

COMMERCIAL BANKING GROUP

PHILOSOPHY

The Group's risk philosophy is shared by the Board and members of top management. It is then drilled down to all employees. It is a guide in deciding what type of credit to finance and what kind of customer to deal with, based on the Group's appetite for risk and return, as well as its corporate values, ethical standpoint and the reputation it seeks to have in the industry.

The following principles guide credit risk management across the Banking Group:

Credit risk management – philosophy

- deliberately manage 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 fallback 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 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 four departments, namely:

- Credit Analysis & Processing (CAP);
- Specialised Lending Department (SLD);
- Credit Risk Management (CRM); and
- Classified Assets Management (CAM).

Credit Analysis & Processing (CAP) is responsible for the appraisal and processing of non-specialised credit requests to obtain requisite approvals in line with the Bank's policy. CAP also engages in the review of wholesale/retail/consumer credit product programmes.

Specialised Lending Department (SLD) is responsible for the appraisal and processing of specialised credit requests, due to the peculiarity of such transactions in view of their size and complexity. The portfolio being handled by SLD includes:

- project finance:
  - power
  - oil and gas (upstream and downstream)
  - utilities (water projects, etc.)
  - transportation (mass transit, aviation)
  - commercial real estate projects, i.e., projects conceived for commercial gain
  - infrastructure, including public assets concessions (roads, airports, etc.);
- agricultural credit product programmes;
- financial institutions credit requests; and
- public sector.

Credit Risk Management (CRM) is responsible for the planning, monitoring and reporting of the credit portfolio. The monitoring of loans on obligor and portfolio basis as well as the reporting of these to management and the Board remains the core responsibility of CRM. The monitoring unit is delineated along the Strategic Business Units (SBUs) to provide independent support and guidance to the relationship teams in the management of facilities. They do this 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 while the credit availment unit ensures that all conditions precedent to drawdown on approved credits are fulfilled before drawdown by the obligor. CRM has ownership of all rating systems/scorecards and recommends, and monitors, the credit risk appetite for the year. It also 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. The remedial management function was incorporated under the department during the year.

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CREDIT RISK

Classified Assets Management (CAM) is responsible for the recovery of accounts classified lost with DPD (days past due) of over 540 days and accounts written off from on balance sheets into CAM SOL (Service Outlet). CAM 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 off 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 reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are reviewed and upgraded when necessary. The Banking Group regularly validates the performance of the rating and their predictive power with regard to default events.

OBLIGOR RISK RATING (ORR) SYSTEM

The obligor risk rating grids have a minimum of 10 risk buckets to provide a preset, objective basis for making credit decisions, with one additional bucket specifically included to categorise obligor in default. The obligor risk rating is mapped to the probability of default of the customer and the rating adopted depends on the type of customer and the nature of business to reflect the inherent risks associated with each customer. 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 in the table below.

COLLATERAL RISK RATING (CRR)/FACILITY RISK RATING (FRR)

The collateral risk rating grid indicates the acceptable collateral types and is rated 1-8, from best to worst in order of liquidity, controllability and realisable value.

The collateral risk rating is determined by the Loss Given Default (LGD) of the facility which measures the severity of economic loss on the exposure.

The LGD is a measure of the expected economic loss if the obligor defaults, less recoveries from collaterals and other cash flow, and includes write-offs, unearned interest income, and recovery/legal costs.

The collateral risk rating bucket is as shown below:

Collateral type	Rating bucket	
Cash	AAA	1
Treasury bills/government securities	AA	2
Guarantee/receivables of investment grade banks	A	3
Legal and equitable mortgage	BBB	4
Debenture trust deed/fixed debenture and mortgage debenture	BBB	4
Legal mortgage on residential business real estate in prime locations	BBB	4
Legal mortgage or debenture on business premises, factory assets or commercial real estates in locations	BBB	4
Domiciliation of receivables from acceptable corporates	BB	5
Enforceable lien on fast-moving inventory in bonded warehouses	BB	5
Equitable mortgages on real estates in any location	B	6
Negative pledge/clean lending	B	6
Domiciliation of other receivables	B	6
Letters of comfort or awareness, guarantee of non-investment grade banks and corporates	CCC	7
Letter of hypothecation, personal guarantee	CC	8

Description	Rating bucket		Range of scores	Probability of default			Grade
				Large corporate	Mid-corporate	SME	
Extremely low risk	AAA	1	100%-94.44%	1.00			Investment
Very low risk	AA	2	100%-83.33%	1.00	1.00		
Low risk	A	3	100%-72.22%	1.50	1.50	1.50	
Low risk	BBB	4	72.21%-66.67%	2.00	2.00	2.00	
Acceptable - moderately high risk	BB	5	66.66%-55.56%	4.00	4.00	4.00	Non-investment
High risk	B	6	55.55%-44.44%	6.00	6.00	6.00	
Very high risk	CCC	7	44.43%-33.33%	9.00	9.00	9.00	
Extremely high risk	CC	8	33.32%-16.67%	13.00	13.00	13.00	
High likelihood of default	C	9	16.65%-5.56%	15.00	15.00	15.00	
Default risk	D	10	5.55%-0.00%	100.00	100.00	100.00	Default

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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 macroeconomic 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

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.

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.

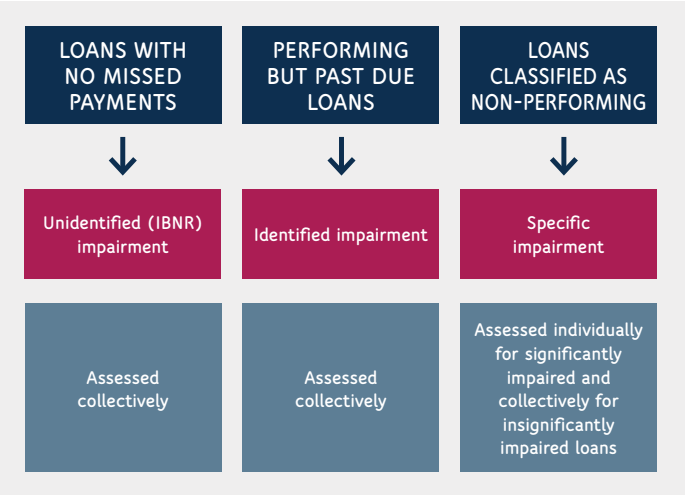
The Group also sets internal credit approval limits for various levels in the credit process. Approval limits are set by the Board of Directors and reviewed from time to time, as market and risk conditions demand. Exposure to credit risk is also managed through regular analysis of borrowers and potential 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 International Financial Reporting Standard (IFRS) IAS 39, which estimates expected future losses based on an incurred loss model. Under this requirement, impairment provisions are made where the recoverable amount of a loan is less than the carrying amount.

Impairment is classified under three categories namely:

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 by internal loan loss models. As a rule, a minimum of three years' data is used in model development for estimating the risk parameters, namely the probability of default (PD), the loss given default (LGD) and the incurred but not reported (IBNR) factor.

WRITE-OFF AND RECOVERIES

After a full evaluation of a non-performing exposure, in the event that either one or all of the following conditions apply, such exposure 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.

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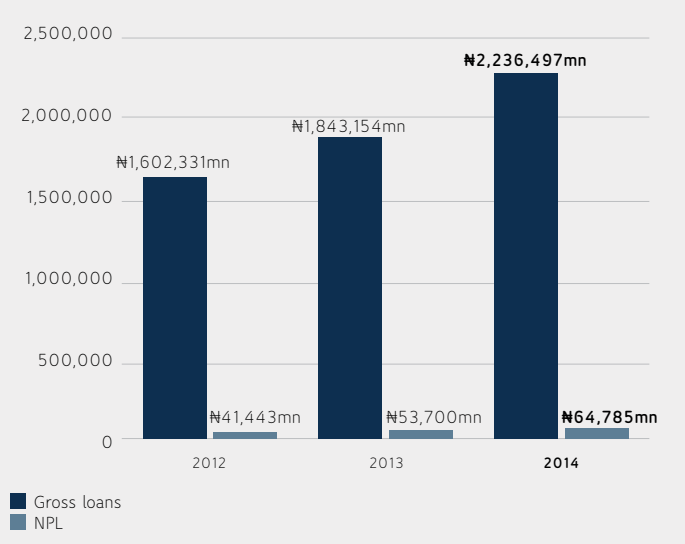
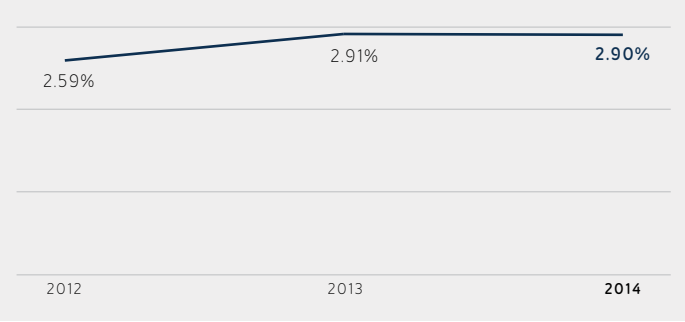
PORTFOLIO RATIOS

The Banking Group recorded a 21% loan growth year on year due to availability of bankable one-off transactions within prescribed risk appetite limits. Asset quality ratio for the period was 2.9% and within acceptable threshold of the Group and regulatory limit of 5%.

LOAN GROWTH



ASSET QUALITY RATIO



INVESTMENT BANKING AND ASSET MANAGEMENT GROUP

The IBAM group's business model is primarily built on its strong facilitation and intermediation capabilities, with respect to the financing needs of its clients. For this reason, it continues to maintain a relatively low credit risk profile. The credit exposures within the Group are created through investments in financial instruments like bonds and commercial papers, as well as placements with financial institutions (FIs) within the money market.

The Risk Management Department manages these credit exposures as part of its overall responsibility for stewardship of the Group's risks. It achieves this through robust analysis of issuers as well as its FI counterparties, both internally produced and from reputable external sources. This analysis includes the use of ratings to determine credit quality and fit with the Group's own appetite for credit risk. Limits on the size and type of exposure to counterparties as well as some types of issuers are utilised to control risks, and these limits are reviewed at least annually.

As the Group continues to expand its businesses and product offerings, opportunity for exposure to credit risk will increase. For this reason, the Group is committed to developing its infrastructure to better equip it for these new challenges. Key to this is the development of its business and support staff to raise overall risk awareness, and to provide new tools for the management of those risks.

INSURANCE GROUP

The Company's financial instruments do not represent a concentration of credit risk because the business deals with a variety of reinsurers. The regulator of the insurance industry (NAICOM) enforced the 'no premium no cover' law in 2013, hence there are no premium receivables as business was done on a cash basis. However, all premiums outstanding (2012 business) have been fully provided for and an appropriate level of provisioning is maintained. Exposure to outside financial institutions concerning deposits and similar transactions is monitored against approved limits. There are no material financial assets that are past due but not impaired. The Group reviews reinsurance companies that it conducts business with (coinsurer and reinsurer) to ensure they are also a company with high international or similar credit ratings.

OTHER FINANCIAL SERVICES (FBN MICROFINANCE)

The entity derives its credit risk management function from the Banking Group, which also provides oversight for their risk management function.

Credit functions

- To review credit applications recommended by relationship managers (RM) and to provide independent risk assessment and recommendation to MD/CEO/Board for approval
- To provide advice/assistance regarding all credit matters to line management/loan officers.

Monitoring functions

- Directly manage all substandard, doubtful and bad, and loss accounts to be maximised
- Recovery and ensure that appropriate and timely facility loss provisions have been made.

Credit administration

- To ensure that all security documentation complies with the terms of approval and is enforceable
- To monitor insurance coverage to ensure appropriate coverage is in place over assets pledged as collateral, and is properly assigned to the Bank
- To control facility disbursements only after all terms and conditions of approval have been met, and all security documentation is in place
- To maintain control over all security documentation
- To monitor borrowers' compliance with covenants and agreed terms and conditions, and general monitoring of account conduct/performance.

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ASSET QUALITY

Total non-performing loans as at 31 December 2014 stood at ₦586 million with gross provisions of ₦95 million resulting in loan loss coverage of 16.18%. Non-performing loans to gross loans ratio for the period was 15.7% against 15.5% recorded in December 2013.

The observed decline in asset quality was occasioned by various socioeconomic issues, including the tightening of the market environment which led to the recognition and classification of weak and delinquent assets in the portfolio.

CREDIT RISK MANAGEMENT OUTLOOK

The current economic climate is beset with a myriad of issues that might affect the macroeconomic indices of the West African and global economy as a whole. Key issues include the effect of falling commodity prices, divergent monetary and fiscal policies across regional economies, slowing Eurozone and Chinese economy, weak internal demand, geopolitical tensions, armed insurgency and the aftermath of the Ebola epidemic in some countries in the West African sub-region. In particular, the increased volatility in international crude oil prices since mid-2014 has dampened economic prospects for oil exporting countries.

The underlying impact of weaker crude oil prices is further highlighted in a number of monetary measures implemented by the CBN to protect dwindling foreign exchange revenue, curb inflation and achieve overall macroeconomic and financial stability. Such monetary policy measures include the devaluation of the naira, increase in cash reserve requirements (CRR) and a notch increase in monetary policy rate (MPR) which has created a more challenging financial environment resulting in the rise in the cost of doing business. Inflationary pressure and the threat of further currency devaluation are expected to constitute one of the major issues dominating the economic landscape in 2015.

Notwithstanding the challenges in the macroeconomic environment, the Group envisages appreciable business opportunities in some critical non-oil sectors specifically in agriculture, information and communication, and service sectors as the Federal Government moves to diversify its income streams. The non-oil sector, particularly the small and medium-scale enterprises (SME) which is largely underfunded, has been identified as a major catalyst for growth due to its potential to create jobs, boost production, generate income and reduce poverty. To foster growth in the SME sector, a number of initiatives to address the challenge of access to capital have been launched by the CBN in conjunction with financial institutions. These initiatives, together with government's investments in infrastructure, road and railways, coupled with the effect of higher tariffs on imported products will enhance local production and drive growth in the sector. Furthermore, it is expected that the Federal Government's efforts to boost power generation and supply would improve economic activities in the long term and promote a more investor-friendly real sector. The Group, as a result, has positioned itself to tap into the SME segment by sustaining credit growth to the sector. This shall however be subject to sound risk process and control that will not compromise asset quality.

In summary, regulation will continue to be the key driver to sustained growth in the banking sector as the CBN seeks to maintain economic and financial stability. The Group will continue to promote sound risk and corporate governance practices in line with its overall strategic imperatives and ensure a well-diversified credit portfolio through effective management of concentration risks.

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OVERVIEW

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

The movement in market risk variables may negatively impact on the Group's financial position or performance, mainly as a result of:

- interest rate movements due to fiscal policy changes, and market forces;
- foreign exchange fluctuations arising from demand and supply as well as government policies; and
- equity price movements in response to market forces and changing market dynamics.

The objective of market risk management across the Group is to manage exposures and optimise returns while maintaining a market profile consistent with our status in the various industries in which we operate.

PHILOSOPHY AND RISK APPROACH

FBN Holdings' market risk management philosophy is disciplined risk taking within a framework of well-defined risk appetite that aims to deliver superior value to shareholders through effective utilisation of risk capital.

FBN Holdings' market risk management framework is evolving and is deeply rooted in the following principles:

- a well-defined market risk appetite in each entity;
- market risk exposure maintained at levels consistent with available capital; and
- stable, reliable and consistent methodology for identifying, measuring, controlling, monitoring and reporting market risk across the individual entities.

GOVERNANCE

Oversight of the market risk management function in the Group is vested in the Board of Directors of the member entities, operating through the Board Committee; in the case of the Commercial Banking group, the Board Audit & Risk Assessment Committee (BARAC) is tasked with this responsibility.

The BARAC 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 Commercial Banking business.

Also management oversight is provided by the Assets & Liabilities Management Committee (ALCO) in the various institutions. The ALCO is the highest technical body responsible for market risk management.

The ALCO, made up of executive directors and other relevant divisional heads, is responsible for:

- reviewing policies relating to market risk management and making recommendations to the Board;
- providing management oversight for the implementation of market risk policies;
- reviewing market risk strategy and recommending 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;
- reviewing and recommending for approval of market risk-related limits, i.e., position, concentration, currency, dealing gap, total portfolio and counterparty limits; and
- approving the appointment of dealers.

The ALCO performs its technical functions through a Market Risk Policy Committee (MRPC).

The responsibilities of the MRPC, as an advisory technical body responsible for market risk management, include the following:

- recommending policies and guidelines for market risk measurement, management and reporting;
- ensuring that market risk management processes (including people, systems, operations, limits and controls) are in line with the market risk framework;
- reviewing and recommending, for approval or amendments, the Market Risk Limits Package (MRP), Liquidity Risk Package (LRP), Management Action Triggers (MATs) and Triggers for Accrual Portfolios (TRAP) for all the Risk Taking Units (RTUs);
- ensuring the certification of financial models, 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 Bank's capital ratios from the effects of changes in market risk factors;
- reviewing the market risk strategy periodically; and
- endorsing the appointment of the Head of the Market and Liquidity Risk Management department.

The day-to-day implementation of the market risk management policies, procedures and systems in the Commercial Banking group is delegated to the Head of the Market and Liquidity Risk Management department who reports to the Executive Director/Chief Risk Officer.

The Market and Liquidity Risk Management department is responsible for:

- implementation of the framework and establishment of the Market Risk Policy;
- definition 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.

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PERFORMANCE

COMMERCIAL BANKING GROUP:

The Commercial Banking business uses VaR (value at risk) to estimate potential losses that could occur on its positions as a result of movements in market factors.

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

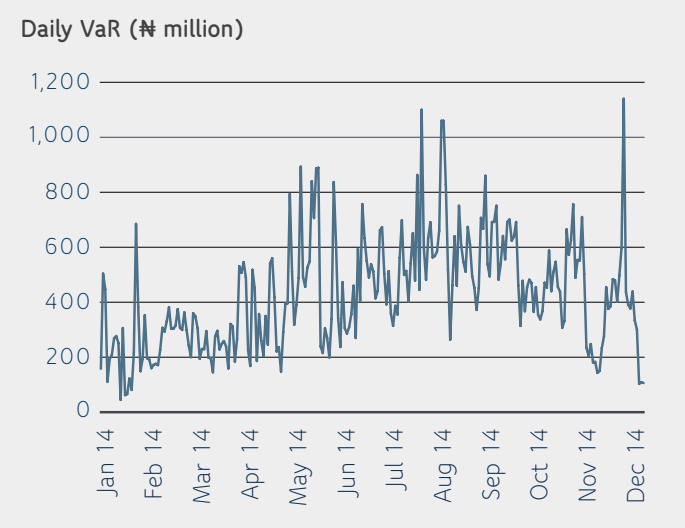
VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 99% and a 10-day holding period. The confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced three times per year in every 250 days.

The parametric method is used as the VaR methodology, with an observation period of two years obtained from published data from pre-approved sources. VaR is calculated on the daily position.

The table and graph below shows the trading VaR of the Commercial Banking business. All the portfolios witnessed increase leading to increased VaR in positions held by the Bank during the period. The yield on various maturities for treasury bills declined by about 300 basis points on the average compared to the previous financial year, while the naira depreciated by about 11.94% in the interbank market following the movement of the official exchange rate midpoint from ₦155 to ₦168.

Daily trading VaR @99% confidence level

	Average (₦'mn)	High (₦'mn)	Low (₦'mn)	Actual (₦'mn)
Bonds	35.72	215.45	-	-
Treasury bills	379.38	1,070.20	22.05	106.44
Foreign exchange	12.01	34.34	-	-



Stress testing

Based on the reality of an unpredictable market environment and the frequency of regulatory pronouncements with significant effect on market rates and prices, the Bank augments other risk measures with stress testing. This helps to evaluate the potential impact of possible extreme movements in financial variables on portfolio values.

Stress testing is an integral part of market risk management and considers both historical market events and forward-looking scenarios. A consistent stress testing methodology is applied to trading and non-trading books. Stress scenarios are regularly updated to reflect changes in risk profile and economic events.

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

Non-trading portfolio

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

Non-trading interest rate risk results mainly from differences in the mismatches or repricing dates of assets and liabilities, both on and off balance sheet as the 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
- repricing risk in various portfolios and yield curve analysis.

Hedged non-trading market risk exposures

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

INVESTMENT BANKING AND ASSET MANAGEMENT GROUP:

The Group manages exposure to equity and interest rate risk in its Asset Management subsidiary, proprietary trading portfolio, money market activities, and its investment activities in general. In addition, the Group may from time to time, hold proprietary exposures that have inherent foreign exchange risk. Such foreign exchange exposures are however typically small in relative terms, and are usually partly or fully risk hedged.

In equities, market risk is the exposure to adverse changes in equity prices as a result of market forces. There have been no approved parameters for trading on the Company's shareholders' funds and as such no proprietary trading is currently being undertaken in equities. However, the Company retains some of its capital in quoted equity investments. These holdings form part of our investment book, with minimal activity recorded on those positions over the course of the year.

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Market makers

Market making on the NSE officially commenced in September 2012. FBN Securities is one of the 10 market makers appointed by the NSE.

Market makers seek to profit by providing trading liquidity in the stocks for which they make markets, as opposed to traditional investors in equity markets who seek to profit from directional moves in equity prices. The presence of market makers enhances the ability of investors to execute a trade (either buy or sell) in a stock, whenever they decide to do so. As an approved market maker, FBN Capital adds liquidity in the trading of designated stocks by posting all through the trading day, prices at which we will buy the stock (bid prices) and prices at which we will sell the stock (offer prices).

By virtue of the specific activity undertaken in market making, there is a need to maintain a holding of stocks in inventory. As such, the primary risk faced by the market making operation is equity market risk – the risk of losses arising from adverse movements in market prices for securities held in inventory. To mitigate this risk, a multitiered approach to risk management is employed. We:

- ensure risk diversification by making markets in a selection of stocks in different sectors and apply explicit limits to positions in each sector;
- define position limits for each stock in which we make markets based on market activity levels; and
- detail stop-loss limits that restrict loss of capital over a period of time in a given stock.

The Group also maintains relatively small active trading positions in fixed-income securities that can give rise to traded market risk. This is in addition to fixed-income securities holdings in the investment book. These exposures are monitored on an ongoing basis, and are actively managed through a comprehensive suite of thresholds and limits. Positions held in the investment book are also subject to the Company's balance sheet management practices.

INSURANCE GROUP:

Market risk in the Insurance group arises from the uncertain movement in fair value or net asset value of the investments. This stems principally from potential changes in sentiment towards the investment, the variability of future earnings that are reflected in the current perceived value of the investment and the fluctuations in interest rates and foreign currency exchange rates. Policyholders' investments in equities are valued at fair value and are therefore susceptible to market fluctuations.

Policyholders' funds are invested in line with the approved mandates based on the design of the product and marketing descriptions. The funds are invested with the aim of maximising return on the funds and ensure that the policyholders' reasonable expectations are met. The focus of risk measurement and management is to ensure that the potential risks inherent in an investment are reasonable for the future potential reward, exposure to investment risk is limited to acceptable levels, premium rates are adequate to compensate for investment risk and an adequate reserving policy is applied for long-term policy liabilities.

The diverse product range requires a variety of approaches to the management of risk. These approaches range from portfolio management practices and techniques, such as optimisation of expected risks and rewards based on investment objectives, to asset liability matching, in support of the statement of financial position obligations.

An investment management contract exists with FBN Capital to ensure investment income stability, asset security and appropriately manage associated risks.

OUTLOOK

The world economy in 2014 recorded its worst shape in two years, deviating from the expectation of moderate recovery and reviving of global growth to its pre-crisis levels and showing signs of weakness with significant downside risks going into 2015. A roller coaster of events, apparent in deterioration of the euro area and emerging markets; the Ebola virus outbreak in West Africa that led to fear and panic in other parts of the world, instigating suffering in some economies; rampant military conflicts and security crises in the Middle East, Africa and Russia/Ukraine; and the sharp drop in global oil prices characterised the year.

Barring any geopolitical disturbance, we still expect the global economic growth to grip at a rate of 2-3% in 2015, leveraging on accommodative global monetary conditions as well as global disinflationary pressures. Growth in Europe will contribute, if any, very little to the global growth in 2015 but this Achilles' heel will be compensated by the growth in the US (which is emerging as the agent most likely to power global growth in 2015) and emerging markets which will continue to grow, although growth may vary, depending on pace of reforms.

The Nigerian economy will record a slower growth in 2015 as the burden which emanated from significant capital flight from its financial markets, initially at the instance of gradual and completion of the US stimulus tapering, and the failing economic fundamentals in the latter half of the year (led by the slump in global oil prices and multi-year low performance of the local currency) have translated into a lackluster outlook for the nation despite its elevated profile as Africa's largest economy. The lowering oil prices will inexorably suggest a slowdown in the strong growth momentum of the nation in 2015. Estimated growth for 2015 has been slashed from the previously projected 6.4% to 5.5% due to the ruinous effect of the downtrodden oil prices on fiscal revenue of a highly oil-dependent economy. This will have a domino effect on the financial market in 2015.

On the back of a weakening fiscal outlook, coupled with the upcoming general elections, 2015 holds a high level of uncertainty with regards to the performance of the Nigerian fixed-income market. The debt space at the outset of the year 2014 saw a boom in the asset prices, and subsequently an extensive bearish trend towards the end of the year, as investor sentiments became battered by the nation's weakening economic indices. The continued exit of foreign capital is likely to worsen in the first quarter of 2015, as investors' fears will be aggravated by election risks. The downward spiral of asset demand will thus spur yet spiking rates, but strong local demand for Federal Government bonds is expected to support prices. Additionally, from an international perspective, the probability that the US Federal Reserve will increase its key policy rate towards the middle of 2015 further dampens the prospects for the whopping return of foreign capital into the Nigerian market in the first half of the year. While the local investors, like the pension funds administrators, typically trade at the long end of the curve, we believe the scant foreign inflows and local bank funds channeled into the Nigerian debt space will most likely be inclined towards the short end of the curve (treasury bills).

The monetary policy tightening experienced in 2014 will be sustained in 2015 contrary to the initial forward guidance of gradual lowering interest rates stated by the CBN's Governor in June 2014. At its last meeting in 2014, the Monetary Policy Committee (MPC) of the CBN, became more aggressive with further monetary tightening measures against the backdrop of failing global oil prices, weak macroeconomic fundamentals, foreign exchange market volatility, inflations expectations and superfluous liquidity in the financial system, among others. The MPC adjusted the benchmark monetary policy rate (MPR) for the first time since October 2011, increasing it by 100bps to 13% with a systemic corridor of +/-200 basis points. Furthermore the Committee devalued the official exchange rate (naira/dollar); shifting its midpoint from ₦155/USD to ₦168/USD and widened the band around the midpoint to +/-5%. The cash reserve ratio for public and private sector deposits with deposit money banks was also increased to 75% from 50% and 20% from 15% respectively.

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The expectation of further slides in oil prices, the need to create an attractive financial market amid dwindling confidence in economic fundamentals and a probable sharp swing in inflation suggests a less accommodative monetary policy stance in 2015. Hence we expect further increases in the benchmark interest rates alongside manipulation of other monetary tools.

An achievement worthy of commendation was the CBN's ability to maintain price stability during the 2014 financial year. This kept the headline inflation rate within the target band of 6%-9% despite the inherent risks posed by excessive liquidity and pre-election spending (which was quite minimal during the year). However, the 2015 fiscal year could potentially be a different ball game as we expect government spending to substantially increase, especially during the first quarter of the year coupled with much feasible impact of the devaluation of naira on imported prices which would push the headline inflation rate upwards.

Nigeria's foreign exchange market was volatile for the most part of 2014 due to foreign portfolio reversal. This forced the CBN to be largely visible in the FX market in the form of consistent direct interventions and a series of tightening regulatory policies and administrative measures aimed at stabilising the market. It further responded to exchange rate pressures by excluding some hitherto allowed transactions from the RDAS window and transferring them to the interbank segment; devaluing the naira exchange rate and creating a temporary downward review of dealers' foreign exchange positions to 0% (from 1%), among others.

Nigeria's over reliance on oil remains a potential threat to the foreign exchange market in 2015 as oil prices may continue to dip further to multi-year lows. Therefore, the naira will continue to be pressured as the general election in the first quarter and reduced foreign capital inflow weighed, leaving the CBN struggling to stabilise the market amid limited capacity obvious in declining FX reserves in 2015. We expect the CBN to launch further monetary tightening and administrative measures to tame interbank exchange rates around 184-190/USD in 2015.

The Nigerian stock market was seen to completely reverse the exceptional performance of 2013; ending the year 2014 with a negative 28.7% year to date returns on the back of weak macroeconomic fundamentals, excessive foreign portfolio reversals, unimpressive financial performances from most companies listed on the exchange as well as negative economic growth outlook for the nation. Consequently, stock prices have fallen to very attractive levels for which domestic investors might be interested in going into 2015. While we are not optimistic of increased foreign investors' participation in the equity market especially during the first quarter of 2015, we believe investors would trade cautiously in anticipation of the outcome of the 2015 general election.

We expect the global oil prices to remain low in 2015 as the supply glut which weighed uncontrollably on the commodity's price (hitting its five-year lows) in 2014 is most likely to extend beyond. OPEC (Organization of the Petroleum Exporting Countries) has reiterated no cut in output with the cartel presumably allowing prices to fall with the aim of taming US shale production (which costs more to produce). Besides, military conflicts in Iran, Iraq, Russia, Ukraine and elsewhere have not disrupted supply as anticipated while continuous growth in the US economy will strengthen the dollar, making oil less attractive on dollar denominated exchange while expectation of gloomy global growth also remains a key factor.

We anticipate a slightly erratic trend in the financial system as the Nigerian economic outlook suggests a challenging and volatile operating environment in 2015. The daunting effect of the oil prices and relative low capital inflow will continue dawning on the fiscal revenue of the nation and cascade into slower economic growth with a multiplier effect on the Nigerian financial market. Banks will continue to struggle with regulatory uncertainties as the Government strives to balance fiscal and monetary policies in a bid to put the economy on track for a sustainable growth path. While 2015 will likely be a rocky path, we expect the market to astutely adapt to a changing business environment and possibly move to new highs in the second half of the year.

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LIQUIDITY RISK MANAGEMENT

OVERVIEW

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

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

The objective of FBN Holdings' liquidity risk management is to ensure that all anticipated funding commitments within the Group and member institutions can be met as and when due and that access to funding sources is coordinated and cost effective.

RISK APPROACH

FBN Holdings' liquidity risk management ensures the maintenance of an optimal level of liquidity through the active management of both assets and liabilities while complying with regulatory requirements and optimising returns.

Liquidity risk management is primarily undertaken in our various operating entities in compliance with policies and limits set by the entity's Risk Management Oversight Committee. These policies are usually adapted to the markets and industry sectors in which the entities operate. Our general policy is that each entity must manage its liquidity on a standalone basis.

The following principles guide liquidity risk management across the Group:

- robust liquidity risk management framework that ensures maintenance of sufficient liquidity to withstand a range of stress events;
- clearly articulated liquidity risk tolerance appropriate for the Group's business strategy and its role in the financial system;
- alignment of risk taking businesses with resultant liquidity risk exposure in fund transfer pricing, performance measurement and new product approval process;
- sound processes 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 the credit portfolio and/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

Governance structures are currently maintained at individual business group levels in order to aid coordination across analogous business lines and regulatory environments. Below is the specific governance structure in each subsidiary.

COMMERCIAL BANKING GROUP:

Executive management oversight for all risk types will be delegated by the Group Executive Committee and the MANCO (Management Committee) to a Group Risk Oversight Committee, which will implement a homogenous risk management framework across the Group by recommending for approval by the relevant Board committees:

- levels of risk appetite;
- stress testing requirements;
- risk governance standards for each risk type;
- risk strategy and key risk controls across the Group; and
- utilisation of risk appetite, as well as the usage and allocation of economic capital.

Executive management in each business unit will be responsible for ensuring the implementation of Group risk governance standards.

Governance structures are currently maintained at individual business group levels, in order to aid coordination across analogous business lines and regulatory environments.

The Assets & Liabilities Management Committee (ALCO) provides oversight for the Commercial Banking business's liquidity risk management function.

The ALCO, made up of executive directors and other relevant divisional heads, is responsible for the following:

- review of policies relating to liquidity risk management;
- recommendation of liquidity risk policies to the Board;
- review of liquidity risk strategy and recommendation of the same for Board approval;
- provision of management oversight on the implementation of policies relating to liquidity risk;
- monitoring of liquidity risk inherent in the maturities mismatch of assets and liabilities;
- development of policies, procedures, tools and systems for identifying, measuring, controlling and reporting liquidity risks;
- ensuring compliance with statutory and regulatory requirements relating to liquidity risks;
- review of and recommendations on liquidity risk-related limits for approvals; and
- approving stress scenarios and contingency funding plan assumption.

Implementation of market and liquidity risk management policies, procedures and systems are delegated to the Head of the Market and Liquidity Risk Management department who reports to the Executive Director and Chief Risk Officer.

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LIQUIDITY RISK MANAGEMENT

INVESTMENT BANKING AND ASSET MANAGEMENT GROUP:

Both the Management Committee (MANCO) and the Risk Management Committee (RMC) provide oversight for the management of liquidity risk within the Investment Banking and Asset Management group.

Both committees are made up of senior management, including the heads of the Company's business divisions. The broad responsibilities of the committees are as follows:

- managing the implementation of the Company's strategic policies as approved by the Board;
- making proposals to the Board committees on the Company's policies including liquidity risk management;
- reviewing policies relating to liquidity risk management;
- recommending liquidity risk management policies to the Board; and
- providing effective management oversight for the implementation of the Company's liquidity risk management policies.

INSURANCE GROUP:

The Investment Committee is responsible for providing oversight to the liquidity management function. They are responsible for:

- ensuring that insurance and investment contract liabilities are matched with appropriate supporting assets based on the type of benefits payable to the contract holders;
- ensuring that the long-term investment return on assets supporting policy liabilities are sufficient to fund policyholders' reasonable benefit expectations and the shareholders' profit entitlement; and
- the implementation and monitoring of the asset management process to ensure that the risks arising from investment positions are effectively managed within the predetermined risk parameters.

OTHER FINANCIAL SERVICES GROUP:

Top management provides oversight for the liquidity risk management function in the Group in line with the CBN's microfinance policy guidelines.

PERFORMANCE

COMMERCIAL BANKING GROUP:

The Group operates within the regulatory liquidity risk management framework of the CBN and other regulatory bodies in the host countries. The regulatory guidelines stipulate:

- the eligible liquid assets or instruments;
- minimum liquidity ratios and limits;
- illiquidity determination and intervention; and
- maintenance of liquidity reserves.

The principal mechanism for implementing the liquidity policies within the Commercial Banking business is the maintenance of liquid assets to deposit ratio over and above the defined regulatory minimum.

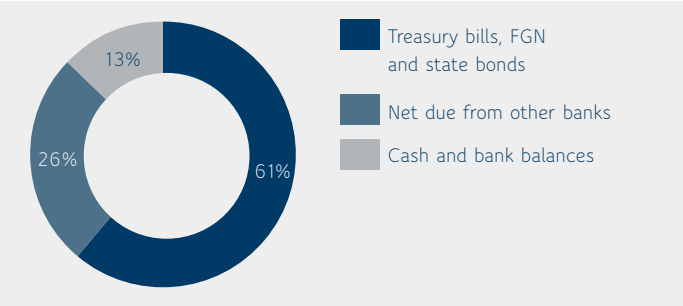
The liquidity ratio is interpreted in conjunction with cash flow projection and liability concentration ratios to measure exposure to liquidity risk. The cash flow technique used is the maturity ladder, which assesses all cash inflows against outflows to identify the potential for net shortfalls or net funding requirements.

The liquidity and funding management process also includes the preparation of multi-currency balance sheets, assessing cash flows by major currencies and projecting cash flows under stress scenarios.

The use of concentration ratios prevents the Banking Group from relying on a limited number of depositors or funding sources.

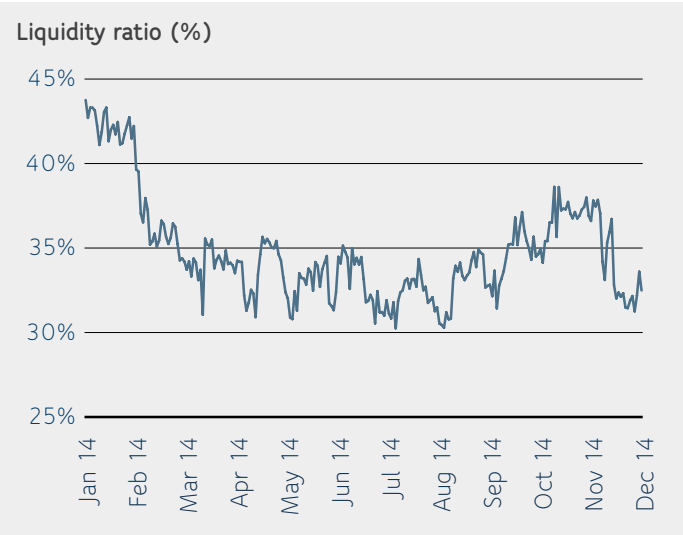
Liquid assets portfolio composition

Commercial Banking business group	₦'bn
Cash and bank balances	134.36
Net due from other banks	266.34
Treasury bills, FGN and state bonds	621.99
Total liquid assets	**1,022.70**



Liquidity sources and trend

The Commercial Banking business is funded primarily by a diverse mix of retail and corporate deposits, a funding base that ensures stability and low funding cost with minimal reliance on higher cost time deposits and interbank takings as significant sources of funding. The Group places considerable importance on demand and savings deposits, which provide over 79% of its funding base. Although these accounts are contractually repayable on demand, in reality, they are stable and have formed a core component of the Group's liabilities.



Despite the reduced liquidity in the system on account of further regulatory tightening during the year, especially on account of an increase in the cash reserve requirement on both public and private sector deposits, the Bank maintained a stable liquidity position, with an average liquidity ratio of 34.68%.

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LIQUIDITY RISK MANAGEMENT

FBNBank (UK) is regulated in the United Kingdom by the Prudential Regulation Authority (PRA) who set the required liquidity mismatch parameters. The liquidity structure of its assets, liabilities and commitments are managed so that cash flows are appropriately balanced to ensure that all funding obligations are met when due and the required mismatch parameters by the PRA are not breached. The policy of the Group is to match the maturities and currencies as far as practicable for all (and particularly large) exposures or placements.

Maturity analysis of liabilities is based on the contractual cash flow and on the earlier of the periods to the next interest rate pricing date or the maturity dates.

INVESTMENT BANKING AND ASSET MANAGEMENT GROUP:

The Group ensures the maintenance of ample liquidity to meet the various financial obligations as and when due by actively managing its funding and cash flows within approved limits in order to maintain an optimal funding profile and manage overall funding costs.

INSURANCE GROUP:

Liquidity risk is the risk that the business will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk arises when there is a mismatch between the maturities of liabilities and assets.

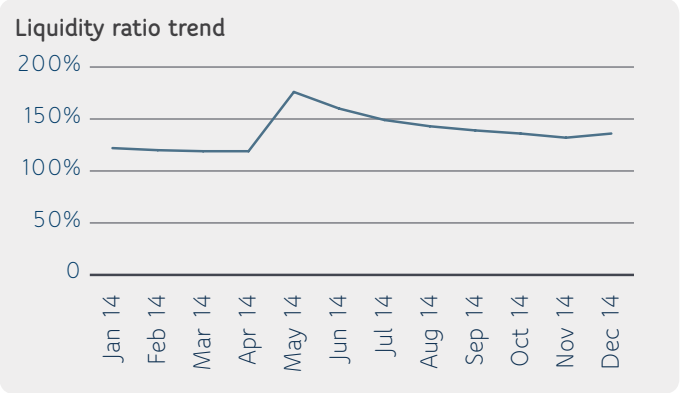
Liquidity mismatches are managed by ensuring that all policyholders' funds are invested in appropriate assets to meet the reasonable benefit expectations of policyholders, which include the expectation that funds will be available to pay out benefits as required by the policy contract.

The Insurance group was able to pay all benefits as and when due during the year.

OTHER FINANCIAL SERVICES GROUP:

FBN Microfinance (FBN MFB) is primarily funded by micro savings and corporate deposits. The micro savings are short term but due to the Bank's concerted efforts in maintaining good liquidity, aggressive drive for savings through introduction of schemes like daily savings promo and mandatory deposits on loans, stability of liquidity has been maintained. These deposits come at a very minimal cost.

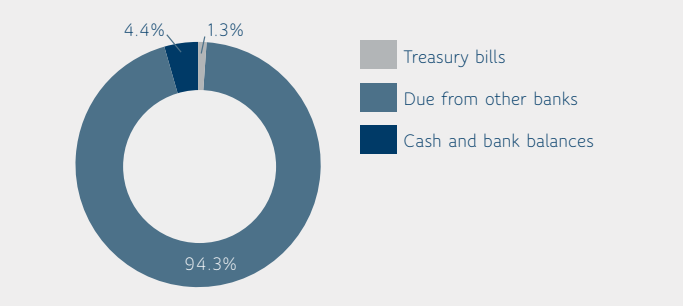
The Group maintained a stable liquidity position during the year, with an average liquidity ratio of 91.92%.



LIQUID ASSETS COMPOSITION

The Bank ensures there is no mismatch of funds; fixed deposits are strictly invested in interbank money markets while risk assets are funded from a pool of stable savings deposits and part of unutilised paid-up capital.

FBN Microfinance	₦'bn
Cash and bank balances	0.20
Due from other banks	4.34
Treasury bills	0.06
Total qualifying liquid assets	**4.59**



OUTLOOK

The Group is positioned to further strengthen its liquidity position in 2015, 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.

Deposit cost may trend higher than 2014 levels in the face of very intense competition and increasing cost environment; however, maintaining deposit stability will be key to stable liquidity positions across the Commercial Banking business sector especially as the velocity of money increases with the availability of non-conventional electronic transaction channels for both local and international transactions.

General market liquidity will be largely dependent on the fiscal and monetary policy directions of the Government in 2015.

CAPITAL MANAGEMENT

OVERVIEW

FBNHoldings' capital management framework is aimed at ensuring that the Group and its members are capitalised in line with the risk profile, economic capital standards and regulatory requirements.

RISK APPROACH

The Group's capital management approach will aim to achieve a functional balance between capital levels that support business growth while maintaining depositor confidence, and providing sustainable returns to shareholders.

FBNHoldings' capital management strategy will aim to allocate capital to businesses based on their economic profit targets, with due consideration of cost of capital, and within regulatory and economic capital requirements.

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LIQUIDITY RISK MANAGEMENT

GOVERNANCE

FBNHoldings shall establish a Capital Management Committee that will ensure the maintenance of discipline over its investment and capital allocation decisions while seeking to ensure that returns on investment are appropriate.

PERFORMANCE AND OUTLOOK

The Commercial Banking business operates within the regulatory capital management framework of the Basel Committee on Banking Supervision, the CBN and other regulatory bodies in the host countries. The regulatory guidelines stipulate minimum capital requirements and capital measurement.

The Commercial Banking business's capital management policies are in tandem with the relevant regulatory frameworks, ensuring the maintenance of capital over and above the regulatory minimum, and maintaining economic capital sufficient for the members' risk profiles.

CAPITAL COMPOSITION AND ADEQUACY

	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
TIER 1 CAPITAL		
Share capital	**16,316**	16,316
Share premium	**189,241**	189,241
Statutory reserve	**63,231**	51,329
SMEEIS reserves	**6,076**	6,076
Retained earnings	**87,200**	67,166
Less: Goodwill/deferred tax	**(1,343)**	(3,655)
Less: Loan to subsidiary	**(14,541)**	-
Less: Investment in unconsolidated subsidiaries	**(29,493)**	(29,265)
Total qualifying for tier 1 capital	**316,687**	297,208
TIER 2 CAPITAL		
Fair value reserve	**16,126**	13,063
Other borrowings	**141,819**	47,249
Total tier 2 capital	**157,945**	60,312
Tier 2 capital restriction	**120,688**	60,312
Less: Investment in unconsolidated subsidiaries	**(29,493)**	(29,265)
Total qualifying for tier 2 capital	**91,195**	31,047
Total regulatory capital	**407,882**	328,255
RISK-WEIGHTED ASSETS		
Credit risk	**2,131,421**	2,029,705
Operational risk	**453,746**	393,993
Market risk	**46**	783
Total risk-weighted assets	**2,585,213**	2,424,481
Risk-weighted capital adequacy ratio (CAR)	**15.78%**	13.54%
Tier 1 CAR	**12.25%**	12.26%

The capital management framework for the non-banking entities within FBNHoldings ensures discipline over investment and capital allocation decision in a way that protects shareholders' investments as well as clients' and customers' funds and guarantees continuous profitable operations within stipulated regulatory environment.

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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 in line with Basel definition of operational risk. Therefore, operational risk in the Banking Group 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 Banking Group recognises the significance of operational risk inherent in all areas of our business. Operational risk is managed within acceptable levels through an appropriate level of management focus and resources.

Components of operational risk

OBJECTIVES

The Group is committed to the management of operational risks. The Group's operational risk management framework aims to:

- reduce losses arising from operational risk – a key role of operational risk management in the Group is to reduce losses from operational failure and in particular avoid potentially large or catastrophic risk losses;
- improve performance measurement – the Group's improved understanding of its operational risk profile 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 Group expects that increased understanding of risk activities within various business units, the Board and senior management will lead to improvements in the control of operations and the emergence of a more proactive operational risk management culture;
- provide early warning signals of deterioration in the Group's internal control system; and
- raise awareness of operational risk in the Group from top to bottom through the implementation of an enterprise-wide operational risk approach.

PHILOSOPHY AND PRINCIPLES

The following philosophy and principles govern the management of operational risk in 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 Group's operational risk management practices are in line with Basel II.
- The Group's operational risk management practices are subject to regular independent review by internal and external auditors.
- Operational risk management is governed by well-defined policies and procedures which are 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.
- Adequate processes and systems for identifying, measuring, monitoring, reporting and controlling operational risks are being implemented by the Banking Group.

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METHODOLOGIES

In order to meet its operational risk management objectives, each business function within the Banking Group is required to identify, assess, measure and control its operational risk in line with the policy set by the Board.

Operational risk management process

The following are some of the key tools and techniques used by each business unit, in line with the nature and scale of the business risks.

OPERATIONAL RISK ISSUES REPORTING USING THE ISSUE AND ACTION MODULE OF 'SAS OPRISK MONITOR'

The SAS OpRisk tool is used for reporting operational risk issues on an online real-time basis. Issues being reported using this tool range from significant operational risk exposures, exceptions from key risk indicators (KRI) analysis and trending, exception from control risk self-assessment (CRSA), operational and fraudulent losses incidences, significant control breakdowns rectified during the month, all exceptions to corporate governance standards and outstanding audit issues, and any other issues with operational risk implication.

REAL-TIME INCIDENTS REPORTING

This is for reporting urgent and significant operational risk issues/events that have to be escalated to relevant senior management stakeholders within 48 hours of the incidence in addition to reporting it through the issue and action module of the SAS OpRisk Monitor. Examples of significant operational risk issues are armed robbery attack, fraud and losses.

RISK AND CONTROL SELF-ASSESSMENT (RCSA)

The purpose of RCSA is to assess if specific controls are operating as intended. 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 identifying areas of weakness and implementing remedial actions.

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 reoccurrence 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 key risk indicators for its significant risks, which:

- target key operational risk exposures for the business unit;
- enable management of the underlying causes of risk exposures;
- use thresholds aligned to the Group's risk appetite and enable risk-based decision-making;
- monitor with a frequency that matches the nature of the risks;
- complement the self-assessment and loss event collection processes; and
- report as part of the monthly management reporting.

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SCENARIO ANALYSIS

Basel II requires that 'a bank must use scenario analysis of expert opinion in conjunction with external data to evaluate its exposure to high severity events'. FirstBank Group will use scenario analysis of expert opinion in conjunction with external data to evaluate exposure to high-severity events. This approach draws on the knowledge of experienced business managers and risk management experts to derive reasoned assessments of plausible severe losses.

The Group shall adopt the following procedures in generating scenarios:

- use internal loss events and explore the potential for these events to become high-impact incidents;
- use external loss events to test internal resilience and explore potential impact if such events were to occur internally;
- use the knowledge of the management team to develop realistic scenarios to test operational resilience and adequacy of capital by exploring areas of perceived internal weakness;
- use the knowledge of the management team to explore exposures in areas where internal losses have occurred;
- develop disaster scenarios to conduct similar tests and examine the effect on the Bank;
- create scenarios based on areas of control weakness or on perceived changes in environment;
- use this information to adjust control structure/enhance mitigation/refine contingency plans as appropriate to ensure that the Bank can survive potential scenarios;
- use relevant scenarios in the model to complete the picture of the Bank's risk exposures; and
- compare scenarios with actual losses and changes in the business/market on an ongoing basis and adjust as appropriate.

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 the security agencies to improve protection of Bank's assets. Other key countermeasures put in place include:

- enhanced staff training;
- enhanced Know Your Customer (KYC) drive and background checks on employees;
- issuance of appropriate and deterrent circulars;
- job rotation and segregation;
- dissemination of email and SMS alerts to the Bank's customers for each debit on their accounts;
- imposition of stiff disciplinary measures including prosecution of fraudulent staff;
- installation of a panic alarm system, CCTV, deadman doors etc.; and
- implementation of a rules-based anti-fraud solution.

STRATEGY

Failure to manage operational risk effectively often results in significant financial losses, regulatory fines or censure, reputational damage, brand erosion or even the loss of 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 strategies are 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 the Bank will ensure these costs are kept within acceptable levels and potential losses are minimised.

In implementing these strategies:

- best practice operational risk management policies and procedures have been put in place. These include toolkits to help identify, assess, control, manage and report on operational risk within the Group;
- the Bank ensures that roles and responsibilities are agreed and clearly understood by employees at all levels;
- it is ensured that all staff in the business and support functions are aware of their responsibilities for operational risk management;
- consideration of the potential operational risk impact of its activities and products at the outset with a view to minimising these as far as possible;
- structures and processes for reporting control failures to designated individuals, and escalating material issues to the Business Risk and Compliance Committee (BRCC), MANCO and the Board Audit & Risk Assessment Committee have been put in place;
- the Bank ensures 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;
- financial impact of operational losses, through management of risk factors and utilisation of insurance or other risk transfer strategies, are minimised; and
- it is ensured that staff responsibility with respect to operational risk management is communicated through ongoing risk awareness workshops and management action.

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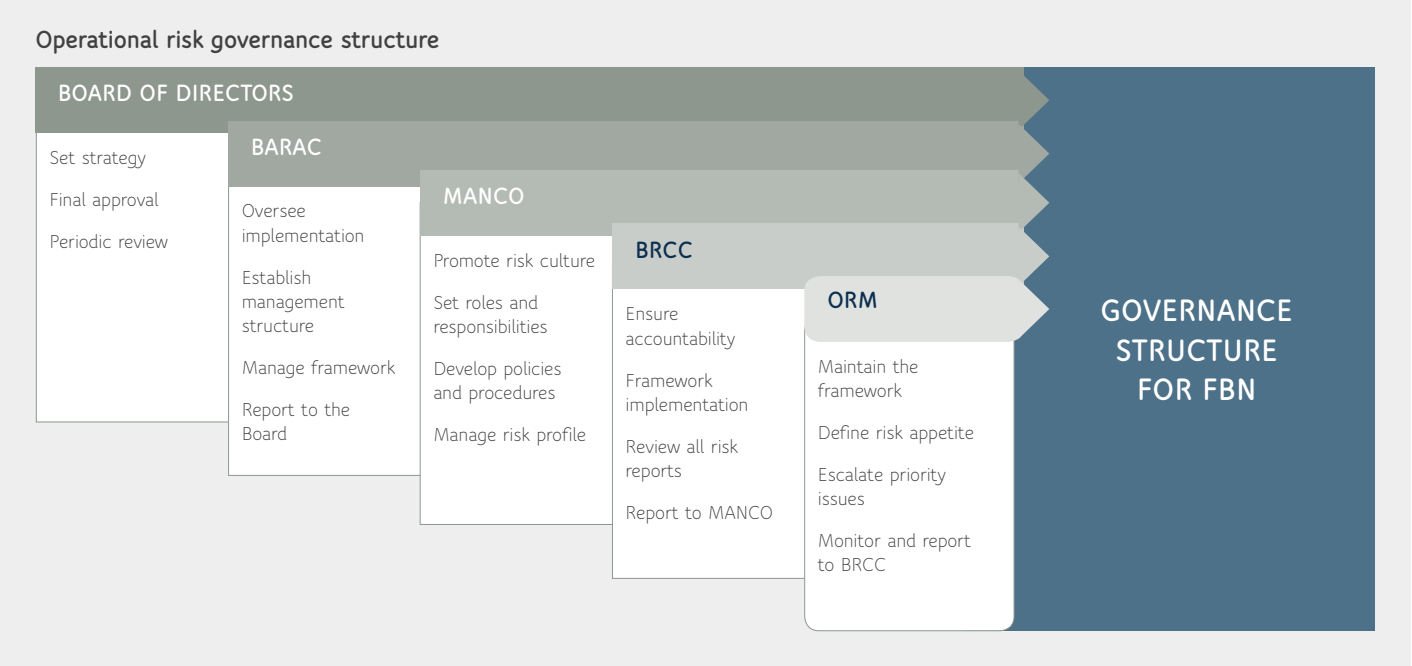

THE BOARD AND BOARD COMMITTEES

The Board of Directors, BARAC and MANCO have overall oversight for operational risk management. It is their responsibility to ensure effective management of operational risk and adherence to the approved operational risk policies.

Board of Directors

The Board:

- sets the Bank's operational risk strategy and direction in line with the Bank's corporate strategy;
- gives final approval for the Bank's operational risk management framework, policies and procedures; and
- periodically reviews the framework to ensure its relevance and effectiveness and ensures that senior management is performing its risk management responsibilities.

Board Audit & Risk Assessment Committee (BARAC)

BARAC:

- ensures that the operational risk management framework is comprehensive and in line with the Bank's strategy;
- approves the operational risk management framework and oversees its implementation; and
- establishes a management structure capable of implementing the framework with clear lines of responsibility, accountability and reporting and reports significant operational risk issues to the Board of Directors.

Management Committee (MANCO)

- ensures that the framework is implemented consistently across the Bank;
- ensures policies and procedures are developed for managing operational risk in the Bank's products, activities, systems and processes;
- ensures that all levels of staff understand their responsibilities with respect to operational risk management;
- reviews the Bank's risk profile and assesses potential impact on the activities of the Bank or business unit;
- ensures the Bank's risk profile is within established risk parameters;
- ensures that staff are adequately trained and have access to the necessary resources;
- obtains and reviews periodic reports on operational loss events, risk profiling and control failures Bank-wide and monitors corrective measures being implemented;
- ensures that the outputs from the operational risk management process are factored into the day-to-day management decisions of the Bank; and
- ensures that the Bank's operational policies and procedures promote the desired risk culture.

Business Risk and Compliance Committee (BRCC)

The BRCC, as a sub-committee of the MANCO, ensures the effective and efficient management of operational and business risks within the Bank. It reports through the MANCO to the BARAC, which serves as a link between the Board of Directors and senior management with respect to business risk management and audit function.

The BRCC:

- carries out the first-level review and challenging of developed operational risk and business risk frameworks, policies, procedures, processes and toolkits;
- ensures senior management become aware of, and more directly accountable for, risks in their jurisdiction;
- manages significant operational risks where they originate within the business function;
- ensures compliance with Group business/function operational and business risk policies and procedures;
- ensures operational risks identified within the business are assessed in terms of implications for wider business risk and that the identified business risks are reviewed and reported accordingly through the operational risk reporting process;
- ensures implementation of the approved operational risk framework, policies, procedures, processes and tool-sets;

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- continually promotes risk awareness throughout the Bank so that complacency does not set in;
- will identify, report and manage the top 20 operational risks now and in six months' time;
- assists the MANCO to manage ongoing corporate governance issues;
- reports through the MANCO to the BARAC on key business risk and compliance issues and decisions taken by the committee;
- reviews the reports from the heads of risk in operational, market and credit management, business lines and their respective risk profiles, concurs on areas of highest priority and puts in place the related mitigation strategies;
- reviews the reports of internal audit relating to operational risk and the appropriateness of the management's response thereto, and reports as necessary to the BARAC and/or to the Board of Directors (BOD);
- ensures adequate resources are allocated at various levels to manage business risk across the Bank;
- receives copies of regulatory examination reports pertaining to matters that are within the purview of the committee and management's responses thereto; and
- performs other activities related to this charter as requested by the MANCO and the Board.

OPERATIONAL RISK MANAGEMENT FUNCTION

The Group operational risk management function is independent of the BDOs, branches, departments/business units and control and support units, and reports to the Chief Risk Officer, a member of the MANCO.

The core responsibility of the Group operational risk management function is the development and implementation of operational risk management across the Group.

This entails:

- drafting operational risk management policies, standards, processes and procedures;
- playing the role of a thought partner with businesses and support functions to manage their operational risk;
- developing and driving the implementation and maintenance of the operational risk management framework;
- developing and distributing tools, techniques, methodologies, common risk language, risk frameworks, analysis, reports, communication and training;
- coordinating, aggregating and facilitating operational risk management activities across the Bank;
- monitoring the operational risk profile, including accumulations of risk, trends and risks from internal and external market changes;
- escalating high-priority issues to senior management and the Board;
- collating, challenging and reporting on aggregate risk profile, control effectiveness and actions to risk committees and the Board;
- analysing BDOs, branches, departments/business units and control and support units' operational risk to derive emerging themes for the Bank;
- defining yearly operational risk limits and appetite for the Bank, business and support units respectively; and
- liaising with external parties, e.g., regulators, analysts and external auditors on the Bank's operational risk management practices.

MILESTONES

ISO 22301 (SOCIETAL SECURITY: BUSINESS CONTINUITY MANAGEMENT SYSTEM) RECERTIFICATION SUCCESS STORY

The general security situation in the country remains a concern having taken a different dimension with the political, social and economic undercurrent. FirstBank, the largest subsidiary in the Group, continues to work at ensuring safety and protection of assets, and staff and customers' investments, through implementation of a robust business continuity management system (BCMS), are in line with global best practice.

Further to the Bank's achievement of the ISO 22301 (Societal Security: Business Continuity Management System) certification and successful completion of its maintenance cycle, the Bank has successfully passed the recertification audit by British Standard Institute (BSI) conducted in November 2014.

INVESTMENT BANKING AND ASSET MANAGEMENT

The Investment Banking group has implemented standard operational risk management processes for actively managing operational risk. Throughout 2014, the Risk Management Department rolled out, and began embedding, these operational risk management processes to enhance the control culture and minimise losses reported across the Group. In addition, the Risk Management Department is raising the levels of risk awareness throughout the Company, to complement these risk management processes and contribute to a reduction in the frequency and value of operational loss incidents. Finally, the Company is reviewing its business continuity and disaster management plans and processes to ensure that the capability to operate off-site in the event of emergencies is available with little or no down time in the process.

INSURANCE GROUP

The Group mitigates its operational risks through its culture and values, internal controls, internal audit, forensic and compliance functions and other measures such as backup facilities, contingency planning and insurance.

The initiation of transactions and their administration is conducted on the basis of the segregation of duties, designed to ensure the correctness, completeness and validity of all transactions.

OTHER FINANCIAL SERVICES (FBN MICROFINANCE)

FBN Microfinance has continued to ensure that its operational policies are complied with, and infractions are identified and addressed to prevent future occurrences.

OUTLOOK

Beyond complying with regulatory requirements, the Group continues to embed a robust operational risk management practice, culture and environment, as a value driver that enhances and contributes to stakeholders' value, long-term existence and survival of the institution. To this end, a number of initiatives and projects are currently ongoing that, when completed, will enhance the risk management culture and practices within the organisation and by extension, significantly reduce the Group's operational risk exposures and incidences.

Some of these key initiatives and projects are as follows:

- Implementation and roll-out of the world-class risk intelligence solution to the local and foreign subsidiaries of FirstBank, the flagship subsidiary in the Group.
- 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 a business continuity management culture to the Bank's branches and subsidiaries.
- Review and update existing operational risk management toolsets and processes, and introduce new ones.
- Capacity building/aggressive Bank-wide operational risk awareness campaign to increase employees' risk awareness level and competence in managing risks.

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INFORMATION SECURITY RISK

OVERVIEW

The Group considers information assets as a strategic business resource critical to the success of the Group's activities and operations. In view of the importance of this key resource, each entity within the Group has in place an information security risk management framework which dictates at a very high level the governance structure for the management of information assets and related risk. The Group Enterprise Risk Management (ERM) framework sets the direction for the management of information security across the Group.

Presented in subsequent sections are detailed descriptions of how information security risk is managed in each of the subsidiaries.

COMMERCIAL BANKING GROUP

The various components of information security risk include: unauthorised access, use, disclosure, modification, inspection and recording or destruction of information assets which could potentially cause disruption of operations.

POTENTIAL IMPACTS ON BUSINESS

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

Disruptions to these information assets could have dire consequences for the Group such as huge financial losses, reputational damage, and regulatory and legal infractions.

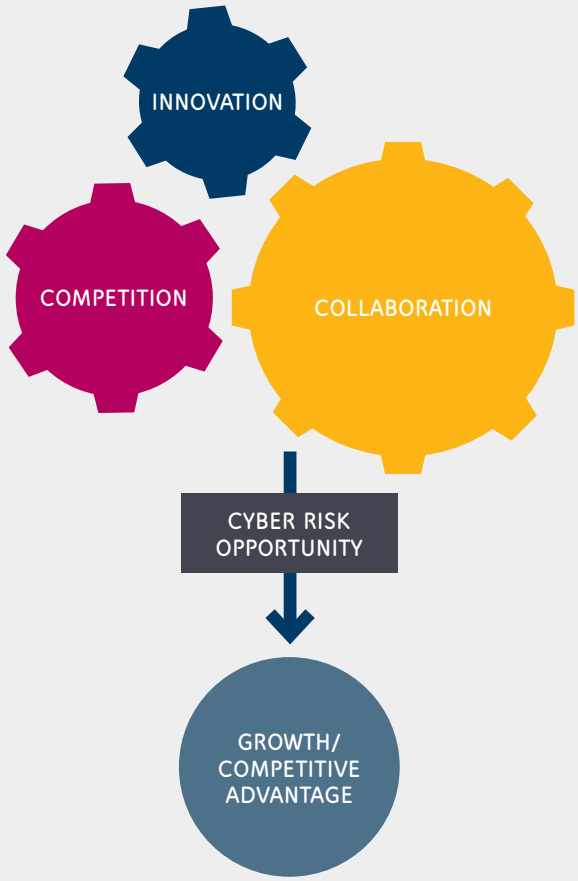
MITIGATING MEASURES

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

RESPONSIBILITY

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

Information security management strategy



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OVERVIEW

The Group has recertified the organisation to the Payment Card Industry Data Security Standard (PCI DSS), which is the standard established and maintained by a consortium of five global major card brands (American Express, Discovery Financial Services, JCB International, MasterCard, and Visa Incorporated), and was developed to help reduce card data theft and the resulting fraud. This recognition is a strong value indicator which shows that FirstBank consistently operates with its customers' interest at heart. The Bank also, within the financial year, successfully passed the ISO 27001 surveillance audit which places its ISO 27001 certificate (awarded to the Bank in 2010) in good standard for 2014. The standard as part of its maturity growth model compels certified organisations to a biannual surveillance audit and recertification exercise which is conducted every three years.

Organisations worldwide are taking advantage of the increase in people with access to the internet, by providing new products or making their operations cheaper. Cyberspace has given organisations enormous benefits through improved innovation, collaboration, productivity, competitiveness and customer engagement. While these benefits have enhanced services and operations across the globe it has had enormous consequences for organisations who have adopted the technology without appropriate assessment and controls for the risk.

To take advantage of cyberspace, organisations must manage new risks beyond those traditionally covered by the implementation of firewalls and demilitarised zones (DMZs).

The Group's information security management structure and operation gives it the capability to detect potential attacks on its brand and infrastructure and the ability to forestall these attacks when they take place.

The Group continues to pioneer information security best practices within the Nigerian financial services sector. It remains recognised as a contributor in international information security management policy and standards formulations.

FirstBank was the first financial institution to achieve the prestigious ISO 27001 certificate in Nigeria, the first and to date the only African institution to be elected into the Board of the Payment Card Industry Security Standard Council (PCI SSC), and has been a member of the global Information Security Forum (ISF) for three years.

PHILOSOPHY AND APPROACH

Security is a business concern and the Group's management takes ownership of, and directs at a strategic level, the requirements for information security management as captured in the Group's information security management system (ISMS). Information security requirements will continue to be aligned with organisational goals and the ISMS is intended to be an enabling mechanism for information sharing, electronic operations, e-commerce and the reduction of information-related risks within the risk appetite of the organisation.

The information security methodology of the Group focuses on risk identification and mitigation rather than the traditional method of a reactive risk management. The Group's daily operations are guided by clearly defined and documented policies and procedures, which promote information assets protection and management of assets confidentiality, integrity and availability.

CULTURE

Over time, the Group has created a culture of value for information. Information is recognised and managed as a valuable asset by all staff and third-party service providers. This value is driven down from top management as documented in the Information Security Framework and Information Security Policy.

Information protection culture

APPETITE

The Group's information security risk appetite is set by the Board of Directors as identified in the risk assessment methodology; it is set at a level that minimises adverse risk to information assets.

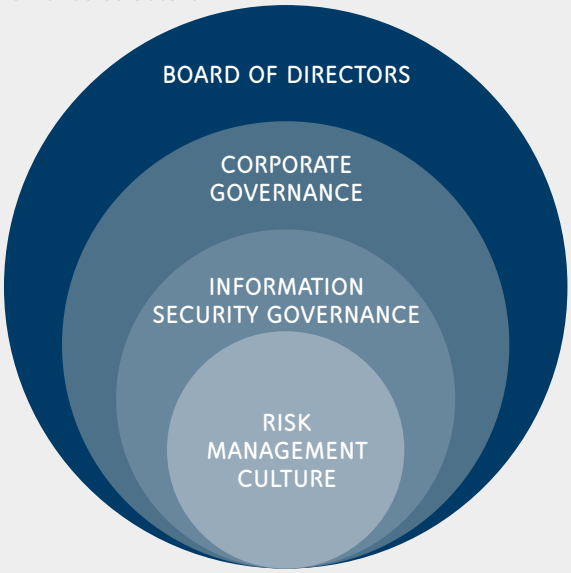
GOVERNANCE STRUCTURE

THE BOARD

The Board and management have the overall responsibility to ensure that all information assets within the Group are protected and adequately secure.

These responsibilities include preserving the confidentiality, integrity and availability of all the physical and electronic information assets in the Group to ensure all customer information receives adequate protection. In addition, it ensures that the Group complies with all legal, regulatory, contractual and commercial requirements of information security.

Governance structure



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INFORMATION SECURITY RISK

GOVERNANCE (ORGANISATIONAL STRUCTURE)

FUNCTION	ROLE
Board of Directors	Final authority and responsibility for safeguarding FirstBank's information assets rests with the Board of Directors.
Board Audit & Risk Assessment Committee	The Board Audit & Risk Assessment Committee (BARAC) reviews and approves information security policies and budgets to ensure they are in line with the Bank's strategic vision before passing them on to the Board for final approval.
Management Committee	The Management Committee (MANCO) recommends for approval information security policies, strategies and budget. The MANCO is responsible for reviewing and approving the information security monitoring programmes and the key results of monitoring activity, identifying key risks and the actions needed to keep them at an acceptable level.
Executive Director Risk Management (Chief Risk Officer)	The executive sponsor has the ultimate responsibility to provide an accurate view of the information security condition of the Bank and encourage information owners and users to keep risks at an acceptable level.
Information Security Forum	The Information Security Forum (ISF) consists of a number of FirstBank departmental heads and Business Development Managers (BDMs). It is a forum where security issues affecting the Bank are discussed, monitored and controlled.
Internal Audit	The Internal Audit function and information security office support the monitoring process without losing independence.
Compliance	The Compliance function protects business growth and sustainability by ensuring compliance to regulation.
Internal Control	The Internal Control function undertakes transactional monitoring. Maintaining a close working relationship with the information security office, Internal Control forwards results of information on security-related transaction investigations and reviews.
Information Security Champion	As part of FirstBank's implementation of the information security management practice, FirstBank has designated staff within business units and departments as Information Security Champions.
Information asset owners	Information asset owners are specific individuals (typically management personnel) who have been formally appointed by the Bank as being accountable for the secure storage and use of major information assets.
All FirstBank workers	All FirstBank workers (i.e., employees on the payroll and others acting in a similar capacity, such as contractors, consultants and student placements) are responsible for complying with the principles and policies in the Information Security Policy manual where relevant to their jobs.

OVERSIGHT

The BARAC at the Banking Group 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 Business Risk and Compliance Committee (BRCC) and Board Audit & Risk Assessment Committee (BARAC).

BUSINESS RISK AND COMPLIANCE COMMITTEE (BRCC)

The BRCC is responsible for approving the information security policies and budget prior to further approvals by BARAC and the Board.

Key responsibilities of the BRCC on information security risk include:

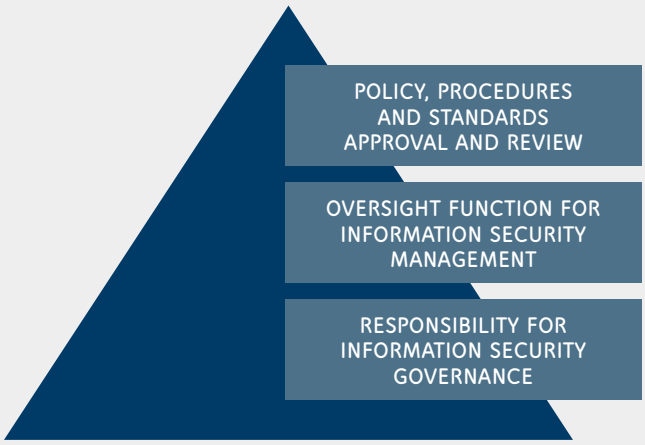
- ensuring that the information security policies are up to date to support the business;
- ensuring that a business continuity plan is in place;
- adequate budgetary provision to support the IT infrastructures is made annually; and
- ensuring information security procedures are up to date with modern security developments.

BOARD AUDIT & RISK ASSESSMENT COMMITTEE (BARAC)

The BARAC reviews and approves information security policies and budgets to ensure they are in line with the Bank's strategic vision before passing them to the Board for final approval. The key responsibilities of the BARAC for information security are to ensure that:

- top management as well as key stakeholders responsible for information security possess the requisite expertise and knowledge required to secure the Bank's information assets;
- the Bank implements a sound methodology for managing information security consistent with the ISO 27001 standard; and
- detailed policies, standards and procedures are created, updated regularly and effectively communicated within the Bank.

BARAC oversight function



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RELATIONSHIPS WITH OTHER UNITS

The Information Security department maintains key relationships with other units in the Group through activities such as:

- getting involved in strategic projects within the Bank to ensure that information security and Information Security Policy requirements are built into applications and processes at the conceptual stage and not bolted on at disparate junctions after full implementation;
- an information security awareness programme for the Bank, which 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 requirements and good information security practices.

This responsibility is to be shared by both the management and the employees of the Group, irrespective of designation or function. Information security management in the FirstBank Group is a continuous process. As part of its responsibility, the ISMD monitors risk indicators such as information security-related incidents, supplemented by trend analysis that highlights high risk or emerging issues, so that prompt action can be taken.

CERTIFICATION DRIVES

FirstBank has continued to maintain its certificates in good standards; this includes the ISO27001 and Payment Card Industry Data Security Standard (PCI DSS) which it was initially awarded in 2010, and again in 2013.

INVESTMENT BANKING AND ASSET MANAGEMENT GROUP (IBAM)

In line with the Group's approach to risk, IBAM continuously develops policies, processes and procedures, to proactively identify, analyse and put in place acceptable measures, for controlling those risks.

The risks posed to its information assets require the effective management of data confidentiality, integrity and availability of IT systems. IBAM is currently undergoing a significant transformation of the current IT systems with a key objective being to optimise the approach to the management of related risks.

INFORMATION SECURITY RISK MANAGEMENT APPROACH

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.

INFORMATION SECURITY RISK

The Company has established policies, processes, procedures and standards to identify risks, analyse the risks identified and put in place acceptable measures for controlling those risks.

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.

IT risk is managed through two principal committees: the Board Audit & Risk Assessment Committee and the Management Committee (MANCO). Their oversight responsibilities for IT security risk management are as follows:

BOARD AUDIT & RISK ASSESSMENT COMMITTEE

The Board Audit & Risk Assessment Committee is responsible for approving the information security policies and budget prior to final approval the Board of the Company.

Key responsibilities of the Board Audit & Risk Assessment Committee on information security risk include:

- ensuring that the Company IT policies are up to date and able to support the business of the Company;
- ensuring that the Company has a business continuity plan in place;
- adequate budgetary provision, to support the IT infrastructures, are made annually; and
- ensuring that the Company's information technology procedures are up to date with modern technological development.

MANAGEMENT COMMITTEE (MANCO)

MANCO is responsible for ensuring the implementation of the various information technology-related policies and budget as approved by the Board. Other functions include:

- day-to-day supervision of the operation of the Information Technology department; and
- ensuring the department is manned by qualified staff.

INSURANCE GROUP

The Insurance group is primarily involved in the equitable transfer of the risk of loss and offers various products to the generality of its customers. Given the level of exchange of information between it and its customers, information security is a critical concern for the Group.

INFORMATION SECURITY RISK FACTORS

A company's proprietary information about products, processes, customers and suppliers is a critical business asset to its daily operations and survival. The most common threat in a networked system is unauthorised access to information and computer resources. This may cause the loss of confidentiality, integrity, and availability of the information assets.

INFORMATION SECURITY RISK MANAGEMENT APPROACH

The information security risk management approach is proactive rather than reactive. As a result, the Insurance group has put in place some policies to safeguard the information assets in line with the Group Information Security Policy and effectively maintain the confidentiality, integrity and availability of such assets.

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SOME OF THE KEY POLICIES ENSURE:

- all computers are password protected to prevent unauthorised access;
- all computers are set to logout after a predefined period of time and require the password to be entered to login again;
- all members of staff have their unique password allocated to them;
- no two users have the same login credentials; and
- access to data resources is granted on a need-to-know basis.

OTHER FINANCIAL SERVICES (FBN MICROFINANCE)

INFORMATION SECURITY RISK

The responsibility of information security is shared by both the management and employees of the Bank, irrespective of designation and function.

Vast amounts of organisational and customer data are generated daily for which there are legal, regulatory, privacy and security requirements. FBN Microfinance understands its responsibilities towards compliance with all of these requirements, especially as its ability to protect its information impacts the Bank. It therefore employs a combination of continuous monitoring and a well-defined and established risk management programme to ensure assurance for the security of its data.

The Bank has put in place processes that will ensure the confidentiality of information and is committed to preserving the integrity of information through protection from unauthorised modification, disclosure and theft.

INFORMATION SECURITY RISK GOVERNANCE FRAMEWORK

The Bank's information risk appetite is set by the Board of Directors as identified in the risk assessment methodology that is set at a level that minimises risk to the integrity, confidentiality and availability of information assets. The Board's responsibilities are discharged through the Board and management committees.

BOARD AUDIT & RISK ASSESSMENT COMMITTEE

The Board Audit & Risk Assessment Committee (BARAC) reviews and approves information security policies and budgets to ensure they are in line with the Bank's strategic vision before passing them to the Board for final approval. Key responsibilities of the BRC for information security are to ensure 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.

MANAGEMENT COMMITTEE (MANCO)

The Management Committee recommends for approval the 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 necessary action to keep them at an acceptable level.

INFORMATION ASSET MANAGEMENT

Security of information assets is managed as follows:

- Information assets are classified and labeled according to FBN Microfinance classification guidelines.
- Development of an appropriate risk assessment methodology to ensure the regular identification and treatment of risks within FBN Microfinance.
- Monitoring of the security condition of information assets.
- Creation and maintenance of critical documents (policies, procedures etc.) necessary for security governance.
- Information security awareness programme.

OUTLOOK

Information Security aligns itself with the strategic objective of the Group by ensuring that proactive security measures are put in place to ensure that the organisation is not deterred from reaching its key goals.

As part of our drive for full integration and alignment of operations and procedures across the African subsidiaries of the Banking Group, which includes the growth of new market segments such as mobile services and the internet banking market; a key focus for 2015 would be security of information assets, this is due to the increase in size and complexity of the Group and its operations.

Information exchange, transmission and storage will be managed in a secure manner to ensure that information compromises, as witnessed by some major corporations in 2014, do not occur. Cyber security will remain a major issue for all large organisations in 2015 and the best proven way to manage this risk is through awareness building and culture change for all those in the information value chain.

As for cyber security, this is already an area receiving utmost attention 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 Group's networks and infrastructure, and customers and staff are primary targets as well. It is therefore pertinent to widen our focus on cyber security.

The Group will continue with its time-proven risk management methodology which focuses on information assets identification, risk identification and treatment thereby providing it with a global view of all possible risk exposures and ability to proactively manage them. The core Group outlook for 2015 would remain as the management of cybercrime and growing cyber terrorism targeted at national assets and organisations to which financial institutions are not immune.

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COMPLIANCE RISK

OVERVIEW

FBNHoldings recognises that it is accountable to all its stakeholders under applicable legal and regulatory requirements, and is committed to high standards of integrity and fair dealing in the conduct of its business. It is committed to fully comply with both the spirit and the letter of applicable requirements and to always act with due skill, care and diligence. Thus, the Group instituted a compliance risk management framework that comprises the strategy, governance structure, processes and tools that should be adopted in managing compliance risks across the Group.

COMPLIANCE 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 set the tone by creating an environment where compliance-related issues are taken into consideration in all business decisions.
- Compliance concerns everyone within the Bank, therefore it is embedded in the culture of the Bank and not just the responsibility of specialist compliance staff.

COMPLIANCE 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.

COMPLIANCE RISK MANAGEMENT STRATEGY

The following strategies are adopted in achieving the above stated objectives:

Empowerment: the Bank compliance function possesses the requisite knowledge and skills set, financial resources as well as authority and independence for optimal performance.

Training and awareness: the Bank creates, cultivates and sustains 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 function.

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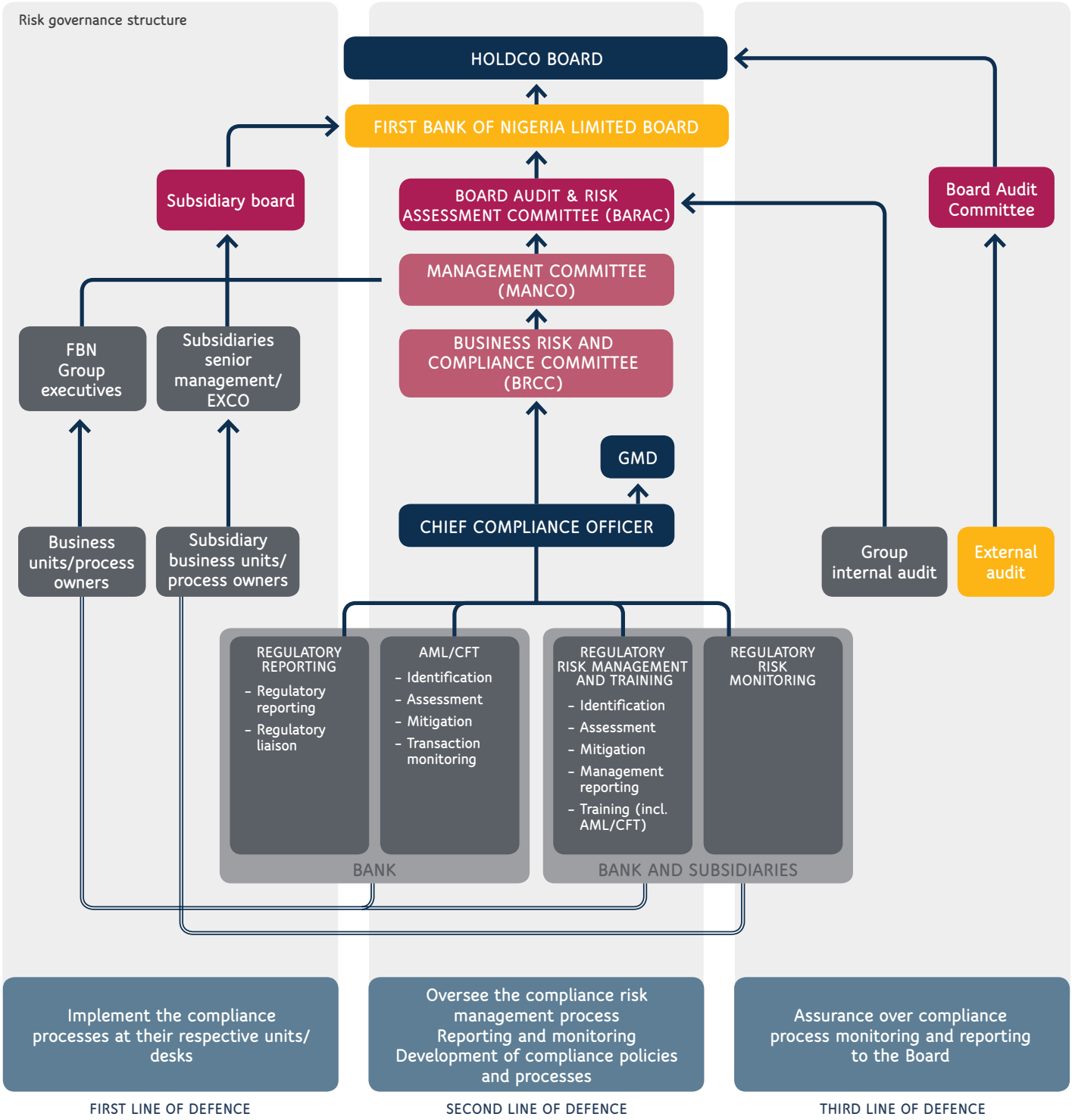
COMPLIANCE RISK GOVERNANCE STRUCTURE

Responsibility for the coordination of compliance across the Group resides in the risk management function at FBNHoldings, while each of the intermediate holding companies and subsidiaries have their respective Chief Compliance Officer that coordinates compliance in their respective subsidiary. Presented below is the governance structure of the compliance function at the Banking Group.



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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 Board Audit & Risk Assessment Committee (BARAC) provides supporting oversight on the management of compliance risk 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 at the Banking Group has the responsibility of ensuring the implementation of the approved compliance risk policies, procedures, processes and tool sets.

CHIEF COMPLIANCE OFFICER (CCO)

The Chief Compliance Officer is responsible for setting an entity-wide policy and compliance standards, and coordinating the overall compliance system in the Banking Group.

INTERNAL CONTROL AND ENHANCEMENT GROUP

Internal control assists the compliance function in the conduct of independent monitoring.

INTERNAL AUDIT

Internal Audit department 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 Internal Audit function.

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 as well as the Bank's Code of Conduct.

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 complied with.

The compliance function operates independently from Internal Audit. The compliance function leverages on the internal control and Internal Audit infrastructure by developing compliance checklists which are to be completed by internal control and Internal Audit and 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	

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OUTLOOK

The regulatory landscape is ever-evolving. During the course of the year, the CBN announced tighter monetary policies in a bid to check the excessive pressure on prices due to the forthcoming 2015 general elections.

The CBN embarked on several initiatives through the formulation and implementation of various policies, innovation of appropriate products and creation of enabling environment for financial institutions to deliver services in an effective, efficient and sustainable manner. These initiatives were mainly targeted at the agricultural sector, rural development and micro, small and medium enterprises with far reaching implications for compliance particularly for the Banking Group.

Furthermore, financial inclusion has continued to assume increasing recognition across the globe among policy makers, researchers and development-oriented agencies. Its importance derives from the promise it holds as a tool for economic development, particularly in the areas of poverty reduction, employment generation, wealth creation and improving welfare and general standards of living. As a result of this, the CBN has continued to impress on financial institutions the need to have products that will assist in driving the initiative.

The CBN's efforts in the implementation of the Nigerian Financial Inclusion Strategy are very laudable. We are aware that the journey to achieving financial inclusion is long; it is our belief that the sustained efforts of the industry will go a long way towards reaching the financial inclusion goals and targets in 2015 and beyond.

The payments system plays a very crucial role in any economy, being the channel through which financial resources flow from one segment of the economy to the other. It, therefore, represents the major foundation of the modern market economy. The Nigerian payments system witnessed remarkable achievements during the year, with the introduction of a number of initiatives under the Payments System Vision 2020. This was further entrenched through:

- implementation of Bank Verification Number (BVN) scheme to address issues associated with the absence of unique identifier of bank customers across the industry;
- issuance of guidelines on international money transfer services in Nigeria;
- issuance of revised guidelines for card issuance and usage in Nigeria;
- implementation of industry e-reference portal; and
- abolishment of fees on cash deposit above the cashless policy threshold.

The positive effects of these policy initiatives are expected to manifest beginning 2015.

Despite the enormous challenges in the face of fast-changing regulatory environment and the need for financial institutions to comply with the numerous regulations, we believe these measures by the CBN will be accompanied by short-term pain, but also longer term benefits. Some of the immediate gains include among others the opening up of the international money transfer services to accommodate both inbound and outbound services.

In view of various initiatives within the Bank in response to the 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.

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FINANCIAL STATEMENTS

Our financial statements for the year ending 31 December 2014 represent the third year of performance under the holding company structure and are prepared according to International Financial Reporting Standards (IFRS).

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RESPONSIBILITY FOR ANNUAL FINANCIAL STATEMENTS

The Companies and Allied Matters Act and the Banks and Other Financial Institutions Act, require the directors to prepare financial statements for each financial year that gives a true and fair view of the state of financial affairs of the Group at the end of the year and of its profit or loss. The responsibilities include ensuring that the Group:

i. keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the bank and comply with the requirements of the Companies and Allied Matters Act and the Banks and Other Financial Institutions Act;

ii. establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and

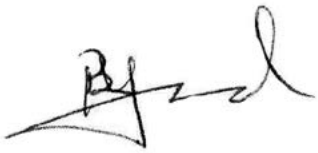
iii. prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgments and estimates, that are consistently applied.

The directors accept responsibility for annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with:

- International Financial Reporting Standards (IFRS);
- Financial Reporting Council of Nigeria (FRC) Act;
- Prudential Guidelines for Licensed Banks;
- relevant circulars issued by the Central Bank of Nigeria;
- the requirements of the Banks and Other Financial Institutions Act; and
- the requirements of the Companies and Allied Matters Act.

The directors are of the opinion that the IFRS financial statements give a true and fair view of the state of the financial affairs of the Company and Group and of the profit for the year. 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 FBN Holdings Plc will not remain a going concern for at least 12 months from the date of this statement.



Bello Maccido
Group Chief Executive Officer
FRC/2013/CISN/00000002366

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REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF FBN HOLDINGS PLC

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying separate and consolidated financial statements of FBN Holdings Plc ("the company") and its subsidiaries (together "the group"). These financial statements comprise the statement of financial position as at 31 December 2014, the income statement and the statements of other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Companies and Allied Matters Act and the Banks and Other Financial Institutions Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an independent opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the company and the group at 31 December 2014 and of the financial performance and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act, the Banks and Other Financial Institutions Act and the Financial Reporting Council of Nigeria Act.

REPORT ON THE OTHER LEGAL REQUIREMENTS

The Companies and Allied Matters Act and the Banks and Other Financial Institutions Act require that in carrying out our audit we consider and report to you on the following matters. We confirm that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) the company has kept proper books of account, so far as appears from our examination of those books and returns adequate for our audit have been received from branches visited by us;

iii) the company's statements of financial position and comprehensive income are in agreement with the books of account;

iv) the information required by Central Bank of Nigeria Circular BSD/1/2004 on insider related credits is disclosed in Note 47 to the financial statements;

v) to the best of our information, there were no penalties for contraventions of relevant circulars issued by Central Bank of Nigeria.

for PricewaterhouseCoopers
Chartered Accountants
Lagos, Nigeria
Engagement Partner, Tola Ogundipe
FRC/2013/ICAN/0000000639
24 March 2015

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REPORT OF THE AUDIT COMMITTEE

In compliance with section 359(6) of the Companies and Allied Matters Act 1990, we have reviewed the Audit Report for the year ended 31 December 2014 and hereby state as follows:

1. The scope and planning of the audit were adequate in our opinion.
2. The accounting and reporting policies of the Company conformed to statutory requirements and agreed ethical practices.
3. The internal control was being constantly and effectively monitored.
4. The external auditors' management report received satisfactory response from Management.
5. The Committee reviewed the Audit Report on insider-related party transactions and is satisfied with their status as required by the Central Bank of Nigeria (CBN).

Job Onwughara
Chairman, Audit Committee
Dated 12 March 2015

MEMBERS OF THE COMMITTEE

Job Onwughara
Oye Hassan-Odukale, MFR
Waheed Adegbite
Abdullahi Mahmoud
Abubakar Yahyah
Chidi Anya

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INCOME STATEMENT

		Group		Company	
	Note	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
CONTINUING OPERATIONS					
Interest income	7	**362,579**	323,621	**2,886**	924
Interest expense	8	**(118,725)**	(93,506)	**-**	-
Net interest income		**243,854**	230,115	**2,886**	924
Impairment charge for credit losses	9	**(25,942)**	(20,309)	**-**	-
Net interest income after impairment charge for credit losses		**217,912**	209,806	**2,886**	924
Insurance premium revenue	10	**3,320**	2,011	**-**	-
Insurance premium revenue ceded to reinsurers		**(616)**	(226)	**-**	-
Net insurance premium revenue		**2,704**	1,785	**-**	-
Fee and commission income	11	**66,983**	59,381	**-**	-
Fee and commission expense	11b	**(6,205)**	(5,296)	**-**	-
Net gains on foreign exchange	12	**44,905**	6,693	**42**	-
Net gains/(losses) on investment securities	13	**(230)**	2,899	**-**	-
Net losses from financial instruments at fair value through profit or loss	14	**(1,262)**	(1,504)	**-**	-
Dividend income	15a	**1,469**	1,227	**13,747**	74,057
Other operating income	15b	**2,854**	1,127	**294**	7
Insurance claims		**(1,043)**	(488)	**-**	-
Personnel expenses	16a	**(79,843)**	(65,820)	**(1,159)**	(58)
Depreciation of property, plant and equipment	29	**(11,375)**	(10,284)	**(229)**	(47)
Amortisation of intangible assets	30	**(1,384)**	(912)	**-**	-
Impairment loss on investment	28	**-**	-	**(7,781)**	(2,594)
Operating expenses	16	**(143,200)**	(108,283)	**(2,117)**	(1,658)
Operating profit		**92,285**	90,331	**5,683**	70,631
Share of profit of associates	28	**599**	1,006	**-**	-
Profit before tax		**92,884**	91,337	**5,683**	70,631
Income tax expense	17	**(10,045)**	(20,706)	**-**	-
Profit for the year from continuing operations		**82,839**	70,631	**5,683**	70,631
Profit for the year		**82,839**	70,631	**5,683**	70,631
Profit/(loss) attributable to:					
– Owners of the parent		**83,059**	70,135	**5,683**	70,631
– Non-controlling interests		**(220)**	496	**-**	-
		82,839	70,631	**5,683**	70,631
Earnings per share for profit attributable to owners of the parent					
Basic/diluted earnings/loss per share:	53				
– From continuing operations		**2.55**	2.16	**0.17**	2.16
– From profit for the year		**2.55**	2.16	**0.17**	2.16

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STATEMENT OF COMPREHENSIVE INCOME

		Group		Company	
	Note	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Profit for the year		**82,839**	70,631	**5,683**	70,631
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss					
Net gains on available-for-sale financial assets					
- Unrealised net gains or losses arising during the period, before tax		**(1,060)**	(14,509)	**291**	209
- Net reclassification adjustments for realised net gains or losses, before tax		**(2,100)**	2,487	**-**	-
Share of other comprehensive income of associates		**-**	(298)	**-**	-
Exchange difference on translation of foreign operations		**5,297**	434	**-**	-
Income tax relating to components of other comprehensive income		**682**	282	**-**	-
Items that will not be reclassified to profit or loss					
Remeasurement of defined benefit pension scheme	38	**(364)**	1,857	**-**	-
Income tax relating to components of other comprehensive income		**122**	635	**-**	-
Other comprehensive income for the year, net of tax		**2,577**	(9,112)	**291**	209
Total comprehensive income for the year		**85,416**	61,519	**5,974**	70,840
Total comprehensive income attributable to:					
- Owners of the parent		**85,676**	61,039	**5,974**	70,840
- Non-controlling interests		**(260)**	480	**-**	-
		85,416	61,519	**5,974**	70,840
Total comprehensive income attributable to owners of the parent arises from:					
Continuing operations		**85,676**	61,039	**5,974**	70,840
		85,676	61,039	**5,974**	70,840

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STATEMENT OF FINANCIAL POSITION

		Group			Company	
	Note	31 Dec 2014 ₦ million	Restated 31 Dec 2013 ₦ million	Restated 31 Dec 2012 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
ASSETS						
Cash and balances with central banks	18	**698,104**	594,234	300,532	**-**	-
Loans and advances to banks	20	**460,911**	430,586	439,853	**3,261**	1,477
Loans and advances to customers	21	**2,178,980**	1,769,130	1,541,377	**80**	72
Financial assets at fair value through profit or loss	22	**27,601**	10,287	6,112	**-**	-
Investment securities						
- Available-for-sale investments	23	**553,154**	529,488	379,675	**2,806**	2,515
- Held to maturity investments	23	**158,485**	294,575	338,365	**1,466**	-
- Loans and receivables		**-**	-	-	**-**	7,332
Asset pledged as collateral	24	**68,483**	53,650	50,109	**-**	-
Other assets	32	**40,692**	45,640	45,992	**14,361**	43,285
Inventory	33	**37,805**	30,253	21,676	**-**	-
Investment properties	34	**2,826**	2,413	4,003	**-**	-
Investments in associates accounted for using the equity method	28	**-**	7,029	6,321	**1,500**	9,281
Investment in subsidiaries	25	**-**	-	-	**260,777**	246,777
Property, plant and equipment	29	**88,208**	81,299	75,407	**1,519**	1,072
Intangible assets	30	**10,094**	8,748	3,523	**-**	-
Deferred tax assests	31	**8,992**	7,120	8,201	**-**	-
		4,334,335	3,864,452	3,221,146	**285,770**	311,811
Asset held for sale	27	**8,331**	4,549	5,221	**2,000**	-
Total assets		**4,342,666**	3,869,001	3,226,367	**287,770**	311,811
LIABILITIES						
Deposits from banks	35	**171,151**	82,032	89,430	**-**	-
Deposits from customers	36	**3,050,853**	2,929,081	2,395,148	**-**	-
Financial liabilities at fair value through profit or loss	22	**10,917**	1,701	1,796	**-**	-
Current income tax liability	17	**11,829**	34,167	23,389	**-**	-
Other liabilities	39	**132,633**	149,606	122,202	**9,590**	3,710
Liability on investment contracts	40	**60,617**	68,723	54,995	**-**	-
Liability on insurance contracts	41	**8,260**	3,651	2,127	**-**	-
Borrowings	37	**369,707**	126,302	75,541	**-**	-
Retirement benefit obligations	38	**2,029**	1,924	19,380	**-**	-
Deferred tax liabilities	31	**188**	37	225	**-**	-
		3,818,184	3,397,224	2,784,233	**9,590**	3,710
Liabilities held for sale	27	**1,592**	-	819	**-**	-
Total liabilities		**3,819,776**	3,397,224	2,785,052	**9,590**	3,710

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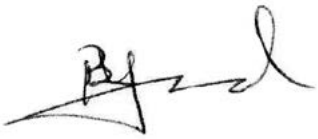
STATEMENT OF FINANCIAL POSITION

		Group			Company	
	Note	31 Dec 2014 ₦ million	Restated 31 Dec 2013 ₦ million	Restated 31 Dec 2012 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
EQUITY						
Share capital	42	**16,316**	16,316	16,316	**16,316**	16,316
Share premium	43	**254,524**	254,524	254,524	**254,524**	254,524
Retained earnings	43	**108,637**	115,397	76,072	**6,968**	37,180
Other reserves						
- Statutory reserve	43	**65,278**	52,074	43,347	**-**	-
- Capital reserve	43	**1,223**	-	-	**10**	10
- SSI reserve	43	**6,076**	6,076	6,076	**-**	-
- AFS fair value reserve	43	**12,532**	14,969	26,991	**362**	71
- Contingency reserve	43	**217**	107	50	**-**	-
- Statutory credit reserve	43	**46,673**	7,987	16,101	**-**	-
- Treasury shares	43	**(18)**	(2,280)	(2,378)	**-**	-
- Foreign currency translation reserve	43	**7,399**	2,102	1,668	**-**	-
		518,857	467,272	438,767	**278,180**	308,101
Non-controlling interest		**4,033**	4,505	2,548	**-**	-
Total equity		**522,890**	471,777	441,315	**278,180**	308,101
Total equity and liabilities		**4,342,666**	3,869,001	3,226,367	**287,770**	311,811

The financial statements on pages 227 to 348 were approved by the Board of Directors on 20 March 2015 and signed on its behalf by:

Dr Oba Otudeko, CFR
Group Chairman
FRC/2013/ICAN/00000002365



Bello M. Maccido
Group Chief Executive Officer
FRC/2013/CISN/00000002366

Oyewale Ariyibi
Head of Finance
FRC/2013/ICAN/00000001251

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent													
	Share capital ₦ million	Share premium ₦ million	Retained earnings ₦ million	Capital reserve ₦ million	Statutory reserve ₦ million	SSI reserve ₦ million	AFS fair value reserve ₦ million	Contingency reserve ₦ million	Statutory credit reserve ₦ million	Treasury shares ₦ million	FCTR ₦ million	Total ₦ million	Non-controlling interest ₦ million	Total equity ₦ million
Balance at 1 January 2013	16,316	254,524	76,072	-	43,347	6,076	26,991	50	16,101	(2,378)	1,668	438,767	2,548	441,315
Profit for the year	-	-	70,135	-	-	-	-	-	-	-	-	70,135	496	70,631
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 available-for-sale financial assets	-	-	-	-	-	-	(12,006)	-	-	-	-	(12,006)	(16)	(12,022)
Remeasurement of defined benefit pension scheme	-	-	1,857	-	-	-	-	-	-	-	-	1,857	-	1,857
Share of OCI of associates, net of tax	-	-	-	-	-	-	(298)	-	-	-	-	(298)	-	(298)
Total comprehensive income	-	-	72,627	-	-	-	(12,022)	-	-	-	434	61,039	480	61,519
Transactions with owners														
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	181	181
Dividends	-	-	(32,632)	-	-	-	-	-	-	-	-	(32,632)	(264)	(32,896)
Disposal of treasury shares	-	-	-	-	-	-	-	-	-	98	-	98	-	98
Other changes*	-	-	-	-	-	-	-	-	-	-	-	-	1,560	1,560
Transfer between reserves	-	-	(670)	-	8,727	-	-	57	(8,114)	-	-	-	-	-
Total transactions with owners	-	-	(33,302)	-	8,727	-	-	57	(8,114)	98	-	(32,534)	1,477	(31,057)

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	Attributable to equity holders of the parent													
	Share capital ₦ million	Share premium ₦ million	Retained earnings ₦ million	Capital reserve ₦ million	Statutory reserve ₦ million	SSI reserve ₦ million	AFS fair value reserve ₦ million	Contingency reserve ₦ million	Statutory credit reserve ₦ million	Treasury shares ₦ million	FCTR ₦ million	Total ₦ million	Non-controlling interest ₦ million	Total equity ₦ million
At 31 December 2013	16,316	254,524	115,397	-	52,074	6,076	14,969	107	7,987	(2,280)	2,102	467,272	4,505	471,777
Profit for the year	-	-	83,059	-	-	-	-	-	-	-	-	83,059	(220)	82,839
Other comprehensive income														
Foreign currency translation differences, net of tax	-	-	-	-	-	-	-	-	-	-	5,297	5,297	-	5,297
Tax effects on revaluation of financial assets	-	-	122	-	-	-	682	-	-	-	-	804	-	804
Fair value movements on available for sale financial assets	-	-	-	-	-	-	(3,119)	-	-	-	-	(3,119)	(41)	(3,160)
Remeasurement of defined benefit pension scheme	-	-	(364)	-	-	-	-	-	-	-	-	(364)	-	(364)
Total comprehensive income	-	-	82,817		-	-	(2,437)	-	-	-	5,297	85,677	(261)	85,416
Transactions with owners														
Dividends	-	-	(35,895)		-	-	-	-	-	-	-	(35,895)	(107)	(36,002)
Changes in treasury shares	-	-	-		-	-	-	-	-	2,262	-	2,262	-	2,262
Other changes*	-	-	-		-	-	-	-	-	-	-	-	(58)	(58)
Business restructuring	-	-	(1,682)	1,223	-	-	-	-	-	-	-	(459)	(47)	(505)
Transfer between reserves	-	-	(52,000)	-	13,204	-	-	110	38,686	-	-	-	-	-
Total transactions with owners	-	-	(89,577)	1,223	13,204	-	-	110	38,686	2,262	-	(34,092)	(211)	(34,303)
At 31 December 2014	16,316	254,524	108,637	1,223	65,278	6,076	12,532	217	46,673	(18)	7,399	518,857	4,033	522,890

*Other changes represents the change in non-controlling interest arising from the acquisiton or disposal of unit holdings in FBN Heritage Funds.
FBN Heritage fund is an open-ended mutual fund.

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COMPANY STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent					
	Share capital ₦ million	Share premium ₦ million	Retained earnings ₦ million	Capital reserve ₦ million	AFS fair value reserve ₦ million	Total ₦ million
Balance at 1 January 2013	16,316	254,524	(819)	10	(138)	269,893
Profit for the year	-	-	70,631	-	-	70,631
Other comprehensive income						
Fair value movements on equity financial assets	-	-	-	-	209	209
Total comprehensive income	-	-	70,631	-	209	70,840
Transactions with owners						
Dividends	-	-	(32,632)	-	-	(32,632)
Transfer between reserves	-	-	-	-	-	-
Total transactions with owners	-	-	(32,632)	-	-	(32,632)
At 31 December 2013	16,316	254,524	37,180	10	71	308,101
Profit for the year	-	-	5,683	-	-	5,683
Other comprehensive income						
Fair value movements on equity financial assets	-	-	-	-	291	291
Total comprehensive income	-	-	5,683	-	291	5,974
Transactions with owners						
Dividends	-	-	(35,895)	-	-	(35,895)
Transfer between reserves	-	-	-	-	-	-
Total transactions with owners	-	-	(35,895)	-	-	(35,895)
At 31 December 2014	16,316	254,524	6,968	10	362	278,180

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CONSOLIDATED STATEMENT OF CASH FLOWS

		Group		Company	
	Note	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
OPERATING ACTIVITIES					
Cash flow used in operations	44	**(716,278)**	(90,339)	**(4,024)**	(42,204)
Income taxes paid		**(31,329)**	(7,918)	**-**	-
Interest received		**352,041**	329,660	**1,917**	3
Interest paid		**(93,316)**	(90,052)	**-**	-
Net cash flow generated from/(used in) operating activities		**(488,882)**	141,351	**(2,107)**	(42,201)
INVESTING ACTIVITIES					
Acquisition/additional investment in subsidiary	25	**-**	-	**(3,200)**	(1,262)
Purchase of investment securities		**(491,692)**	(310,682)	**-**	-
Proceeds from the sale of investment securities		**478,252**	320,185	**124**	4,604
Cash and cash equivalent acquired from subsidiary	26	**16,935**	8,080	**-**	-
Dividends received		**1,469**	1,227	**44,963**	74,057
Purchase of investment properties		**(13)**	(53)	**-**	-
Purchase of property, plant and equipment		**(16,916)**	(17,920)	**(676)**	(1,089)
Purchase of intangible assets		**(2,208)**	(1,144)	**-**	-
Proceeds on disposal of property, plant and equipment		**1,346**	992	**-**	-
Net cash flow generated from/(used in) investing activities		**(12,827)**	685	**41,211**	76,310
FINANCING ACTIVITIES					
Proceeds from sale of treasury shares		**2,262**	98	**-**	-
Dividend paid		**(36,002)**	(32,896)	**(35,895)**	(32,632)
Proceeds from new borrowings		**315,792**	96,297	**-**	-
Repayment of borrowings		**(71,308)**	(46,473)	**-**	-
Interest paid on borrowings		**(11,850)**	(2,489)	**-**	-
Transactions with NCI		**(58)**	1,560	**-**	-
Net cash flow generated from/(used in) financing activities		**198,836**	16,097	**(35,895)**	(32,632)
(Decrease)/Increase in cash and cash equivalents		**(302,874)**	158,133	**3,209**	1,477
Cash and cash equivalents at start of year		**834,691**	676,847	**1,476**	(1)
Effect of exchange rate fluctuations on cash held		**639**	(289)	**42**	-
Cash and cash equivalents at end of year	19	**532,456**	834,691	**4,727**	1,476

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1 GENERAL INFORMATION

These financial statements are the consolidated financial statements of FBN Holdings Plc (the Company), and its subsidiaries (hereafter referred to as 'the Group'). The Registered office address of the Company is at 35 Marina, Samuel Asabia House, Lagos, Nigeria.

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

The consolidated financial statements for the year ended 31 December 2014 were approved and authorised for issue by the Board of Directors on 20 March 2015.

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 2014 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Additional information required by national regulations is included where appropriate.

The financial statements comprise the income statement, statement of comprehensive income, statement of financial position, the statement of changes in equity, statement of cash flows and the related notes for the Group and the Company.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires directors to exercise judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed.

The Directors believe that the underlying assumptions are appropriate and that the Group's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

2.2.1 New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014 and are applicable to the Group:

(i) **Amendments to IAS 36 – Impairment of assets (effective 1 January 2014)**
These amendments address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. These amendments require disclosure of the recoverable amount of an asset or cash generating unit (CGU) when an impairment loss has been recognised or reversed; and require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognised or reversed. The amendment did not have an impact on the consolidated financial statements for the Group, as the Group did not reverse or recognise an impairment loss on its non-financial asset whose recoverable amount was based on fair value less cost of disposal.

(ii) **Amendments to IAS 32 – Offsetting financial assets and financial liabilities (effective 1 January 2014)**
These amendments clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. They do not change the current offsetting model in IAS 32 but clarify that the right of set-off must not be contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment did not have a significant impact on the consolidated financial statements for the Group.

(iii) **Amendment to IFRS 13 – Fair Value Measurement**
The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a Group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9. When IFRS 13 was published, paragraphs B5.4.12 of IFRS 9 and AG79 of IAS 39 were deleted as consequential amendments. This led to a concern that entities no longer had the ability to measure short-term receivables and payables at invoice amounts where the impact of not discounting is immaterial. The IASB has amended the basis for conclusions of IFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases. The amendment did not have a significant impact on the consolidated financial statements for the Group.

(iv) **IFRIC 21 – Levies (effective 1 January 2014)**
IFRIC 21, 'Levies' sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation could result in recognition of a liability later than today, particularly in connection with levies that are triggered by circumstances on a specific date. It addresses the accounting for a liability to pay a levy recognised in accordance with IAS 37, 'Provisions', and the liability to pay a levy whose timing and amount is certain. It excludes income taxes within the scope of IAS 12, 'Income taxes'. The interpretation does not address whether the liability to pay a levy gives rise to an asset or an expense. Entities will need to apply other standards to determine the accounting for the expense. The amendment did not have a significant impact on the consolidated financial statements for the Group.

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(v) **Amendments to IFRS 10 – Consolidated Financial Statements (effective 1 January 2014)**
IFRS 10 defines an investment entity and introduces an exception from consolidation. This will particularly benefit private equity funds, as those that qualify will fair value all of their investments, including those that are controlled. The amendment to IFRS was accompanied by amendments to IFRS 12 and IAS 27. Some entities within the Investment Banking and Asset Management (IBAM) segment are investment entities and these entities measured the relevent investments as fair value while the ultimate parent company, FBN Holdings Plc, consolidated as appropriate.

(vi) **Amendments to IAS 40 – Investment Property (effective 1 January 2014)**
The amendment clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. It states that in determining whether the acquisition of an investment property is a business combination, judgement of the specific requirements of IFRS 3 is required. The amendment did not have a significant impact on the consolidated financial statements for the Group.

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

A number of new standards, interpretations and amendments thereto, had been issued by IASB which are not yet effective, and have not been applied in preparing these consolidated financial statements. 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 2014.

(i) **Amendments to IAS 24 – Related party disclosures (effective annual periods beginning on or after 1 July 2014)**
This standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the management entity). The reporting entity is not required to disclose the compensation paid by the management entity to the management entity's employees or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided. The amendment will not have a significant impact on the consolidated financial statements for the Group.

(ii) **IFRS 9 – Financial Instruments (effective for periods beginnning on or after 1 January 2018)**
This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The guidance in IAS 39 on impairment of financial assets continues to apply. However, entities will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. The standard also provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging. The Group is yet to assess the full effect of IFRS 9 and intends to adopt IFRS 9 no earlier than the accounting period beginning on or after 1 January 2018.The directors will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

(iii) **IFRS 15 – Revenue from contracts with customers (effective annual periods beginning on or after 1 January 2017)**
IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The Group is yet to assess the full effect of IFRS 15 and intends to adopt IFRS 15 no later than the accounting period beginning on or after January 2017.

(iv) **Amendment to IFRS 8 – Operating segments (effective annual periods beginning on or after 1 July 2014)**
The standard is amended to require disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported. The amendment will not have a significant impact on the consolidated financial statements for the Group.

(v) **Amendment to IAS 19 – Employee Benefits (effective annual periods beginning on or after 1 July 2014)**
The amended IAS 19 states that changes in the defined benefit obligation and fair value of plan assets are recognised in the period as they occur. The corridor method is eliminated and actuarial gains and losses and unrecognised past service costs are recognised directly in other comprehensive income. Because actuarial gains and losses are no longer deferred, both the net defined benefit liability/asset and the amounts recognised in income statement are affected. The amended standard splits changes in defined benefit liabilities/assets in:

- Service cost (including past service costs, curtailments and settlements) – in income statement;
- Net interest costs (i.e. net interest on the net defined benefit liability) – income statement;
- Remeasurement of the defined benefit liability/asset – in other comprehensive income.

The amendment will not have a significant impact on the consolidated financial statements for the Group. There are no other IFRSs and 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.

Investment in subsidiaries is measured at cost in the separate financial statements of the parent.

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.

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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. Investment in associates is measured at cost in the separate financial statements of the investor. Investments in associates are accounted for using the equity method of accounting in the Consolidated Financial Statements of the Group. 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 an 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 Group, in accordance with IAS 8, uses its judgment in developing and applying an accounting policy that is relevant and reliable. In making this judgment, directors consider the requirements of IFRS dealing with similar and related issues and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the framework.

Directors also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, to the extent that these do not conflict with the IFRS Framework or any other IFRS or interpretation.

Accordingly, the Group's policy is that the assets and liabilities of the business transferred are measured at their existing book value in the consolidated financial statements of the parent, as measured under IFRS. The Company incorporates the results of the acquired businesses only from the date on which the business combination occurs.

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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 Nigerian 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 which have functional currency different from the Group's presentation currency, are translated into the Group's presentation currency as follows:

- assets and liabilities of each foreign operation are translated at the rates of exchange ruling at the reporting date;
- income and expenses of each foreign operation are translated at the average exchange rate for the period, unless this average is not a reasonable approximation of the rate prevailing on transaction date, in which case income and expenses are translated at the exchange rate ruling at transaction date; and
- all resulting exchange differences are recognised in other comprehensive income.

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 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 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.

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2.8 INVENTORIES

The Group purchases and constructs properties for resale.

The Group recognises Property as inventory under the following circumstances:

(i) property purchased for the specific purpose of resale

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

(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 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'.

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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 non-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 'dividend 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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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, the Nigerian Stock Exchange (NSE)) and broker quotes from Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

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

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

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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 other comprehensive income 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 De-recognition of financial instruments

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

2.9.7 Reclassification of financial assets

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

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

2.10 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in event of default, insolvency or bankruptcy of the company or the counterparty.

2.11 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.

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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.

c. **Dividend income**

Dividend income is recognised when the right to receive income is established.

2.12 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 is practically expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

b. **Assets classified as available for sale**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a Group of financial assets is impaired. For debt securities, the Group uses the criteria referred to (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

2.13IMPAIRMENT 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 can also 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.

2.14 COLLATERAL

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

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.

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2.15 DISCONTINUED OPERATIONS

The Group presents discontinued operations in a separate line in the income statement if an entity or a component of an entity has been disposed or is classified as held for sale and:

(i) represents a separate major line of business or geographical area of operations;

(ii) is a part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or

(iii) is a subsidiary aquired exclusively with a view to resale.

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.

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less cost to sell.

2.16 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.

(i) *Finance lease*

When assets are held subject to a finance lease, the related asset is derecognised and the present value of the lease payments (discounted at the interest rate implicit in the lease) is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method which allocates rentals between finance income and repayment of capital in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease.

2.17 INVESTMENT PROPERTIES

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

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost was incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value.

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

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

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

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2.18 PROPERTY, PLANT AND EQUIPMENT

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

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

Land included in leasehold land and buildings is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Asset class	Depreciation rate
Motor vehicles	25%
Office equipment	20%
Furniture and fittings	20%
Computer hardware and equipment	33.3%
Plant and machinery	20%
Freehold buildings	2%
Leasehold buildings	2% for leases of 50 years and above and over expected useful life for under 50 years

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

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

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

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

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

2.19 INTANGIBLE ASSETS

a. **Goodwill**

Goodwill arises on the acquisition of subsidiary and associates, and represents the excess of the cost of acquisition, over the fair value of the Group's share of the assets acquired, and the liabilities and contingent liabilities assumed on the date of the acquisition. For the purpose of calculating goodwill, fair values of acquired assets, liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value. This discounting is either performed using market rates or by using risk-free rates and risk-adjusted expected future cash flows. Goodwill is initially recognised as an asset at cost and subsequently measured at cost less accumulated impairment losses, if any. Goodwill which is recognised as an asset is reviewed at least annually for impairment. Any impairment loss is immediately recognised in profit or loss.

For the purpose of impairment testing, goodwill is allocated to each cash-generating unit that is expected to derive benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

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

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

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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:

(i) It is technically feasible to complete the software product so that it will be available for use;

(ii) Management intends to complete the software product and use or sell it;

(iii) There is an ability to use or sell the software product;

(iv) It can be demonstrated how the software product will generate probable future economic benefits;

(v) Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

(vi) 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.

g. **Brand, customer deposits and customer relationships**

Brand, customer deposits and customer relationships acquired in a business combination are recognised at fair value at the acquisition date. They have finite useful lives and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using straightline method over three years, five years and two years respectively.

2.20 INVESTMENT CONTRACTS

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

2.21CASH 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 excludes restricted balances with central banks.

2.22 EMPLOYEE BENEFITS

(i) Post-employment 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.

Remeasurement gains and losses 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.

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(ii) Short-term benefits

Short-term benefits consists of salaries, accumulated leave allowances, bonuses and other non-monetary benefits. Short-term benefits are measured on an undiscounted basis and are expensed as the related services provided.

A liability is recognised for the amount expected to be paid under short-term cash benefits such as accumulated leave and leave allowances if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be measured reliably.

2.23 PROVISIONS

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

When a leasehold property ceases to be used in the business or a demonstrable commitment has been made to cease to use a property where the costs exceed the benefits of the property, provision is made, where the unavoidable costs of the future obligations relating to the lease are expected to exceed anticipated rental income and other benefits. The net costs are discounted using market rates of interest to reflect the long-term nature of the cash flows.

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

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

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

2.24 INSURANCE CONTRACTS

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk. The reserve has been calculated as the amount standing to the credit of the policyholders (account balance) at the valuation date. The life cover element (and corresponding premiums) have been reported as part of the insurance contract liabilities and valued similar to other risk business as described above.

a. **Classification of contracts**

A contract is classified as an insurance contract where the Group accepts significant insurance risk by agreeing with the policyholder to pay benefits if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary. Significant insurance risk exists where it is expected that for the duration of the policy or part thereof, policy benefits payable on the occurrence of the insured event will exceed the amount payable on early termination, before allowance for expense deductions at early termination. Once a contract has been classified as an insurance contract, the classification remains unchanged for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

b. **Recognition and measurement**

(i) *Short-term insurance contracts*

Short-duration life insurance contracts protect the Group's customers from the consequences of events (such as death or disability) that would affect the ability of the customer or his/her dependents to maintain their current level of income. They are usually short-duration life insurance contracts ranging between 12 to 24 months period of coverage. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium reserve (UPR). Premiums are shown before deduction of commission and are gross of any taxes or duties levied on premiums.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported (IBNR), and to estimate the expected ultimate cost of more complex claims that may be affected by external factors.

The liability reserve on short term insurance contract is made up of an unexpired premium reserve (UPR) and reserve for 'Incurred but not reported' claims (IBNR). The UPR represent premium received in advance on short term contracts and is released through the income statement over the life of the insurance contract period after adjusting for acquisition expenses. IBNR reserves are required to take account of the delay in reporting claims. These are determined by considering ultimate claims ratios for the life schemes on the Group's books. The ratios differ by industry and have been determined following a historical analysis of portfolio claims experience. The IBNR reserves are calculated by adjusting the ultimate claims amounts to allow for claims already paid and those outstanding for payment, and again adjusted to allow for the holding of a separate UPR reserve. As the short term insurance contract experience of FBN builds up we will be able to adjust for company-specific claims settlement patterns.

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(ii) *Long-term insurance contracts with fixed and guaranteed terms*

These contracts insure events associated with human life (for example, death or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission. Benefits are recorded as an expense when they are incurred.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. The liability is determined as the sum of the expected discounted value of the benefit payments and the future administration expenses that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used (the valuation premiums). The liability is based on assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviations is included in the assumptions.

Where insurance contracts have a single premium or a limited number of premium payments due over a significantly shorter period than the period during which benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contracts in force or, for annuities in force, in line with the decrease of the amount of future benefits expected to be paid. The liabilities are recalculated at each end of the reporting period using the assumptions established at inception of the contracts.

The Long term insurance contracts insure events associated with human life. They include the following:

Individual insurance contracts

The reserve has been calculated using the gross premium valuation approach. This reserving methodology adopts a cash flow approach taking into account all expected future cash flows including premiums, expenses and benefit payments to satisfy the liability adequacy test. The test also considers current estimates of all contractual cash flows, and of related cash flows such as claims handling costs, as well as cash flows resulting from embedded options and guarantees (where applicable).

Individual savings contracts

The reserve has been calculated as the amount standing to the credit of the policyholders (account balance) at the valuation date. The life cover element (and corresponding premiums) have been reported as part of the insurance contract liabilities and valued similar to other risk business as described above.

c. **Insurance contract liabilities**

Life insurance policy claims received up to the last day of each financial period and claims incurred but not reported (IBNR) are provided for and included in the policy liabilities. Past claims experience is used as the basis for determining the extent of the IBNR claims.

Income from reinsurance policies is recognised concurrently with the recognition of the related policy benefit. Insurance liabilities are presented without offsetting them against related reinsurance assets.

Insurance liabilities are retained in the statement of financial position until they are discharged or cancelled and/or expire. The company performs a liability adequacy test to determine the recognised insurance liabilities and an impairment test for reinsurance assets held at each reporting date.

2.25 FIDUCIARY ACTIVITIES

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

2.26 ISSUED DEBT AND EQUITY SECURITIES

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

2.27 SHARE CAPITAL

a. **Share issue costs**

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

b. **Dividends on ordinary shares**

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

Dividends for the year that are declared after the reporting date are dealt with in the subsequent events note.

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

c. **Earnings per share**

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit and loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

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d. **Treasury shares**

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

e. **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.

2.28 FINANCIAL GUARANTEES

Financial guarantees are contracts that require the Group to make specific payments to reimburse the holder of a loss it incurs because a specific debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at the fair value, and the initial fair value is amortised over the life of the financial guarantee. The guaranteee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guaranteee has become probable).

3. FINANCIAL RISK MANAGEMENT

3.1 INTRODUCTION AND OVERVIEW

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

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

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

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

The key elements of the risk management philosophy are the following:

- The Group considers sound risk management to be the foundation of a long-lasting financial institution.
- The Group continues to adopt a holistic and integrated approach to risk management and, therefore, brings all risks together under one or a limited number of oversight functions.
- Risk officers are empowered to perform their duties professionally and independently without undue interference.
- Risk management is governed by well-defined policies that are clearly communicated across the Group.
- Risk management is a shared responsibility. Therefore, the Group aims to build a shared perspective on risks that is grounded in consensus.
- The Group's risk management governance structure is clearly defined.
- There is a clear segregation of duties between market-facing business units and risk management functions.
- Risk-related issues are taken into consideration in all business decisions. The Group shall continue to strive to maintain a conservative balance between risk and revenue considerations.

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- Risk officers work as allies and thought partners to other stakeholders within and outside the Group and are guided in the exercise of their powers by a deep sense of responsibility, professionalism and respect for other parties.
- Risks are reported openly and fully to the appropriate levels once they are identified.
- Risk officers work as allies and thought partners to other stakeholders within and outside the Group, and are guided in the exercise of their powers by a deep sense of responsibility, professionalism and respect for other parties.
- All subsidiaries are guided by the principles enshrined in the risk management policies of the Group.

3.2 CREDIT RISK

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

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

3.2.1 Credit risk measurement

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

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

Obligor Risk Rating (ORR system)

The obligor risk rating grids have a minimum of 10 risk buckets to provide a pre-set, objective basis for making credit decisions, with one additional bucket specifically included to categorise obligor in default. Accounts showing objective evidence of impairment are specifically noted in the default rating bucket of the obligor risk rating grid with impairment allowance calculated for losses that has been incurred. Each risk bucket may be denoted alphabetically and by range of scores as follows:

Description	Rating bucket		Range of scores	Probability of default			Grade
				Large corporate	Mid corporate	SME	
Extremely low risk	AAA	1	100-94.44%	0.01			Investment
Very low risk	AA	2	100-83.33%	0.01	0.01		
Low risk	A	3	100-72.22%	0.02	0.02	0.02	
Low risk	BBB	4	72.21-66.67%	0.02	0.02	0.02	
Acceptable - moderately high risk	BB	5	66.66-55.56%	0.04	0.04	0.04	Non-investment
High risk	B	6	55.55-44.44%	0.06	0.06	0.06	
Very high risk	CCC	7	44.43-33.33%	0.09	0.09	0.09	
Extremely high risk	CC	8	33.32-16.67%	0.13	0.13	0.13	
High likelihood of default	C	9	16.65-5.56%	0.15	0.15	0.15	
Default risk	D	10	5.55-0.00%	1.00	1.00	1.00	Default

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

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

  The Facility Risk Rating approximates a 'loss norm' for each facility, and is the product of two components:

  - The Default Probability of the Obligor, i.e. the ORR; and
  - The Loss Given Default i.e. a measure of the expected economic loss if the obligor defaults, and includes write offs, recoveries, interest income, and legal costs.
- The Collateral Risk Rating grid indicates the acceptable collateral types rated 1-8 from best to worst in order of liquidity.

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Collateral Risk Rating	Collateral type
1	Cash
2	Treasury Bills/Govt Securities
3	Guarantee/receivables of investment grade banks
4	Legal And Equitable Mortgage
4	Debenture Trust Deed/Fixed Debenture and Mortgage Debenture
4	Legal Mortgage on residential business real estate in prime locations A and B
4	Legal Mortgage or debenture on business premises, factory assets or commercial real estates in locations A and B
5	Domiciliation of receivables from acceptable Corporates
5	Enforceable lien on fast moving inventory in bonded warehouses
6	Equitable Mortgages on real estates in any location
6	Negative Pledge/Clean lending
6	Domiciliation of other receivables
7	Letters Of Comfort Or Awareness, Guarantee Of Non-Investment Grade Banks And Corporates
8	Letter Of Hypothecation, Personal Guarantee

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**

In line with the Group's credit policy, a detailed portfolio plan is prepared annually and provides a framework for creation of credits and risk appetite development. In drawing up the plan, the Group reviews macro-economic, regulatory and political factors, identifies sectors/industries with opportunity as well as the Group's business targets to determine appropriate portfolio and sub-portfolio limits.

The Group's Portfolio limit includes:

- Maintain aggregate large exposure of not more than 400% of Bank's shareholders' funds.
- Maintain minimum weighted average obligor risk rating (obligor-WARR) of 'BB'
- Maintain minimum weighted average facility risk rating (facility-WARR) of 'BB'
- The Group adopts industry/economic sector limits on its loan portfolio, in line with the following policies:
  - 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**

The Group as a matter of policy does not lend above the regulatory lending limit in each of the jurisdiction in which it operates. Internal guidance limits are also set to create a prudent buffer.

For all retail borrowers, limits are kept low and graduated with credit scoring, forecast cash flow and realizable value of collateral. The Group shall apply the granularity criterion on its retail credit portfolio: No single retail loan should amount to more than 0.2% of total retail portfolio.

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

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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
9	Business Manager + Group Head + Credit Officer	25,000	25,000

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:

- Cash/Government Securities
- Mortgages over residential properties.
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

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 cashflows, 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.

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. On-going exposure management entails collateral management, facility performance monitoring, exposure quality reviews prompt and timely identification of decline in quality and risk portfolio reporting.

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3.2.5 Delinquency management/Loan workout

The Group's delinquency management process involves effective and timely management of accounts showing signs of delinquency to reduce the crystallisation of impairment loss. In line with the Group's delinquency management process, all activities are geared towards resuscitating delinquent loans and includes restructuring and loan work-out arrangements.

3.2.6 Credit recovery

In the event of continued delinquency and failure of remediation, full credit recovery action is initiated to recover on such exposures and minimise the overall credit loss to the Group. Recovery action may include appointment of a receiver manager, external recovery agent and/or sale of pledged assets.

3.2.7 Management of concentration risk

The Group manages limits and controls concentrations of credit risk to individual counterparties, Groups, industries and countries.

The Group defines levels of concentration risk it is wiling to take by placing limits on credit exposure to a single borrower, Groups of borrowers and geographic and industry segments. Such concentration risk limits approved by the Board of Directors on the recommendation of the Executive Director/Chief Risk Officer and monitored on a regular basis. The concentration risk limits may be reviewed from time to time to reflect changing macroeconomic and regulatory conditions as well as the Group's business thrust.

3.2.8 Impairment and provisioning policies

Impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment.

3.2.9 Measurement basis of financial assets and liabilities

Group

31 December 2014	Fair value through P/L Held for trading ₦ million	Fair value through OCI Available for sale ₦ million	Amortised cost ₦ million	Total ₦ million
FINANCIAL ASSETS				
Cash and balances with central banks	-	-	698,104	698,104
Loans and advances to banks	-	-	460,911	460,911
Loans and advances to customers:				
- Overdrafts	-	-	314,114	314,114
- Term loans	-	-	1,777,086	1,777,086
- Staff loans	-	-	7,461	7,461
- Project finance	-	-	77,558	77,558
- Advances under finance lease	-	-	2,761	2,761
Investment securities:				
- Available-for-sale investments	-	553,154	-	553,154
- Held-to-maturity investments	-	-	158,485	158,485
Asset pledged as collateral	-	19,203	49,280	68,483
Financial assets at fair value through profit or loss	27,601	-	-	27,601
Other assets	-	-	26,601	26,601
Total Financial Assets	27,601	572,357	3,572,361	4,172,319
FINANCIAL LIABILITIES				
Customer deposits	-	-	3,050,853	3,050,853
Deposits from banks	-	-	171,151	171,151
Financial liabilities at fair value through profit or loss	10,917	-	-	10,917
Borrowings	-	-	369,707	369,707
Other liabilities	-	-	125,757	125,757
Investment contracts	-	-	60,617	60,617
Total Financial Liabilities	10,917	-	3,778,085	3,789,002

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Group

31 December 2013	Fair value through P/L Held for trading ₦ million	Fair value through OCI Available for sale ₦ million	Amortised cost ₦ million	Total ₦ million
FINANCIAL ASSETS				
Cash and balances with central banks	-	-	594,234	594,234
Loans and advances to banks	-	-	430,586	430,586
Loans and advances to customers:				
- Overdrafts	-	-	340,055	340,055
- Term loans	-	-	1,359,961	1,359,961
- Staff loans	-	-	6,216	6,216
- Project finance	-	-	60,803	60,803
- Advances under finance lease	-	-	2,095	2,095
Investment securities:				
- Available-for-sale investments	-	529,488	-	529,488
- Held-to-maturity investments	-	-	294,575	294,575
Asset pledged as collateral	-	20,381	33,269	53,650
Financial assets at fair value through profit or loss	10,287	-	-	10,287
Other assets	-	-	30,404	30,404
Total Financial Assets	10,287	549,869	3,152,198	3,712,354
FINANCIAL LIABILITIES				
Customer deposits	-	-	2,929,081	2,929,081
Deposits from banks	-	-	82,032	82,032
Financial liabilities at fair value through profit or loss	1,701	-	-	1,701
Borrowings	-	-	126,302	126,302
Other liabilities	-	-	140,213	140,213
Investment contracts	-	-	68,723	68,723
Total Financial Liabilities	**1,701**	**-**	**3,346,351**	**3,348,052**

Company

31 December 2014	Fair value through P/L Held for trading ₦ million	Fair value through OCI Available for sale ₦ million	Amortised cost ₦ million	Total ₦ million
FINANCIAL ASSETS				
Loans and advances to banks	-	-	3,261	3,261
Loans and advances to customers				
- Staff loans	-	-	80	80
Investment securities:				
- Available-for-sale investments	-	2,806	-	2,806
- Held-to-maturity investments	-	-	1,466	1,466
Other assets	-	-	14,111	14,111
Total financial assets	-	2,806	18,918	21,724
FINANCIAL LIABILITIES				
Other liabilities	-	-	7,950	7,950
Total financial liabilities	-	-	7,950	7,950

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Company

31 December 2013	Fair value through P/L Held for trading ₦ million	Fair value through OCI Available for sale ₦ million	Amortised cost ₦ million	Total ₦ million
FINANCIAL ASSETS				
Loans and advances to banks	-	-	1,477	1,477
Loans and advances to customers				
- Staff loans	-	--- -	72	72
Investment securities:	-	-	72	
- Available-for-sale investments	-	2,515	-	2,515
- Loans and receivables	-	2,515 -	- 7,332	7,332
Other assets	-	-	42,831	42,831
Total financial assets	-	2,515	51,712	54,227
FINANCIAL LIABILITIES	-			
Other liabilities	-	-	3,519	3,519
Total financial liabilities	-	-	3,519	3,519

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

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

	Group		Company	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Balances with central banks	**634,796**	522,491	**-**	-
Loans and advances to banks	**460,911**	430,586	**3,261**	1,477
Loans and advances to customers				
- Overdrafts	**314,114**	340,055	**-**	-
- Term loans	**1,777,086**	1,359,961	**-**	-
- Staff loans	**7,461**	6,216	**80**	72
- Project finance	**77,558**	60,803	**-**	-
- Advances under finance lease	**2,761**	2,095	**-**	-
Financial assets at fair value through profit or loss	**23,673**	10,287	**-**	-
Investment securities - Debt				
-Available-for-sale investments	**494,575**	476,941	**-**	-
-Held to maturity investments	**158,485**	294,575	**1,466**	-
-Loans and receivables	**-**	-	**-**	7,332
Asset pledged as collateral	**68,483**	53,650	**-**	-
Other assets	**26,601**	30,404	**14,111**	42,831
	4,046,504	3,588,064	**18,918**	51,712
Credit risk exposures relating to off balance sheet assets are as follows:				
Loan commitments	**90,379**	408,008	**-**	-
Letter of credit and other credit related obligations	**701,997**	693,615	**-**	-
	792,376	1,101,623	**-**	-
Total maximum exposure	**4,838,880**	4,689,687	**18,918**	51,712

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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 2014 and 31 December 2013. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties. Investment securities and financial assets at fair value through profit or loss analysed below excludes investments in equity instruments.

Group

	Lagos ₦ million	Southern Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe ₦ million	America ₦ million	Total ₦ million
Balances with central bank	626,208	-	-	8,160	428	-	634,796
Loans and advances to banks	109,234	-	2,717	21,905	271,655	55,400	460,911
Loans and advances to customers							
- Overdrafts	220,338	58,629	16,745	17,411	991	-	314,114
- Term loans	1,032,772	332,387	102,839	97,653	211,435	-	1,777,086
- Staff loans	6,608	2	11	798	42	-	7,461
- Project finance	38,310	803	9,563	25,896	2,986	-	77,558
- Advances under finance lease	2,039	683	39	-	-	-	2,761
Financial assets at fair value through profit or loss	13,869	-	-	-	8,674	1,130	23,673
Investment securities							
- Available-for-sale investments	470,893	3,235	799	9,065	10,583	-	494,575
- Held-to-maturity investments	139,810	7,334	504	10,837	-	-	158,485
Asset pledged as collateral	67,114	-	-	1,369	-	-	68,483
Other assets	12,696	8,590	609	4,479	227	-	26,601
31 December 2014	2,739,891	411,663	133,826	197,573	507,021	56,530	4,046,504

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

Group

	Lagos ₦ million	Southern Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe ₦ million	America ₦ million	Total ₦ million
Loan commitments	63,410	7,171	10,327	2,239	7,232	-	90,379
Letters of credit and other credit-related obligations	458,547	66,959	46,960	18,602	110,929	-	701,997
31 December 2014	521,957	74,130	57,287	20,841	118,161	-	792,376

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Group

	Lagos ₦ million	Southern Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe ₦ million	America ₦ million	Total ₦ million
Balances with central bank	502,451	-	-	6,569	13,471	-	522,491
Loans and advances to banks	128,991	-	440	37,220	135,824	128,111	430,586
Loans and advances to customers							-
- Overdrafts	258,028	43,577	25,609	12,402	439		340,055
- Term loans	837,067	149,373	92,626	105,245	124,964	50,686	1,359,961
- Staff loans	5,671	-	-	513	32	-	6,216
- Project finance	20,865	30,742	9,196	-	-	-	60,803
- Advances under finance lease	1,587	482	26	-	-	-	2,095
Financial assets at fair value through profit or loss	7,757	-	-	-	2,530	-	10,287
Investment securities							
- Available-for-sale investments	403,156	2,690	3,008	14,504	50,467	3,116	476,941
- Held-to-maturity investments	284,372	9,276	927	-	-	-	294,575
Asset pledged as collateral	52,405	-	-	1,245	-	-	53,650
Other assets	13,576	11,791	1,404	2,587	328	718	30,404
31 December 2013	2,515,927	247,932	133,235	180,284	328,055	182,631	3,588,064

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

Group

	Lagos ₦ million	Southern Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe ₦ million	America ₦ million	Total ₦ million
Loan commitments	286,761	30,345	34,902	49,353	6,647	-	408,008
Letters of credit and other credit-related obligations	440,762	88,555	92,032	1,078	71,188	-	693,615
31 December 2013	727,523	118,900	126,934	50,431	77,835	-	1,101,623

Company

	Lagos ₦ million	Southern Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe ₦ million	America ₦ million	Total ₦ million
Loans and advances to banks	**3,261**	-	-	-	-	-	**3,261**
Loans and advances to customers							
- Staff loans	**80**	-	-	-	-	-	**80**
Investment securities							
- Held-to-maturity investments	**1,466**	-	-	-	-	-	**1,466**
Other assets	**14,111**	-	-	-	-	-	**14,111**
31 December 2014	**18,918**	-	-	-	-	-	**18,918**

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Company

	Lagos ₦ million	Southern Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe ₦ million	America ₦ million	Total ₦ million
Loans and advances to banks	1,477	-	-	-	-	-	1,477
Loans and advances to customers							
- Staff loans	72	-	-	-	-	-	72
Investment securities							
- Loans and receivables	7,332	-	-	-	-	-	7,332
Other assets	42,831	-	-	-	-	-	42,831
31 December 2013	51,712	-	-	-	-	-	51,712

b Industry sectors

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

Group

	Balances with central bank ₦ million	Loans and advances to banks ₦ million	Financial assets at fair value through profit or loss ₦ million	Investment securities (debt) – available for sale ₦ million	Investment securities – held to maturity ₦ million	Asset pledged as collateral ₦ million	Other assets ₦ million
Agriculture	-	-	-	-	-	-	-
Oil and gas	-	-	-	-	-	-	4,408
Consumer credit	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	1,007	-	-
Real estate	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	1,241
Finance and insurance	634,796	460,911	11,954	38,078	6,746	-	20,398
Transportation	-	-	-	-	-	-	-
Communication	-	-	-	-	-	-	-
General commerce	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-
Retail services	-	-	-	-	-	-	-
Public sector	-	-	11,719	456,497	150,732	68,483	554
Total at 31 December 2014	634,796	460,911	23,673	494,575	158,485	68,483	26,601

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Group

	Loans to customers					
	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Agriculture	1,611	56,305	-	-	-	57,916
Oil and gas	130,255	688,760	-	33,805	284	853,104
Consumer credit	5,137	163,522	5,984	-	29	174,672
Manufacturing	54,165	302,602	-	18,043	405	375,215
Real estate	20,297	122,947	1,477	-	-	144,721
Construction	32,709	43,258	-	14,322	-	90,289
Finance and insurance	853	17,841	-	1,744	14	20,452
Transportation	3,710	4,820	-	3,851	28	12,409
Communication	2,432	64,202	-	-	-	66,634
General commerce	23,987	70,669	-	209	9	94,874
Utilities	6,888	51,201	-	-	-	58,089
Retail services	25,869	77,762	-	4,410	1,974	110,015
Public sector	6,201	113,197	-	1,174	18	120,590
Total at 31 December 2014	314,114	1,777,086	7,461	77,558	2,761	2,178,980

Group

	Balances with central bank ₦ million	Loans and advances to banks ₦ million	Financial assets at fair value through profit or loss ₦ million	Investment securities (debt) – available for sale ₦ million	Investment securities – held to maturity ₦ million	Asset pledged as collateral ₦ million	Other assets ₦ million
Agriculture	-	-	6	208	404	-	-
Oil and gas	-	-	2,045	-	-	-	-
Consumer credit	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	1,923	-	3
Real estate	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-
Finance and insurance	522,491	430,586	6,681	33,610	5,170	-	4,230
Transportation	-	-	4	-	-	-	-
Communication	-	-	191	-	-	-	-
General commerce	-	-	235	-	847	-	25,816
Utilities	-	-	-	-	-	-	-
Retail services	-	-	-	-	-	-	155
Public sector	-	-	1,125	443,123	286,231	53,650	200
Total at 31 December 2013	522,491	430,586	10,287	476,941	294,575	53,650	30,404

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	Loans to customers					
	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Agriculture	550	64,507	-	-	-	65,057
Oil and gas	173,008	445,678	-	2,697	47	621,430
Consumer credit	4,649	134,933	3,765	-	23	143,370
Manufacturing	63,144	207,962	-	-	113	271,219
Real estate	9,752	73,795	2,298	45,755	-	131,600
Construction	10,875	24,758	-	12,351	-	47,984
Finance and insurance	1,689	9,817	117	-	-	11,623
Transportation	5,171	3,279	-	-	142	8,592
Communication	4,936	90,623	-	-	-	95,559
General commerce	31,868	62,147	4	-	1	94,020
Utilities	5,738	27,537	-	-	18	33,293
Retail services	22,842	78,400	32	-	1,720	102,994
Public sector	5,833	136,525	-	-	31	142,389
Total at 31 December 2013	340,055	1,359,961	6,216	60,803	2,095	1,769,130

Company

	Balances with central bank ₦ million	Loans and advances to banks ₦ million	Financial assets at fair value through profit or loss ₦ million	Investment securities – held to maturity ₦ million	Investment securities – loans and receivables ₦ million	Assets pledged as collateral ₦ million	Other assets ₦ million
Finance and insurance	-	3,261	-	-	-	-	14,111
Public sector	-	-	-	1,466	-	-	-
Total at 31 December 2014	-	3,261	-	1,466	-	-	14,111

Company

	Loans to customers					
	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Consumer credit	-	-	24	-	-	24
Real estate	-	-	56	-	-	56
Total at 31 December 2014	-	-	80	-	-	80

Company

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Consumer credit	-	-	11	-	-	11
Real estate	-	-	61	-	-	61
Total at 31 December 2013	-	-	72	-	-	72

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

Group

	Loan commitments 31 Dec 2014 ₦ million	Letter of credit and other related obligations 31 Dec 2014 ₦ million	Loan commitments 31 Dec 2013 ₦ million	Letter of credit and other related obligations 31 Dec 2013 ₦ million
Agriculture	138	6,896	2,222	3,662
Oil and gas	19,145	116,243	169,321	115,457
Consumer credit	432	24	15,427	484
Manufacturing	39,004	171,184	79,175	11,976
Real estate	1,436	663	10,005	27,944
Construction	10,923	85,179	18,357	205,450
Finance and insurance	9	189,320	1,911	99,042
Transportation	1,686	9,748	1,240	1,786
Communication	8,218	2,024	54,962	7,062
General commerce	3,341	39,642	27,464	147,327
Utilities	3,911	48,350	2,364	457
Retail services	2,097	29,183	22,640	66,890
Public sector	39	3,541	2,920	6,078
Total	90,379	701,997	408,008	693,615

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 2014						
Neither past due nor impaired	300,769	1,675,941	7,529	77,425	1,698	2,063,362
Past due but not impaired	11,087	81,046	-	284	1,058	93,475
Individually impaired	14,571	37,798	-	-	241	52,610
Collectively impaired	3,151	8,977	-	-	46	12,174
Gross	329,578	1,803,762	7,529	77,709	3,043	2,221,621
Less: allowance for impairment (Note 21)	(15,464)	(26,676)	(68)	(151)	(282)	(42,641)
Net	314,114	1,777,086	7,461	77,558	2,761	2,178,980
Individually impaired	11,845	15,932	-	-	241	28,018
Portfolio allowance	3,619	10,744	68	151	41	14,623
Total	15,464	26,676	68	151	282	42,641

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Group

	Loans to customers					
	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
DECEMBER 2013						
Neither past due nor impaired	321,174	1,218,856	6,268	59,425	1,616	1,607,339
Past due but not impaired	14,771	135,055	122	2,109	490	152,547
Individually impaired	14,889	16,705	39	-	696	32,329
Collectively impaired	3,748	18,151	3	-	60	21,962
Gross	354,582	1,388,767	6,432	61,534	2,862	1,814,177
Less: allowance for impairment (Note 21)	(14,527)	(28,806)	(216)	(731)	(767)	(45,047)
Net	340,055	1,359,961	6,216	60,803	2,095	1,769,130
Individually impaired	10,467	9,479	31	-	696	20,673
Portfolio allowance	4,060	19,327	185	731	71	24,374
Total	14,527	28,806	216	731	767	45,047

Company

	Loans to customers					
	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
DECEMBER 2014						
Neither past due nor impaired	-	-	80	-	-	80
Net	-	-	80	-	-	80
DECEMBER 2013						
Neither past due nor impaired	–	–	72	–	–	72
Net	–	–	72	–	–	72

Group – December 2014

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	141	4,598	1	-	-	4,740
AA	-	17,667	-	-	-	17,667
A	390	44,251	32	-	-	44,673
BBB	66,005	154,205	291	1,404	-	221,905
BB	163,467	825,402	6,323	14,464	1,066	1,010,722
B	69,614	329,111	740	1,973	632	402,070
CCC	-	10,583	-	-	-	10,583
CC	-	-	24	-	-	24
C	1,152	290,597	121	59,584	-	351,454
Total	300,769	1,675,941	7,529	77,425	1,698	2,063,362

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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	10,046	57,356	-	-	996	68,398
Past due by 30-60 days	178	3,035	-	-	-	3,213
Past due 60-90 days	863	20,655	-	284	62	21,864
Gross amount	11,087	81,046	-	284	1,058	93,475

c. Collectively impaired loans

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
	3,151	8,977	-	-	46	12,174

d. Loans and advances individually impaired

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Gross amount	14,571	37,798	-	-	241	52,610
Specific impairment	(11,845)	(15,932)	-	-	(241)	(28,018)
Net amount	2,726	21,866	-	-	-	24,592

Group – December 2013

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	939	8,310	278	-	-	9,527
AA	6,189	10,816	-	-	-	17,005
A	6,224	50,110	-	2,580	-	58,914
BBB	20,318	91,007	2,311	1,051	56	114,743
BB	205,461	479,646	7	21,567	622	707,303
B	82,043	578,967	3,580	34,227	938	699,755
CCC	-	-	92	-	-	92
CC	-	-	-		-	-
C	-	-	-	-	-	-
Total	321,174	1,218,856	6,268	59,425	1,616	1,607,339

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b. **Loans and advances past due but not impaired**

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Past due up to 30 days	12,397	62,668	110	1,467	484	77,126
Past due by 30-60 days	2,220	64,035	3	642	5	66,905
Past due 60-90 days	154	8,352	9	-	1	8,516
Gross amount	14,771	135,055	122	2,109	490	152,547

c. **Collectively impaired loans**

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

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
	3,748	18,151	3	-	60	21,962

d. **Loans and advances individually impaired**

	Overdraft ₦ million	Term loans ₦ million	Staff loans ₦ million	Project finance ₦ million	Advances under finance lease ₦ million	Total ₦ million
Gross amount	14,889	16,705	38	-	697	32,329
Specific impairment	(10,467)	(9,479)	(31)	-	(696)	(20,673)
Net amount	4,422	7,226	7	-	1	11,656

e. **Sensitivity analysis on impairment**

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

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

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

Approach to sensitivity analysis

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

Scenario 1

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

Scenario 2

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

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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 2014			
Overdrafts	10,253	10,638	10,675
Term loans	13,956	15,579	15,813
Staff loans	(102)	(88)	(88)
Project finance	(580)	(550)	(550)
Advances under finance lease	(456)	(433)	(432)
Total	23,071	25,146	25,418
31 DECEMBER 2013			
Overdrafts	11,806	12,350	12,350
Term loans	10,117	10,792	10,792
Staff loans	(430)	(396)	(396)
Project finance	(1)	145	145
Advances under finance lease	681	691	691
Total	22,173	23,582	23,582

3.2.13 Loans and advances to banks

Credit quality of loans to banks is summarised as follows:

All loans to banks are neither past due nor impaired.

The credit quality has been assessed by reference to Moody's rating, Agusto & Agusto's rating (credit rating agency) and the internal rating system at 31 December 2014 and 31 December 2013.

	Group
	Loans to banks ₦ million
31 DECEMBER 2014	
A+ to A-	282,494
B+ to B-	109,825
Unrated	68,592
	460,911
31 DECEMBER 2013	
A+ to A-	220,663
B+ to B-	164,519
Unrated	45,404
	430,586

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

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

The credit quality of investments in debt securities (including assets pledged for collateral) that were neither past due nor impaired can be assessed by reference to Agusto & Agusto's rating (credit rating agency) at 31 December 2014 and 31 December 2013.

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 2014					
A+ to A-	-	19,001	-	22,469	937
B+ to B-	360,783	131,672	10,436	167,908	8,316
Unrated	-	2,322	6,952	-	17,348
	360,783	152,995	17,388	190,377	26,601
31 DECEMBER 2013					
A+ to A-	334,000	140,119	19,108	308,736	-
B+ to B-	-	20,607	-	-	-
Unrated	-	2,597	-	-	30,404
	334,000	163,323	19,108	308,736	30,404

Company

	Treasury bills as reported in the AFS portfolio ₦ million	Bonds as reported in the AFS portfolio ₦ million	Treasury bills as reported in the HTM portfolio ₦ million	Bonds as reported in the HTM portfolio ₦ million	Loans and receivables ₦ million	Other assets ₦ million
31 DECEMBER 2014						
A+ to A-	-	-	1,466	-	-	-
Unrated	-	-	-	-	-	14,111
	-	-	1,466	-	-	14,111
31 DECEMBER 2013						
Unrated	-	-	-	-	7,332	42,831
	-	-	-	-	7,332	42,831

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3.2.14 Collaterised assets

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset. The effect of collateral at 31 December 2014 and 31 December 2013 are as shown below.

Group

	Over-collaterised assets		Under-collaterised assets	
	Carrying value of the assets	Fair value of collateral held	Carrying value of the assets	Fair value of collateral held
31 DECEMBER 2014				
FINANCIAL ASSETS				
Loans and advances to banks	-	-	460,911	19,837
Financial assets at fair value through profit or loss	-	-	27,601	5,983
Total financial assets	-	-	488,512	25,820
31 DECEMBER 2013				
FINANCIAL ASSETS				
Loans and advances to banks	-	-	430,586	8,800
Total financial assets	-	-	430,586	8,800

Loans and advances to customers have been excluded from the tables above, as no aggregated collateral information for the unimpaired secured lending portfolio is provided to key management personnel. See further details on collateral management for the loan book in note 3.2.3.

The underlisted financial assets are not collaterised:

- Cash and balances with central banks
- Investment securities:
  - Available-for-sale investments
  - Held-to-maturity investments
- Asset pledged as collateral
- Other assets.

The Group's investment in risk-free government securities and its cash and balances with central banks are not considered to require collaterals given their sovereign nature.

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 cashflows and maturity profiles of assets and liabilities to ensure mismatches are within stipulated limits;
- monitoring the liquidity ratios against internal and regulatory requirements; and
- managing the concentration and profile of debt maturities.

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

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

Liquidity risk on derivatives is managed using the same source of funding as for the non derivative liabilities.

3.3.2 Funding approach

The Group is funded primarily by a well diversified mix of retail, corporate and public sector deposits. This funding base ensures stability and low funding cost with minimal reliance on more expensive tenured deposit and interbank takings as significant sources of funding.

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

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

a. **Table A – liquidity analysis on a contractual basis**

Group

	0-30 days ₦ million	31-90 days ₦ million	91-180 days ₦ million	181-365 days ₦ million	Over 1 year but less than 5 years ₦ million	Over 5 years ₦ million	Total ₦ million
31 DECEMBER 2014							
Financial liabilities							
Deposits from banks	119,807	42,793	4,573	3,978	-	-	171,151
Deposits from customers	2,285,701	465,753	70,684	92,567	134,030	9,658	3,058,393
Borrowings	62,139	130,550	7,567	11,624	60,349	164,086	436,315
Other liabilities	38,682	32,685	15,133	34,672	4,585	-	125,757
Insurance contracts liability	-	556	-	7,704	-	-	8,260
Investment contracts	-	-	-	60,617	-	-	60,617
Total financial liabilities	2,506,329	672,337	97,957	211,162	198,964	173,744	3,860,493
Loan commitments	66,690	7,171	3,327	900	12,291	-	90,379
Letters of credit and other credit- related obligations	228,750	67,929	48,963	95,902	50,601	209,852	701,997
Total commitments	295,440	75,100	52,290	96,802	62,892	209,852	792,376
Assets held for managing liquidity risk	268,745	272,765	210,521	80,968	343,892	125,549	1,302,440
31 DECEMBER 2013							
Financial liabilities							
Deposits from banks	28,242	51,926	1,864	-	-	-	82,032
Deposits from customers	2,484,155	268,431	47,330	61,625	71,929	823	2,934,293
Borrowings	17,568	32,494	1,854	8,013	40,498	54,931	155,358
Other liabilities	7,260	117,014	1,920	1,027	-	13,245	140,466
Insurance contracts liability	157	-	-	671	2,342	480	3,650
Investment contracts	39,315	26,037	3,369	-	-	-	68,721
Total financial liabilities	2,576,697	495,902	56,337	71,336	114,769	69,479	3,384,520
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 commitments	701,752	90,309	68,550	91,895	72,562	76,555	1,101,623
Assets held for managing liquidity risk	944,453	179,891	77,123	55,931	129,012	62,611	1,449,021

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	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 2014							
Financial liabilities							
Other liabilities	-	-	-	7,950	-	-	7,950
Total financial liabilities	-	-	-	7,950	-	-	7,950
Assets held for managing liquidity risk	3,261	1,466	-	14,111	-	-	18,838
31 DECEMBER 2013							
Financial liabilities							
Other liabilities	72	-	-	3,447	-	-	3,519
Total financial liabilities	72	-	-	3,447	-	-	3,519

b. Table B – liquidity analysis on a behavioural basis

Group

	0-30 days ₦ million	31-90 days ₦ million	91-180 days ₦ million	181-365 days ₦ million	Over 1 year but less than 5 years ₦ million	Over 5 years ₦ million	Total ₦ million
31 DECEMBER 2014							
Financial liabilities							
Deposits from banks	85,538	36,770	44,865	3,979	-	-	171,152
Deposits from customers	473,470	539,000	228,443	282,872	324,473	1,210,135	3,058,393
Borrowings	62,139	130,542	7,489	11,624	66,104	164,086	441,985
Other liabilities	38,645	32,937	15,211	34,672	4,585	-	126,049
Insurance contracts liability	-	557	-	7,703	-	-	8,260
Investment contracts	-	-	-	60,617	-	-	60,617
Total financial liabilities	659,792	739,806	296,008	401,467	395,162	1,374,221	3,866,456
Loan commitments	947	198	433	3,714	28,921	56,166	90,379
Letters of credit and other credit- related obligations	228,750	67,929	48,963	95,902	50,601	209,852	701,997
Total commitments	229,697	68,127	49,396	99,616	79,522	266,018	792,376
Assets held for managing liquidity risk	268,745	272,765	210,521	80,968	343,892	125,549	1,302,440
31 DECEMBER 2013							
Financial liabilities							
Deposits from banks	28,242	51,926	1,864	-	-	-	82,032
Deposits from customers	511,358	388,160	206,602	299,867	1,527,484	823	2,934,294
Borrowings	17,568	32,494	1,854	8,013	40,498	54,931	155,358
Other liabilities	7,260	117,014	1,920	1,027	-	13,245	140,466
Insurance contracts liability	157	-	-	671	2,342	480	3,650
Investment contracts	39,315	26,037	3,369	-	-	-	68,721
Total financial liabilities	603,900	615,631	215,609	309,578	1,570,324	69,479	3,384,521
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 commitments	701,752	90,309	68,550	91,895	72,562	76,555	1,101,623
Assets held for managing liquidity risk	944,453	179,891	77,123	55,931	129,012	62,611	1,449,021

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3.3.4 Assets held for managing liquidity risk

The Group holds a diversified portfolio of liquid assets - largely cash and government securities to support payment and funding obligations in normal and stressed market conditions across foreign and local currencies. The Group's liquid assets comprise:

- Cash and balances with the Central Bank comprising reverse repos and overnight deposits;
- Short term and overnight placements in the interbank market;
- Government bonds and T-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 amongst Nigerian banks, has significant funding mismatches on a contractual basis, given that the deposits are largely demand and short tenured, whilst lending is longer term. On an actuarial basis, our demand deposits exhibit much longer duration, with 75.53% of our current account balances and 67.48% of savings account balances being deemed core.

To manage liquidity shocks in either foreign or local currency, largely as a result of episodic movements, the bank typically holds significant short term liquidity in currency placements or taps the repo markets to raise short term funding as is required. To grow local currency liquidity we have also systematically worked towards reducing the duration of our securities portfolio in the last year, shifting the emphasis to holding more liquid shorter dated treasury bills over longer term bonds, to allow more flexibility in managing liquidity. Whilst on the foreign currency side, we have built up placement balances with our offshore correspondents.

3.3.5 Derivative liabilities

a. **Derivatives settled on a net basis**

The put options and the accumulator forex contract will be settled on a net basis.

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

Group

	Up to 1 month ₦ million	1-3 months ₦ million	3-6 months ₦ million	6-12 months ₦ million	1-5 years ₦ million	Over 5 years ₦ million	Total ₦ million
31 DECEMBER 2014							
Derivative liabilities							
Cross-currency swap	-	-	-	-	-	-	-
Accumulator-Forward FX contract	-	-	98	-	-	-	98
Put options	919	2,664	2,783	6,066	9,671	-	22,103
	919	2,664	2,881	6,066	9,671	-	22,201
Derivative assets							
Cross-currency swap	1,002	-	-	-	-	-	1,002
Put options	938	2,728	2,842	6,257	9,848	-	22,613
Forward contract	1,011	439	-	-	-	-	1,450
	2,951	3,167	2,842	6,257	9,848	-	25,065
	3,870	5,831	5,723	12,323	19,519	-	47,266
AT 31 DECEMBER 2013							
Derivative liabilities							
Accumulator-Forward FX contract	-	-	-	-	(71)	-	(71)
Put options	-	-	-	-	-	(1,626)	(1,626)
	-	-	-	-	(71)	(1,626)	(1,697)
Derivative assets							
Cross-currency swap	-	-	-	12	-	-	12
Foreign exchange derivatives	1,546	602	370	-	-	-	2,518
Put options	-	-	-	-	-	1,626	1,626
	1,546	602	370	12	-	1,626	4,156
	1,546	602	370	12	(71)	-	2,459

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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 cashflows on all derivatives including derivatives classified as 'liabilities held for trading'. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group

	Up to 1 month ₦ million	1-3 months ₦ million	3-6 months ₦ million	6-12 months ₦ million	1-5 years ₦ million	Over 5 years ₦ million	Total ₦ million
31 DECEMBER 2014							
Liabilities held for trading							
FX swap - payable	14,777	-	-	-	-	-	14,777
FX swap - receivable	(14,884)	-	-	-	-	-	(14,884)
Forward contract - payment	1,169	1,022	162	-	-	-	2,353
Forward contract - receipt	(376)	-	-	-	-	-	(376)
Put options	-	-	-	-	143	-	143
	686	1,022	162	-	143	-	2,014
AT 31 DECEMBER 2013							
Derivatives held for trading							
Foreign exchange derivatives	6	2	-	-	-	-	8
	6	2	-	-	-	-	8

3.4 MARKET RISK

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

Market risk arises from positions in currencies, interest rate and securities held in our trading portfolio and from our retail banking business, investment portfolio, and other non-trading activities. The movement in market risk variables may have a negative impact on the balance sheet and or income statement.

Through the financial year, the Bank was exposed to market risk in its trading and non-trading activities, mainly as a result of:

- interest rate movements in reaction to monetary policy changes by the Central Bank of Nigeria, fiscal policies changes, and market forces;
- foreign exchange fluctuations arising from demand and supply as well as government policies; and
- equity price movements in response to market forces and changing market dynamics, such as market making on the Nigerian Stock Exchange.

3.4.1 Management of market risk

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

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3.4.2 Market risk measurement techniques

The major measurement techniques used to measure and control market risk are outlined below:

a. **Value at risk (VaR)**

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

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

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

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

The table 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 assets included in the VaR analaysis are the held for trading assets.

The treasury bill trading VaR is NG₦106 million as at 31 December 2014 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 was Nil as at 31 December 2014, reflecting the new regulatory Trading Open Position of Zero stipulated by the CBN. Hence, there was no open position as at year end.

Group

VaR summary	Average	High	Low
12 MONTHS TO 31 DECEMBER 2014			
Foreign exchange risk	12	34	-
Interest rate risk	415	1,286	22
Total VaR	427	1,320	22
12 MONTHS TO 31 DECEMBER 2013			
Foreign exchange risk	16	52	-
Interest rate risk	528	1,738	38
Total VaR	544	1,790	38

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

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Non-trading portfolio

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

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

The Bank uses a variety of tools to measure non-tradable interest rate risk such as:

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

Hedged non-trading market risk exposures

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

3.4.3 Foreign exchange risk

The Group is exposed to foreign exchange risks due to fluctuations in foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2014 and 31 December 2013. 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 2014						
Financial assets						
Cash and balances with Central Banks	664,969	14,526	2,599	4,203	11,807	698,104
Loans and advances to banks	52,389	233,210	147,746	22,963	4,603	460,911
Loans and advances						
- Overdrafts	186,567	109,295	117	99	18,036	314,114
- Term loans	740,878	884,209	60,655	80,648	10,696	1,777,086
- Staff loans	6,600	-	42	-	819	7,461
- Project finance	15,767	60,048	-	1,743	-	77,558
- Advances under finance lease	2,761	-	-	-	-	2,761
Investment securities						
- Available-for-sale investments	422,296	67,136	-	1	5,142	494,575
- Held to maturity investments	147,651	-	-	-	10,834	158,485
Asset pledged as collateral	67,115	-	-	-	1,368	68,483
Financial assets at fair value through profit or loss	13,869	8,354	-	1,450	-	23,673
Other assets	16,627	5,215	238	1	4,520	26,601
	2,337,489	1,381,993	211,397	111,107	67,826	4,109,812
Financial liabilities						
Customer deposits	2,098,639	529,284	340,812	8,115	74,003	3,050,853
Deposits from banks	20,528	126,205	18,416	5,897	105	171,151
Financial liabilities at fair value through profit or loss	1,062	9,722	-	133	-	10,917
Borrowings	30,414	334,219	105	958	4,011	369,707
Other liabilities	74,546	20,240	21,724	3,433	5,814	125,757
Insurance contracts liability	8,260	-	-	-	-	8,260
Investment contracts	60,617	-	-	-	-	60,617
	2,294,066	1,019,670	381,057	18,536	83,933	3,797,262

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Group

	Naira ₦ million	USD ₦ million	GBP ₦ million	Euro ₦ million	Others ₦ million	Total ₦ million
31 DECEMBER 2013						
Financial assets						
Cash and balances with Central Banks	560,660	8,904	3,646	16,049	4,975	594,234
Loans and advances to banks	29,908	326,152	46,284	23,887	4,355	430,586
Loans and advances						
- Overdrafts	272,676	63,248	85	95	3,951	340,055
- Term loans	604,517	604,024	53,972	88,205	9,243	1,359,961
- Staff loans	5,670	254	32	-	260	6,216
- Project finance	50,150	10,653	-	-	-	60,803
- Advances under finance lease	2,095	-	-	-	-	2,095
Investment securities						
- Available-for-sale investments	386,118	35,679	46,687	4	8,453	476,941
- Held-to-maturity investments	294,575	-	-	-	-	294,575
Asset pledged as collateral	52,405	-	-	-	1,245	53,650
Financial assets at fair value through profit or loss	7,769	1,598	-	784	136	10,287
Other assets	15,155	12,361	1,881	111	896	30,404
	2,281,698	1,062,873	152,587	129,135	33,514	3,659,807
Financial liabilities						
Customer deposits	1,950,222	688,267	223,116	9,007	58,469	2,929,081
Deposits from banks	6,038	44,263	15,688	15,665	378	82,032
Financial liabilities at fair value through profit or loss	1,697	-	-	-	4	1,701
Borrowings	28,698	95,442	140	2,012	10	126,302
Other liabilities	12,203	85,427	24,473	13,576	4,534	140,213
Insurance contracts liability	3,650	-	-	-	-	3,650
Investment contracts	68,721	-	-	-	-	68,721
	2,071,229	913,399	263,417	40,260	63,395	3,351,700

The Group is exposed to the US dollar and Euro currencies.

The following table details the Group's sensitivity to a 5% increase and decrease in 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 weakens by 5% against the US dollar and Euro. For a 5% strengthening of Naira against the US dollar and Euro, there would be an equal and opposite impact on profit.

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Naira strengthens by 5% against the US dollar Profit/(loss)	**(18,116)**	(7,474)
Naira weakens by 5% against the US dollar Profit/(loss)	**18,116**	7,474
Naira strengthens by 5% against the Euro Profit/(loss)	**(4,629)**	(4,444)
Naira weakens by 5% against the Euro Profit/(loss)	**4,629**	4,444

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3.4.4 Interest rate risk

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

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

Group

	Carrying amount ₦ million	Variable interest ₦ million	Fixed interest ₦ million	Non-interest-bearing ₦ million
31 DECEMBER 2014				
Financial assets				
Cash and balances with Central Banks	698,104	8,238	8,001	681,865
Loans and advances to banks	460,911	195,319	86,706	178,885
Loans and advances:				
- Overdrafts	314,114	314,114	-	-
- Term loans	1,777,086	1,747,066	30,020	-
- Staff loans	7,461	-	7,461	-
- Project finance	77,558	77,558	-	-
- Advances under finance lease	2,761	2,761	-	-
Investment securities:				
Available-for-sale investments	553,154	515	495,646	56,994
Held-to-maturity investments	158,485	-	158,485	-
Assets pledged as collateral	68,483	-	68,483	-
Financial assets at fair value through profit or loss	27,601	144	17,521	9,936
Other assets	26,601	-	2,497	24,104
	4,172,319	2,345,715	874,820	951,784
Financial liabilities				
Customer deposits	3,050,853	1,349,992	1,156,095	544,766
Deposits from banks	171,151	138,576	22,565	10,010
Financial liabilities at fair value through profit or loss	10,917	-	1,002	9,915
Borrowings	369,707	176,317	193,390	-
Other liabilities	125,757	-	209	125,548
Insurance contracts liability	8,260	-	2,875	5,385
Investment contracts	60,617	60,617	-	-
	3,797,262	1,725,502	1,376,136	695,623
Interest rate mismatch		620,213	(501,316)	256,160

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Group

	Carrying amount ₦ million	Variable interest ₦ million	Fixed interest ₦ million	Non-interest-bearing ₦ million
31 DECEMBER 2013				
Financial assets				
Cash and balances with Central Banks	594,234	181,281	-	412,954
Loans and advances to banks	430,586	300,831	129,755	-
Loans and advances				
- Overdrafts	340,055	340,054	1	-
- Term loans	1,359,961	1,316,539	43,422	-
- Staff loans	6,216	-	6,216	-
- Project finance	60,803	60,803	-	-
- Advances under finance lease	2,095	2,095	-	-
Investment securities:				
Available-for-sale investments	529,488	-	476,942	52,546
Held-to-maturity investments	294,575	-	294,575	-
Assets pledged as collateral	53,650	-	53,650	-
Financial assets at fair value through profit or loss	10,287	-	1,125	9,161
Other assets	30,404	-	-	30,404
	3,712,355	2,201,602	1,005,686	505,065
Financial liabilities				
Customer deposits	2,929,081	2,272,495	623,587	32,999
Deposits from banks	82,032	68,052	13,296	684
Financial liabilities at fair value through profit or loss	1,701	-	-	1,701
Borrowings	126,302	1,603	124,699	-
Other liabilities	140,213	-	-	140,213
Insurance contracts liability	3,651	1,223	-	2,428
Investment contracts	68,723	-	68,723	-
	3,351,704	2,343,373	830,306	178,025
Interest rate mismatch		(141,771)	175,380	327,040

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3.4.5 Interest rate sensitivity gap analysis

The table below summarises the repricing profile of FirstBank's non-trading book as at 31 December 2014. Carrying amounts of items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date. The interest rate exposure of the other subsidiaries is considered insignificant to the Group. Thus, the repricing profile of the bank is deemed to be fairly representative of the Group.

	<=30 days ₦ billion	31-90 days ₦ billion	91-180 days ₦ billion	181-365 days ₦ billion	1-2 years ₦ billion	Over 2 years ₦ billion	Rate sensitive ₦ billion
Treasury bills	54	74	162	13	-	-	303
Government bonds	-	-	33	(2)	153	72	256
Corporate bonds	-	-	-	2	5	-	7
Loans and advances to banks	243	-	-	-	-	-	243
Project finance	20	28	4	4	4	-	60
Term loans	159	224	109	226	364	300	1,382
Overdraft	24	49	73	150	-	-	296
Equipment on lease	-	-	3	-	-	-	3
Staff loans	-	-	6	-	-	-	6
Total assets	500	375	390	393	526	372	2,556
Deposits from customers	412	365	172	211	190	439	1,789
Deposits from banks	20	-	-	-	-	-	20
Medium-term loan	54	129	8	-	1	142	334
Total liabilities	486	494	180	211	191	581	2,143
	14	(119)	210	182	335	(209)	413

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

3.5 MANAGEMENT OF INSURANCE RISK

The Group, through its primary insurance business - FBN Insurance Limited, issues contracts that transfer insurance risk. This section summarises the nature and management of these risks.

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk. The Group issues contracts that transfer insurance and/or financial risk. This section summarises the nature and management of these risks.

3.5.1 Underwriting risk

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

Insurance events are random and the actual number and amount of underwriting benefits will vary from the best estimates established from statistical techniques and taking cognisance of past experience. The Group manages these risks through its underwriting strategy, reinsurance arrangements and claims handling processes.

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The following policies and practices are used by the Group as part of its underwriting strategy to mitigate underwriting risk:

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

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

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

Claims risk is represented by the fact that the Group may incur unexpectedly high mortality and morbidity losses on any Group of policies. Client service staffs are trained to identify and investigate fraudulent claims timeously. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks. The forensic investigation team also investigates and advises on improvements to internal control systems.

3.5.2 Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of death and job loss. Estimated inflation is also a significant factor due to the long period typically required to settle cases where information are not readily available.

The company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew policies and it has the right to reject the payment of a fraudulent claim.

The reinsurance arrangements include surplus and quota - share. The effect of such reinsurance arrangements is that the Group should not suffer total net insurance losses of more than ₦10 million on any policy. In addition to the overall company reinsurance programme, individual business units are permitted to purchase additional reinsurance protection.

The Group has specialised claims units dealing with the mitigation of risks surrounding claims. This unit investigates and adjusts all claims. The claims are reviewed individually on a quarterly basis and adjusted to reflect the latest information on the underlying facts, contractual terms and conditions, and other factors. The Group actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

The concentration of insurance risk before and after reinsurance by class of business in relation to the type of insurance risk accepted is summarised in the next table, with reference to the carrying amount of the estimated insurance liabilities (gross and net of reinsurance) arising from insurance contracts.

	31 December 2014			31 December 2013		
	Gross liability ₦ million	Reinsurance ₦ million	Net liability ₦ million	Gross liability ₦ million	Reinsurance ₦ million	Net liability ₦ million
Individual traditional	1,927	-	1,927	1,028	-	1,028
Individual savings	2,875	-	2,875	1,223	-	1,223
Group credit life	765	-	765	814	-	814
Group Life – UPR incl AURR	357	(8)	349	104	(19)	85
General business – UPR incl AURR	573	-	573	-	-	-
Group Life - IBNR	133	(4)	129	317	(23)	293
Group School fees	-	-	-	8	-	8
Additional reserves	942	-	942	-	-	-
Outstanding claims	688	-	688	157	(30)	127
Total	8,260	(12)	8,248	3,651	(72)	3,578

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

	31 December 2014			31 December 2013		
	Gross liability ₦ million	Reinsurance ₦ million	Net liability ₦ million	Gross liability ₦ million	Reinsurance ₦ million	Net liability ₦ million
Group Life	423	(71)	352	689	(96)	592
Group Credit Life	232	-	232	118	-	118
Individual Life	466	-	466	18	-	18
General business	466	(270)	196	-	-	-
Total	1,587	(341)	1,246	825	(96)	728

3.5.3 Sources of uncertainty in the estimation of future claim payments

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

Uncertainty in the estimation of future benefits payments and premium receipts for insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in policyholder behaviour.

The insurance business offers varying products, from which the Group is exposed. The main products on offer and the associated risks are:

Product	Types of insurance risk	Product features	Risk
Flexi Education Plan (FlexiEdu)	Individual savings	1. Pays the maturity benefit in 4 equal annual instalments to fund the education of the ward. 2. In case of death before maturity, it pays a death benefit of 10% of the Sum Assured (agreed benefit amount at inception) annually subject to a maximum payout of the sum assured.	Death only
Flexi Save (FlexiSave)	Individual savings	1. Pays the account balance (contribution plus accrued interest) at maturity to the policyholders. 2. In case of death during the policy, 10% of the total contribution payable (subject to a minimum of NG₦100,000) will be paid in addition to the account balance at the point of death to the beneficiary. 3. Should death arise as a result of accident, the plan will pay an accidental death benefit of 200% of the total contribution payable (subject to a max. of NG₦5 million) in addition to the amount paid in (2) to the beneficiary.	Death only
Family Support Plan (FSP)	Individual traditional	Pays a lumpsum in case of death of any of the covered members. Also gives back one full year premium for every five years that there have been no claim on the policy.	Death only
Family Income Protection Plan	Individual traditional	Pays a lumpsum to the beneficiary should any of the covered events happens to the policyholder, depending on the option chosen at inception.	Death with permanent disability and initial illness options
Group Life Assurance	Group Life	1. The scheme will pay a benefit of NG₦500,000.00 (subjected to NG₦1 million for a maximum of 2 lines) for a registered Airtel subscribers. 2. Maximum age to enjoy total permanent disability is 70 years thereafter a member shall only be insured for death benefit up to the age of 80 years.	Death only
Group School Fees	Group school fees	Pays out tuition fees of student till completion of education in the applicable institution from on death of parent.	Death of parent
Group Credit Life Assurance	Group credit life	1. The scheme pays the outstanding loan balance at the time of death of the borrower to the bank. 2. The scheme pays a maximum of 6 months instalment after loss of job by the borrower to the bank.	Death and loss of job

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The insurance liabilities have been made on the following principles:

Type of business	Valuation method
Individual Risk Business	Gross premium valuation approach
Individual Deposit Based business (FlexiSave)	Deposit reserve: Account balance at valuation date Risk reserve: Gross premium
Group Life and Group School Fees	UPR + IBNR + Expense reserve
Group Credit Life	UPR + IBNR + Expense reserve
Daily Term Assurance	Loss ratio estimation
Non-Life Business	Basic Chain Ladder + Loss ratio estimation + Bornheutter-Ferguson method

Individual business

A gross premium method was used for individual risk business. This is a monthly cashflow projection approach taking into account the incidence of all expected future cashflows including office premiums, expenses and benefit payments satisfying the Liability Adequacy Test. This implies that no further testing is required as a result of the implementation of IFRS; or in other words the liability adequacy test has been met implicitly and a separate liability calculation will not be required for accounting purposes.

For the endowment plans the portfolio reserves were tested to ensure they were at least as high as the surrender values at the valuation date. The FlexiSave Plan offers an accidental death and funeral benefit, which are payable in addition to the account balance on the occurrence of an accidental death. The cost of cover is met by explicit risk premiums, which are deducted from the contributions made by policyholders. The life cover element of the FlexiSave policies (and corresponding risk premiums) was unbundled from the deposit components and reserves calculated via a gross premium cashflow approach as described above. This reserve calculation also considers the expected future expense cashflows.

Interest is allocated to policyholder FlexiSave accounts at a rate of 2% below the Monetary Policy Rate (MPR). In order to accurately consider the potential cost of the life cover to the company from this product (and hence the reserves that should be held) the policyholder funds was projected; this enabled a comparison of the expected future income to the company from the policy (the investment return not allocated to policyholder accounts and risk premiums) to the expected future outgo (death benefits and expenses). A reserve is then set up to meet any shortfalls.

Life cover is only available for "active" policies, being those that paid a premium in the year. The risk reserves will allow for future life cover on policies that are active at the valuation date. Policyholders are able to reinstate their life cover by paying any outstanding premiums. Allowance for reinstated policies are made within the additional reserves.

Group business

Reserves for Group Life business comprise an unexpired premium reserve (UPR) and where necessary, a reserve for Incurred But Not Reported Claims (IBNR) to make an allowance for the delay in reporting of claims.

The UPR represents the unexpired portion of the premium for each scheme, net of an expense margin reflecting the acquisition cost loadings. The adequacy of the UPR has been tested by comparing against an Additional Unexpired Risk Reserve (AURR), which has been calculated using pooled industry claims data for the underlying assumptions. An AURR will be held in cases where the UPR is deemed insufficient to meet claims in respect of the unexpired period.

A loss ratio approach (Basic Chain Ladder in 2013) has been used for IBNR reserving, which considers the pattern of claims emerging.

No separate reserve is proposed for claims handling costs for Group Life business as these are typically insignificant in size. Costs incurred are absorbed as part of the general business management costs.

Due to the limited nature of data captured for credit life business, the cashflow projection approach couldn't be used for reserving. Instead reserves have been estimated via an unexpired premium reserve plus an allowance for IBNR where necessary, and unexpired future operating expenses.

Non-life business

Depending on the volume of data in the reserving classes, the appropriate methodologies were used. Three methods were used for the projection of claims. The Basic Chain Ladder Method (BCL), a Loss ratio method adjusted for assumed experience to date and in more recent years and where the claim development seems different than in the past a Bornheutter-Ferguson Method was used based on loss ratios that have been experienced in past accident years.

Claims data was Grouped into triangles by accident year or quarter and payment year or quarter. The choice between quarters or years was based on the volume of data in each segment. Payment development patterns were used instead of the reporting years' patterns to allow for the longer tail development that would be seen in reporting and payment delays as well as to allow for the movement of partial payments in the data.

There was insufficient data to sub-divide claims between large and small claims. Sub-dividing the data would reduce the volume of the data in the triangles and compromise the credibility. However, extremely large claims were removed from the triangulations to avoid distorting development patterns.

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3.5.4 Process used to decide on assumptions

Valuation interest rates

The valuation interest rate is based on current market risk-free yields with adjustments. The use of a risk-free rate also implies that future investment margins (in excess of the risk-free return) will not be capitalised upon, which satisfies paragraph 27 of IFRS 4. Further the result is a "fair value" liability calculation which aids the comparability of accounts between insurers.

Gross valuation interest rate of 14.75% pa was adopted for all long term business, which has been applied as a single long term rate of return. As at 23 December 2014, FGN bond yields of a duration between five and 20 years were above 15%. The 20 year FGN bond yield was 15.2%. By comparison long term bonds were yielding 13% at December 2013.

For the purpose of determining the valuation interest rate, a 5% risk adjustment has been applied, i.e. 95% of the long-term bond yield has been adopted as a risk-adjusted yield. This makes some allowance for the volatility of the risk free yields. By adopting 95% of the closing yield, the valuation interest rate is in line with the average yields over 2014 (five to 20 year bonds).

	Rate
Long-term FGN bond yield	15.00%
Less 0.25% risk adjustment	(0.25%)
Gross valuation rate	14.75%

The proposed valuation interest rates for the individual risk products are as follows:

Type of business	Current valuation	Previous valuation
Risk products	14.75%	12.50%
Risk reserves for deposit-based policies	14.75%	12.50%

Expenses

The Group makes provisions for expenses in its mathematical reserves of an amount which is not less than the amount expected to be incurred in fulfilling its long-term insurance contracts. IFRS 4 explicitly requires the consideration of claims handling expenses.

Future maintenance expenses

The regulatory maintenance expenses are derived from the best estimate maintenance expenses plus a prudence margin for adverse deviations. The best estimate maintenance expenses are calculated as the sum of the following:

1. Per policy maintenance charges; and
2. Allocated operating expenses.

The regulatory maintenance expense assumptions (per policy) are derived by adding a 10% additional prudent margin to the best estimate maintenance expense to form the required assumptions. This has consistently been adopted for IFRS purposes.

The Group performed an expense analysis during the year, which suggests actual expense experience over the year of:

1. Individual Life: ₦4,277 per policy;
2. Credit Life: ₦211 per policy; and
3. Group Life: 59% of premium.

The Group adopted a valuation expense assumption for individual business of ₦5,000 per policy per annum, and ₦250 per policy per annum for credit life business.

The valuation expense assumptions are as follows:

Type of business	Current valuation	Previous valuation
Individual Life	₦5,000 pp	₦3,500 pp
Credit Life	₦250 pp	₦115 pp

Expense inflation

The above expenses are subject to inflation at 8% per annum Consumer Price Inflation at 31 December 2014 was 7.9%. The difference makes for some allowance for expected future expense efficiencies and economies of scale being achieved as the in-force book grows. Both the expense inflation and expense assumption will be actively reviewed in subsequent valuations once more experience data and an expense analysis is made available.

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Mortality

An appropriate base table of standard mortality is chosen depending on the type of contract. An investigation into the Group's experience over the most recent three years is performed, and statistical methods are used to adjust the rates reflected in the table to a best estimate of mortality for that year.

The A6770 (Assured Lives 1967(70)) mortality table without adjustment was adopted in the valuation. A mortality study was conducted in 2011 using industry mortality experience data which demonstrated a good fit to the A6770 table.

Future mortality improvements

No allowance is proposed for future mortality improvements. The Company does not currently write annuity contracts, hence there is no business for which there is exposure to longevity risk.

Withdrawals

Withdrawals comprise both surrenders (voluntary) and lapses (involuntary). Surrenders are acceptable under the Cashflow and FlexiSave Plans, after policies have been in force for a pre-defined length of time (at which policies become eligible to receive a surrender value payout). Where eligible the FlexiSave surrender values are based on the account balances.

Surrender rate was not applied in the current valuation however the reserves for the Cashflow Plans will be subjected to a minimum floor of the surrender value at the valuation date.

Lapses

No allowance for lapses or surrenders is currently being made in the valuation as there were no lapses for business written within the year 2014, while lapses overall were on the low side for existing business. Further, many of the products in force have been written to provide no payout on surrender within the first 2 years, which may lead to a reduction in reserve on consideration of lapses/surrender.

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

(ii) The valuation of the liabilities was made on the assumption that premiums have been credited to the accounts as they fall due, according to the frequency of the particular payment.

(iii) No specific adjustment has been made for immediate payment of claims.

(iv) No specific adjustment has been made for expenses after premiums have ceased in the case of limited payment policies i.e., they have been allocated the same level of expenses as premium paying policies.

(v) No allowance had been made for lapses or surrenders.

(vi) For all protection business any negative reserves were set to zero to prevent policies being treated as assets. Negatives reserves were permitted for endowment plans for policies with no surrender value at the valuation date.

(vii) Any policies subject to substandard terms were valued using the same basis as standard policies.

Group and Credit Life businesses

Unexpired premium reserves (UPR) are reduced by a margin representing acquisition expenses, as these have been loaded into rates yet they have already been incurred.

Acquisition expense ratio of 30% of gross premium was adopted. Group Life commission was paid at 9% of premium and a NAICOM (regulatory) fee is payable of 1% of premium, stamp duty of 0.15% and management expenses.

The following assumptions were adopted for the credit life valuation:

(i) Where no effective (start) date has been provided, we assumed the credit date.

(ii) Where no end date or tenor has been provided we assumed a tenor of 30 months; this is in line with the average policy term where data has been provided.

(iii) The UPR was based on the net premiums, where net premiums are reported after the deduction of commission.

(iv) The IBNR was estimated based on an average claims notification delay period of three months, which was derived from the claims experience data.

Additional contingency reserves were made in addition to those provided for long-term business to be held. These contingencies are considered as standard for the 12 months following the valuation date, i.e., short term contingency only. Other liabilities such as expense and data contingencies reserves have been estimated as necessary using the information available and reported in the main valuation. Assumptions used for these estimates are summarised in the table below:

All Business Group	Current valuation	Previous valuation
Expense overrun	10%	10%
Worsening of mortality experience	10%	10%

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Reinsurance agreements

Reinsurance is allowed for within the valuation, by having gross and reinsurance ceded records in the policy files. For IFRS compliance purposes all reserves have been reported gross of reinsurance, with the value of the reinsurance asset reported separately.

Changes in assumptions

The Company did not change its assumptions for the insurance contracts.

3.5.5 Insurance and Market risk sensitivities

The sensitivity analysis of insurance and market risk is used as it provides a detailed understanding of the risks inherent in the business and to help develop a risk monitoring and management framework to ensure the risks remain within limits, taking into account the available capital and shareholder risk tolerance levels.

The 'Assumption Changes' component of the analysis of change, in the table below, shows the impact on liabilities of the actual assumption changes made over the year.

The sensitivity analysis was performed using the under-listed variables:

a. valuation interest (discount) rate +/- 1%;

b. expenses +/- 10%;

c. expense inflation +/- 2%; and

d. mortality +/- 5% (including Group Life).

2014 ₦ million	Base	VIR		Expenses		Expense inflation	
		1%	(1%)	10%	(10%)	2%	(2%)
Individual traditional	1,927	1,542	2,311	1,994	1,861	1,959	1,899
Individual savings	2,875	2,875	2,875	2,875	2,875	2,875	2,875
Group Credit Life	765	765	765	771	760	765	765
Group Life – UPR incl AURR	357	357	357	357	357	357	357
Group Life – IBNR	133	133	133	133	133	133	133
Additional reserves	943	942	943	947	938	943	942
Reinsurance	(12)	(12)	(12)	(12)	(12)	(12)	(12)
Net liability	6,988	6,602	7,372	7,065	6,912	7,020	6,959
% change in net liability		94.5%	105.5%	101.1%	98.9%	100.5%	99.6%
Assets	8,734	8,734	8,734	8,734	8,734	8,734	8,734
Surplus/deficit	1,746	2,132	1,362	1,669	1,822	1,714	1,775

2014 ₦ million	Base	Mortality	
		5%	(5%)
Individual traditional	1,927	1,936	1,918
Individual savings	2,875	2,875	2,875
Group Credit Life	765	765	765
Group Life – UPR incl AURR	357	357	357
Group Life – IBNR	133	133	133
Additional reserves	943	944	942
Reinsurance	(12)	(12)	(12)
Net liability	6,988	6,998	6,978
% change in net liability		100.1%	99.9%
Assets	8,734	8,734	8,734
Surplus/deficit	1,746	1,736	1,756

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2013 ₦ million	Base	VIR		Expenses		Expense inflation	
		1%	(1%)	10%	(10%)	2%	(2%)
Individual risk reserves	1,028	966	1,107	1,064	993	1,045	1,013
FlexiSave deposits	1,223	1,223	1,223	1,223	1,223	1,223	1,223
Group Life – UPR	104	104	104	104	104	104	104
Group Life – IBNR	317	317	317	317	317	317	317
Group Credit Life incl school fees	1,022	1,022	1,022	1,026	1,018	1,022	1,022
Reinsurance	(43)	(43)	(43)	(43)	(43)	(43)	(43)
Net liability	3,651	3,589	3,730	3,691	3,612	3,668	3,636
% change in net liability		98.3%	102.2%	101.1%	98.9%	100.5%	99.6%
Assets	3,756	3,756	3,756	3,756	3,756	3,756	3,756
Surplus/deficit	105	167	26	65	144	88	120

2013 ₦ million	Base	Mortality	
		5%	(5%)
Individual risk reserves	1,028	1,032	1,023
FlexiSave deposits	1,223	1,223	1,223
Group Life – UPR	104	104	104
Group Life – IBNR	317	317	317
Group Credit Life incl school fees	1,022	1,022	1,021
Reinsurance	(43)	(43)	(43)
Net liability	3,651	3,655	3,645
% change in net liability		100.1%	99.9%
Assets	3,756	3,756	3,756
Surplus/deficit	105	101	111

Assumptions have been flexed on the basis used to calculate the value of in-force (VIF) business and the realistic and statutory reserving bases. The mortality sensitivity shows the impact of reducing and increasing mortality rates on business to 95% and 105% respectively of the base rates. The expense inflation sensitivity result shows the impact of reducing and increasing expense inflation rates on business to 98% and 102% respectively of the base rates.

The expense sensitivity result shows the impact of reducing and increasing maintenance and acquisition expenses rates to 90% and 110% respectively of the base rates. Valuation Interest rate sensitivity result shows the impact of reducing and increasing valuation interest rate to 99% and 101% respectively of the base rates.

3.5.6 Solvency

The solvency level at the valuation date was 103% (103.1%: 2013). That is, assets representing life and non-life fund on the Group's balance sheet (₦8.5 billion) were 103% of the value of the actuarially calculated net liabilities (₦8.3 billion).

The assets backing the Life Fund are as follows:

	2014 ₦ million	2013 ₦ million
FGN bonds	**670**	499
Treasury bills	**7,208**	2,627
Cash and bank balances	**692**	630
Investment properties	**80**	-
Investment in quoted equity	**24**	-
Investment in unquoted equity	**61**	-
Total	**8,734**	3,756

The assets adequately match the liabilities. In particular asset admissibility requirements and localisation rules in section 25 of 2003 Insurance Act were met. The Life Fund shows a surplus of ₦137.1 million (2013: ₦105.4 million), while life and non-life shows a surplus of ₦227.9 million.

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3.6 EQUITY RISK

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

As at 31 December 2014, the market value of quoted securities held by the Group is ₦7.42 billion (2013: ₦10.09 billion). If the all share index of the NSE moves by 1600 basis points from the 34,657.45 position at 31 December 2014, the effect on the fair value of these quoted securities and the other comprehensive income statement would have been ₦1.19 billion.

The Group holds a number of investments in unquoted securities with a market value of ₦55.1 billion (2013: ₦46.6 billion) of which investments in Airtel Nigeria Ltd (23%), African Finance Corporation (AFC) (63%) and Interswitch Ltd (9%) are the significant holdings. These investments were valued at ₦9.5 billion (cost ₦2.9 billion), ₦25.7 billion (cost ₦12.7 billion) and ₦3.7 billion (cost ₦31 million) respectively as at 31 December 2014. AFC is a private sector led investment bank and development finance institution which has the Central Bank of Nigeria 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. Interswitch is an integrated payment and transaction processing company that provides technology integration, advisory services, transaction processing and payment infrastructure to banks, government and corporate organisations. These investments are level 3 instruments (see sensitivity analysis in note 3.7).

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

3.7 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

3.7.1 Financial instruments measured at fair value

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

Group

	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Total ₦ million
31 DECEMBER 2014				
Financial assets				
Financial assets at fair value through profit or loss				
Debt securities	13,426	300	-	13,726
Equity	3,927	-	-	3,927
Derivatives	-	9,948	-	9,948
Available-for-sale financial assets				
Investment securities - debt	443,916	50,659	-	494,575
Investment securities - unlisted equity	319	6,731	48,035	55,085
Investment securities - listed equity	3,493	-	-	3,493
Assets pledged as collateral	16,261	2,942	-	19,203
Financial liabilities at fair value through profit or loss				
Derivatives	-	10,917	-	10,917

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Group

	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Total ₦ million
31 DECEMBER 2013				
Financial assets at fair value through profit or loss				
Debt securities	1,125	-	-	1,125
Equity	4,150	-	-	4,150
Derivatives	-	4,160	852	5,012
Available-for-sale financial assets				
Investment securities - debt	404,002	72,939	-	476,941
Investment securities - unlisted debt				-
Investment securities - unlisted equity	-	3,460	43,150	46,610
Investment securities - listed equity	5,936	-	-	5,936
Assets pledged as collateral	20,381	-	-	20,381
Financial liabilities at fair value through profit or loss				
Derivatives	-	1,701	-	1,701

Company

	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Total ₦ million
31 DECEMBER 2014				
Financial assets				
Available-for-sale financial assets				
Investment securities – unlisted equity	**-**	**2,806**	**-**	**2,806**
31 DECEMBER 2013				
Financial assets				
Available-for-sale financial assets				
Investment securities – unlisted equity	-	2,515	-	2,515

a. **Financial instruments in level 1**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily bonds and equity investments classified as trading securities or available-for-sale.

b. **Financial instruments in level 2**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

(i) quoted market prices or dealer quotes for similar instruments;

(ii) the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value; and

(iii) other techniques, such as discounted cash flow analysis, sales prices of comparable properties in close proximity, are used to determine fair value for the remaining financial instruments.

Note that all of the resulting fair value estimates are included in level 2 except for certain unquoted equities explained below.

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c. **Financial instruments in level 3**

Inputs for the asset or liability in this fair value hierarchy are not based on observable market data (unobservable inputs). This level includes equity investments with significant unobservable components.

Transfers in and out of level 3 instruments are recognised on the date of the event or change in circumstances that caused the transfer.

The following table presents changes in level 3 instruments

	Group
At 1 January 2013	
Transfer into level 3 due to change in observability of market data	50,362
Total gains/(losses) for the period:	
- Included in profit or loss	-
- Included in other comprehensive income	(6,360)
At 31 December 2013	44,002
Transfer into level 3 due to change in observability of market data	67
Total gains/(losses) for the period	
- Included in other comprehensive income	3,966
At 31 December 2014	**48,035**

Total gains or losses for the period included in profit or loss are presented in net gains/(losses) on investment securities.

Information about the fair value measurements using significant unobservable inputs (level 3)

Description	Valuation technique	Range of unobservable input (probability-weighted average)	Relationship of unobservable inputs to fair value
AIRTEL NIGERIA	EV/EBITDA	25% illiquidity discount	the higher the illiquidity discount the lower the fair value
NIBSS PLC	EV/EBITDA	25% illiquidity discount	the higher the illiquidity discount the lower the fair value
AFREXIM BANK LTD	P/E multiples	10% illiquidity discount	the higher the illiquidity discount the lower the fair value
INTERSWITCH LTD	EV/EBITDA	25% illiquidity discount	the higher the illiquidity discount the lower the fair value
AFRICA FINANCE CORPORATION	P/E multiples	10% illiquidity discount	the higher the illiquidity discount the lower the fair value
MOORHOUSE PROPERTIES LTD	Income approach (discounted cashflow)	5% minority discount	the higher the minority discount the lower the fair value
MAIN ONE CABLE COMPANY LTD	EV/EBITDA	20% illiquidity discount	the higher the illiquidity discount the lower the fair value
RESOURCERY PLC	EV/EBITDA	20% illiquidity discount	the higher the illiquidity discount the lower the fair value

EV/EBITDA or P/E valuation multiple - the Group determines appropriate comparable public company/ies based on industry, size, developmental stage, revenue generation and strategy. The Bank then calculates a trading multiple for each comparable company identified. The multiple is calculated by either dividing the enterprise value of the comparable company by its earning before interest, tax, depreciation and amortisation (EBITDA), or dividing the quoted price of the comparable company by its net income (P/E). The trading multiple is then adjusted for discounts/premiums with regards to such consideration as illiquidity and other differences, advantages and disadvantages between the Bank's investee company and the comparable public companies based on company-specific facts and circumstances.

Income approach (discounted cash flow) - the Group determines the free cash flow of the investee company, and discounts these cash flows using the relevant cost of equity. The cost of equity is derived by adjusting the yield on the risk-free securites (FGN Bonds) with the equity risk premium and company/sector specific premium. The present value derived from the calculation represents the investee company's enterprise value.

A reasonable change in the illiquidity discount and minority discount will not result in a material change to the fair value of the investment.

3.7.2 Group's valuation process

The Group's asset liability management (ALM) unit performs the valuation of financial assets required for financial reporting purposes. This team also engages external specialist valuers when the need arises, and reports directly to the Chief Risk Officer. Discussions on the valuation process and results are held between the ALM team and the Chief Risk Officer on a monthly basis in line with the Group's management reporting dates.

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3.7.3 Financial instruments not measured at fair value

a. 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 2014				
Financial assets				
Cash and balances with central banks	500	697,604	-	698,104
Loans and advances to banks	-	460,911	-	460,911
Loans and advances to customers:				
- Overdrafts	-	-	314,114	314,114
- Term loans	-	30,017	1,747,069	1,777,086
- Staff loans	-	388	7,073	7,461
- Project finance	-	-	77,558	77,558
- Advances under finance lease	-	-	2,761	2,761
Held-to-maturity investments	111,457	47,028	-	158,485
Asset pledged as collateral	47,920	1,360	-	49,280
Other assets	-	26,601	-	26,601
Financial liabilities				
Deposit from customers	-	3,050,853	-	3,050,853
Deposit from bank	-	171,151	-	171,151
Borrowing	141,819	227,888	-	369,707
Other liabilities	-	125,311	446	125,757
Investment contracts	-	60,617	-	60,617
31 DECEMBER 2013				
Financial assets	-	594,234	-	594,234
Cash and balances with central banks	-	430,586	-	430,586
Loans and advances to banks				
Loans and advances to customers:	-	340,055	-	340,055
- Overdrafts	-	1,359,961	-	1,359,961
- Term loans	-	-	6,216	6,216
- Staff loans	-	-	60,803	60,803
- Project finance	-	-	2,095	2,095
- Advances under finance lease	171,099	123,476	-	294,575
Held-to-maturity investments	33,269	-	-	33,269
Asset pledged as collateral	-	30,404	-	30,404
Other assets				
Financial liabilities				
Deposit from customers	-	2,929,081	-	2,929,081
Deposit from bank	-	82,032	-	82,032
Borrowing	-	126,302	-	126,302
Other liabilities	-	140,213	-	140,213
Investment contracts	-	68,721	-	68,721

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Company

	Level 1 ₦ million	Level 2 ₦ million	Level 3 ₦ million	Total ₦ million
31 DECEMBER 2014				
Financial assets				
Loans and advances to banks	-	3,261	-	3,261
Loans and advances to customers:				
- Staff loans	-	-	80	80
Held-to-maturity investments	1,466	-	-	1,466
Other assets	-	14,111	-	14,111
Financial liabilities				
Other liabilities	-	7,950	-	7,950
31 DECEMBER 2013				
Financial assets				
Loans and advances to customers:				
- Staff loans	-	-	72	72
Investment securities:				
- Loans and receivables	-	7,332	-	7,332
Other assets	-	42,831	-	42,831
Financial liabilities				
Other liabilities	-	3,519	-	3,519

b. The fair value of loans and advances to customers, (including loan commitments) and investment securities are as follows:

Group

	At 31 December 2014		At 31 December 2013	
	Carrying value ₦ million	Fair value ₦ million	Carrying value ₦ million	Fair value ₦ million
Financial assets				
Loans and advances to customers				
- Fixed rate loans	35,828	33,804	49,639	48,646
- Variable rate loans	2,143,152	2,188,220	1,719,491	1,749,615
Investment securities (held-to-maturity)	158,484	124,995	294,575	262,172
Asset pledged as collateral	49,280	30,649	33,269	24,040
Financial liability				
Borrowings	369,707	407,765	2,096,974	2,084,473

Investment securities have been fair valued using the market prices and is within level 1 of the fair value hierarchy, while the loans and advances to customers have been fair valued using unobservable imputs and is within level 3 of the fair value hierarchy.

The carrying value of the following financial assets and liabilities for both the Company and Group approximate their fair values:

- cash and balances with central banks;
- loans and advances to banks;
- other assets (excluding prepayments);
- deposits from banks;
- deposits from customers; and
- other liabilities (excluding provisions and accruals).

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4 CAPITAL MANAGEMENT

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the Central Bank of Nigeria, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve the current capital requirement of at least 15% set by the Central Bank of Nigeria.

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 has an Internal Capital Adequacy Assessment Process which proactively evaluates capital needs vis-à-vis business growth and the operating environment. It also guides the capital allocation among the subsidiaries and the business units. The Group's internal capital adequacy assessment entails periodic review of risk management processes, monitoring of levels of risk and strategic business focus through a system of internal controls that provides assurance to those charged with governance on risk management models and processes.

The Group's capital is divided into two tiers:

- Tier 1 capital: core equity tier one capital including ordinary shares, statutory reserve, share premium and general reserve. Non-controlling interests arising on consolidation from interests in permanent shareholders' equity. The book value of goodwill, unpublished losses and under provisions are deducted in arriving at qualifying tier 1 capital.
- Tier 2 capital: qualifying subordinated loan capital and unrealised gains arising from the fair valuation of financial instruments held as available for sale. Under the Basel II requirements, as implemented in Nigeria, tier 2 capital is restricted to 331/3% of tier 1 capital.

During the year, Nigerian banks based on regulatory requirements issued by the Central Bank migrated from the Basel I to Basel II in terms of capital adequacy monitoring and reporting. Basel II introduced capital charges for operational risk and market risks which hitherto were unweighted, in addition to the credit risk.

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 with international banking licence in Nigeria. Total qualifying capital consists of tier 1 and 2 capital less investments in subsidiaries and other regulatory adjustments.

The Group works to maintain adequate capital cover for its trading activities of the Bank, with a minimum internal target of 16%. Current position is closely monitored and reported fortnightly to the Assets and Liabilities Management Committee.

The table below summarises the Basel II capital adequacy ratio for 2014 and 2013 (December 2013 capital adequacy ratio for First Bank of Nigeria Limited of 16.76% was initially reported in accordance with the requirements of Basel 1 Accord as adopted by the Central Bank of Nigeria). It shows the composition of regulatory capital and ratios for the years. During those years, the Bank complied with all the regulatory capital requirements to which it was subjected.

First Bank of Nigeria

	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
TIER 1 CAPITAL		
Share capital	**16,316**	16,316
Share premium	**189,241**	189,241
Statutory reserve	**63,231**	51,329
SMEEIS reserves	**6,076**	6,076
Retained earnings	**87,200**	67,166
Less: Goodwill/deferred tax	**(1,343)**	(3,655)
Less: Loan to subsidiary	**(14,541)**	-
Less: Investment in unconsolidated subsidiaries	**(29,493)**	(29,265)
Total qualifying for tier 1 capital	**316,687**	297,208
TIER 2 CAPITAL		
Fair value reserve	**16,126**	13,063
Other borrowings	**141,819**	47,249
Total tier 2 capital	**157,945**	60,312

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First Bank of Nigeria

	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Tier 2 capital restriction	**120,688**	60,312
Less: Investment in unconsolidated subsidiaries	**(29,493)**	(29,265)
Total qualifying for tier 2 capital	**91,195**	31,047
Total regulatory capital	**407,882**	328,255
RISK-WEIGHTED ASSETS		
Credit risk	**2,131,421**	2,029,705
Operational risk	**453,746**	393,993
Market risk	**46**	783
Total risk-weighted assets	**2,585,213**	2,424,481
Risk-weighted Capital Adequacy Ratio (CAR)	**15.78%**	13.54%
Tier 1 CAR	**12.25%**	12.26%

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

The detailed methodologies, areas of estimation and judgement applied in the calculation of the 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 3.2.12 for more information.

b. **Fair value of financial instruments**

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

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

Changes in assumptions about these factors could affect the reported fair value of financial instruments. Refer to Note 3.7 for additional sensitivity information for financial instruments.

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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. During the year, the held to maturity investment portfolio was not tainted.

d. **Retirement benefit obligation**

For defined benefit pension plans, the measurement of the Group's benefit obligation and net periodic pension cost/(income) requires the use of certain assumptions, including, among others, estimates of discount rates and expected return on plan assets. See note 38, 'Retirement benefits obligation', for a description of the defined benefit pension plans and sensitivity analysis. An actuarial valuation is performed by actuarial valuation experts on an annual basis to determine the retirement benefit obligation of the Group.

e. **Impairment of goodwill**

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

An impairment charge of ₦501 million arose in ICB Guinea in the retail segment during the course of year 2014, 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 ₦20 million while if it had been lower by 0.5% a further charge of ₦19 million would have been recognised in the Group books. See note 30 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 ₦45 million while if it had been higher by 0.5% a further charge of ₦43 million would have been recognised in the Group's books.

6 SEGMENT INFORMATION

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

The Group is divided into the following business units:

Commercial Banking Business Group

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

Investment Banking and Asset Management Business Group (IBAM)

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

Insurance Business Group

This includes the Group's legacy insurance brokerage business and the more recent full underwriting business. The underwriting business is performed by FBN Life Assurance Limited, a partnership with South African based Sanlam Group.

Other Financial Services Business Group

This includes the Group's non operating holding company and other non-banking financial services businesses, primarily FBN Micro finance bank which provides microfinance services to the mass-market retail segment and SPVs established by the Group.

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. This measurement basis excludes the effect of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring events.

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

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

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

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Segment result of operations

The segment information provided to the Group Executive Committee for the reportable segments for the period ended 31 December 2014 is as follows:

	Commercial Banking Group ₦ million	IBAM Group ₦ million	Insurance Group ₦ million	Other Financial Services Group ₦ million	Total ₦ million
AT 31 DECEMBER 2014					
Total segment revenue	455,475	23,560	6,539	22,467	508,041
Inter-segment revenue	(6,802)	(4,791)	(1,810)	(14,636)	(28,039)
Revenue from external customers	448,673	18,768	4,729	7,830	480,002
Profit/(loss) before tax	90,067	3,529	706	(1,418)	92,884
Income tax expense	(9,526)	(2,727)	(195)	2,403	(10,045)
Profit for the period	80,541	802	511	985	82,839
Impairment charge on credit losses	(25,362)	18	-	(312)	(25,656)
Impairment charge on doubtful receivables	(17)	(258)	(7)	(4)	(286)
Impairment charge on goodwill	(501)	-	-	-	(501)
Share of profit/(loss) from associates	521	78	-	-	599
Depreciation	(10,531)	(373)	(156)	(315)	(11,375)
AT 31 DECEMBER 2014					
Total assets	4,080,258	99,384	17,505	145,519	4,342,666
Other measures of assets:					
Loans and advances to customers	2,150,086	1,872	74	26,948	2,178,980
Investment in associates	-	-	-	-	-
Expenditure on non-current assets	83,404	505	1,764	2,535	88,208
Investment securities	598,904	45,812	12,011	54,912	711,639
Total liabilities	3,649,993	77,405	10,500	81,878	3,819,776
AT 31 DECEMBER 2013					
Total segment revenue	371,681	20,129	3,665	76,167	471,642
Inter-segment revenue	(1,508)	(914)	(228)	(74,057)	(76,707)
Revenue from external customers	370,173	19,215	3,437	2,110	394,935
Profit/(loss) before tax	86,668	6,778	1,071	(3,180)	91,337
Income tax expense	(21,010)	528	(163)	(61)	(20,706)
Profit for the period	65,658	7,306	908	(3,241)	70,631
Impairment charge on credit losses	(20,257)	83	-	169	(20,005)
Impairment charge on doubtful receivables	(264)	-	(40)	-	(304)
Impairment charge on goodwill	(552)	-	-	-	(552)
Share of profit/(loss) from associates	875	-	-	131	1,006
Depreciation	(9,823)	(261)	(88)	(112)	(10,284)
AT 31 DECEMBER 2013					
Total assets	3,710,584	106,066	8,708	43,643	3,869,001
Other measures of assets:					
Loans and advances to customers	1,767,622	8	65	1,435	1,769,130
Investment in associates	6,227	-	-	802	7,029
Expenditure on non-current assets	78,491	1,224	228	1,356	81,299
Investment securities	733,254	77,231	6,732	6,846	824,063
Total liabilities	3,309,902	73,485	5,779	8,058	3,397,224

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Geographical information

	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
REVENUES		
Nigeria	**438,385**	368,060
Outside Nigeria	**41,181**	26,875
Total	**479,566**	394,935
NON-CURRENT ASSET		
Nigeria	**81,394**	76,533
Outside Nigeria	**6,814**	4,766
Total	**88,208**	81,299

7 INTEREST INCOME

	Group		Company	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Investment securities	**92,153**	86,174	**2,760**	921
Loans and advances to banks	**19,216**	17,423	**122**	–
Loans and advances to customers	**251,210**	220,024	**4**	3
	362,579	323,621	**2,886**	924

Interest income on loans and advances to customers for the Group includes interest income on impaired financial assets of ₦0.598 billion (2013: ₦1.3 billion), recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

8 INTEREST EXPENSE

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Customer deposits	**98,017**	79,495
Deposits from banks	**2,713**	2,631
Borrowings	**17,995**	11,380
	118,725	93,506

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9 IMPAIRMENT CHARGE FOR CREDIT LOSSES

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Loans and advances to customers (see Note 21)		
Increase in collective impairment	**4,149**	1,141
Increase in specific impairment	**23,768**	21,573
	27,917	22,714
Net recoveries on loans previously written off	**(2,261)**	(2,709)
Other assets (see Note 32)		
Increase in impairment	**286**	304
	25,942	20,309

The Group impairment charge in the financial year ended December 2014 increased to ₦27.9 billion from ₦22.7 billion recorded in December 2013. 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.

10 INSURANCE PREMIUM REVENUE

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Gross premium written	**7,113**	3,648
Unearned premium	**(344)**	(4)
	6,769	3,644
Change in insurance contract liabilities	**(3,449)**	(1,633)
	3,320	2,011

11 FEES AND COMMISSION INCOME

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Credit related fees	**2,492**	2,883
Commission on turnover	**15,289**	17,618
Letters of credit commissions and fees	**6,636**	5,472
Electronic banking fees	**11,465**	7,648
Money transfer commission	**2,195**	3,634
Commission on bonds and guarantees	**1,146**	617
Funds transfer and intermediation fees	**5,086**	3,388
Account maintenance	**8,344**	7,931
Brokerage and intermediations	**4,631**	3,810
Financial advisory fees	**5,693**	3,381
Fund management fees	**1,530**	906
Other fees and commissions	**2,476**	2,093
	66,983	59,381
11b FEES AND COMMISSION EXPENSE	**6,205**	5,296

Fee and commission expense relates to charges raised by other banks on holders of First Bank of Nigeria Limited ATM cards, who make use of the other banks machines while transacting business,and SMS alert related expense.

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12 NET GAINS ON FOREIGN EXCHANGE INCOME

	Group		Company	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Fair value gains/(losses) on foreign exchange	30,795	(2,349)	42	-
Foreign exchange trading income	14,110	9,042	-	-
	44,905	6,693	42	-

Fair value gain in 2014 arose from exchange rate movement on translation of foreign currency balances.

13 NET GAINS/(LOSSES) ON INVESTMENT SECURITIES

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Equity securities	(366)	961
Debt securities	136	1,938
	(230)	2,899

14 NET LOSSES FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Derivatives	(871)	595
Trading losses on debt securities	(152)	(20)
Fair value losses on debt securities	(239)	(2,079)
	(1,262)	(1,504)

15a DIVIDEND INCOME

	Group		Company	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
First Bank of Nigeria Limited	-	-	9,790	71,791
FBN Capital Limited	-	-	4,185	1,800
FBN Insurance Brokers Limited	-	-	188	215
FBN Insurance Limited	-	-	198	128
Others	1,469	1,227	109	124
Withholding tax on dividend	-	-	(723)	-
	1,469	1,227	13,747	74,057

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15b OTHER OPERATING INCOME

	Group		Company	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Profit on sale of property, plant and equipment	435	293	-	-
Other income	2,419	834	294	7
	2,854	1,127	294	7

Other income is largely made up of income made by the Group from private banking services.

16 OPERATING EXPENSES

	Group		Company	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Auditors' remuneration	530	488	25	35
Directors' emoluments	6,795	6,884	751	306
Deposit insurance premium	13,027	11,070	-	-
AMCON resolution cost	17,132	13,853	-	-
Maintenance	19,571	22,308	45	15
Insurance premium	565	1,467	11	1
Rent and rates	4,394	2,710	171	90
Advert and corporate promotions	12,759	8,357	127	343
Legal and other professional fees	5,741	4,339	504	424
Donations and subscriptions	1,867	1,814	4	36
Stationery and printing	2,335	2,084	99	6
Communication, light and power	6,181	3,053	10	79
Cash handling charges	3,042	2,771	-	-
Operational and other losses	18,488	5,155	-	-
Passages and travels	5,134	5,092	192	192
Outsourced cost	12,247	9,850	-	-
Statutory fees	57	99	55	78
Underwriting expenses	1,539	703	-	-
Other operating expenses	11,796	6,186	123	53
	143,200	108,283	2,117	1,658
16a PERSONNEL EXPENSES				
Wages and salaries	75,011	55,370	1,147	50
Pension costs:				
- Defined contribution plans	2,954	2,550	12	8
- Defined benefit plans (Note 38)	1,636	3,211	-	-
- Retirement benefit cost - Gratuity (Note 38)	242	4,689	-	-
	79,843	65,820	1,159	58

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17 TAXATION – INCOME TAX EXPENSE AND LIABILITY

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Corporate tax	8,031	17,275
National fiscal levy	-	13
Education tax	138	1,360
Technology tax	889	808
Capital gains tax	3	27
(Over)/Under provision in prior years	(162)	11
Current income tax – current period	8,899	19,494
Origination and reversal of temporary deferred tax differences	1,146	1,212
Income tax expense	10,045	20,706

Group				
	31 Dec 2014 ₦ million		31 Dec 2013 ₦ million	
Profit before income tax	92,884		91,337	
Tax calculated using the domestic corporation tax rate of 30% (2011: 30%, 2010: 30%)	27,865	30%	27,401	30%
Effect of tax rates in foreign jurisdictions	(129)	-	-	-
Non-deductible expenses	21,984	24%	5,830	6%
Effect of education tax levy	138	-	1,397	2%
Effect of information technology	889	1%	823	1%
Effect of capital gains tax	3	-	27	-
Effect of minimum tax	211	-	90	-
Effect of excess dividend tax	403	-	5,349	6%
Effect of national fiscal levy	22	-	-	-
Tax exempt income	(39,378)	(42%)	(19,536)	(21%)
Effect of disposal of items of PPE	-	-	(1)	-
Effect of change in PBT due to IFRS adjustments	-	-	15	-
Tax incentives	(201)	-	2	-
Tax loss effect	(2,220)	(2%)	405	-
(Over)/under provided in prior years	436	-	26	-
Effect of prior period adjustment on deferred tax	22	-	(1,122)	(1%)
Total income tax expense in income statement	10,045	11%	20,706	23%
Income tax expense	10,045	11%	20,706	23%
The movement in the current income tax liability is as follows:				
At start of the period	34,167	23,389	-	-
Effect of adjustment on acquired entities	38	(729)	-	-
Reclassification to liabilities held for sale	(69)	-	-	-
Tax paid	(31,329)	(9,166)	-	-
Withholding tax credit utilised	(31)	(4)	-	-
Prior period under provision	(52)	217	-	-
AFS securities revaluation tax charge/(credit)	(682)	(282)	-	-

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Group	31 Dec 2014 ₦ million		31 Dec 2013 ₦ million	
Income tax charge	**8,899**	19,494	**-**	-
Effect of changes in exchange rate	**888**	1,248		
At 31 December	**11,829**	34,167	**-**	-
Current	**11,829**	34,167	**-**	-

18 CASH AND BALANCES WITH CENTRAL BANKS

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Cash	**63,308**	71,743
Balances with central banks excluding mandatory reserve deposits	**71,059**	181,280
	134,367	253,023
Mandatory reserve deposits with central banks	**563,737**	341,211
	698,104	594,234

Included in balances with central banks is a call placement of ₦7.5 billion for Group (31 December 2013: ₦137.04 billion)

Restricted deposits with central banks are not available for use in Group's day-to-day operations. FBNHoldings had restricted balances of ₦560.08 billion with Central Bank of Nigeria (CBN) as at 31 December 2014 (December 2013: ₦325 billion). This balance is CBN cash reserve requirement. The cash reserve ratio represents a mandatory 20% of non-government deposits (December 2013: 15%) and 75% of government deposit (December 2013: 50%) which should be held with the Central Bank of Nigeria as a regulatory requirement. FBN UK, FBN Ghana, FBN Gambia, FBN Guinea and FBN Senegal had restricted balances of ₦0.43 billion, ₦0.97 billion, ₦0.16 million, ₦1.41 billion and ₦0.20 billion respectively with their respective central banks.

19 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		Company	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Cash (Note 18)	**63,308**	71,743	**-**	-
Balances with central banks other than mandatory reserve deposits (Note 18)	**71,059**	181,280	**-**	-
Loans and advances to banks excluding long-term placements (Note 20)	**321,201**	326,024	**3,261**	1,477
Treasury bills included in financial assets at fair value through profit or loss (Note 22)	**7,240**	438	**-**	-
Treasury bills and eligible bills excluding pledged treasury bills (Note 23.1 and 23.2)	**69,648**	255,206	**1,466**	-
	532,456	834,691	**4,727**	1,477

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20 LOANS AND ADVANCES TO BANKS

	Group		Company	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Current balances with banks within Nigeria	**54,776**	4,863	**375**	1,477
Current balances with banks outside Nigeria	**156,595**	287,452	**-**	-
Placements with banks and discount houses	**109,831**	33,709	**2,886**	-
	321,202	326,024	**3,261**	1,477
Long-term placement	**139,709**	104,562	**-**	-
Carrying amount	**460,911**	430,586	**3,261**	1,477

Included in loans to banks is non-current placement of ₦139.7 billion for Group (31 December 2013: ₦104.6 billion) which does not qualify as cash and cash equivalent.

All other loans to banks are due within three months.

21 LOANS AND ADVANCES TO CUSTOMERS

Group

	Gross amount ₦ million	Specific impairment ₦ million	Collective impairment ₦ million	Total impairment ₦ million	Carrying amount ₦ million
31 DECEMBER 2014					
Overdrafts	**329,578**	**11,845**	**3,619**	**15,464**	**314,114**
Term loans	**1,803,762**	**15,932**	**10,744**	**26,676**	**1,777,086**
Staff loans	**7,529**	**-**	**68**	**68**	**7,461**
Project finance	**77,709**	**-**	**151**	**151**	**77,558**
	2,218,578	**27,777**	**14,582**	**42,359**	**2,176,219**
Advances under finance lease	**3,043**	**241**	**41**	**282**	**2,761**
	2,221,621	**28,018**	**14,623**	**42,641**	**2,178,980**
31 DECEMBER 2013					
Overdrafts	354,582	10,467	4,060	14,527	340,055
Term loans	1,388,767	9,479	19,327	28,806	1,359,961
Staff loans	6,432	31	185	216	6,216
Project finance	61,534	-	731	731	60,803
	1,811,315	19,977	24,303	44,280	1,767,035
Advances under finance lease	2,862	696	71	767	2,095
	1,814,177	20,673	24,374	45,047	1,769,130

Company

	Gross amount ₦ million	Specific impairment ₦ million	Collective impairment ₦ million	Total impairment ₦ million	Carrying amount ₦ million
31 DECEMBER 2014					
Staff loans	**80**	**-**	**-**	**-**	**80**
	80	**-**	**-**	**-**	**80**
31 DECEMBER 2013					
Staff loans	72	-	-	-	72
	72	-	-	-	72

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	Group		Company	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Current	1,166,338	932,842	13	5
Non-current	1,012,642	836,288	67	67
	2,178,980	1,769,130	80	72

CBN/Bank of Industry facilities

Included in loans and advances to customers are term loans granted to customers in line with Central Bank of Nigeria (CBN) ₦200 billion intervention funds for refinancing and restructuring of banks' loans to the manufacturing sector. The on-lending facilities are for a maximum of 15 years' tenor at 6% interest per annum.

CBN/Commercial Agriculture Credit (CACS)

This relates to the balance on term loan facilities granted to customers under Central Bank of Nigeria (CBN) Commercial Agriculture Credit Scheme. The facilities under the scheme are for a period of seven years at 9% interest per annum. These balances are included in the loans and advances.

	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
CBN/Bank of Industry	14,514	7,429
CBN/Commercial Agriculture Credit	13,733	20,319

Reconciliation of impairment allowance on loans and advances to customers:

Group	Overdrafts ₦ million	Term loans ₦ million	Finance lease ₦ million	Other ₦ million	Total ₦ million
AT 1 JANUARY 2014					
Specific impairment	10,467	9,479	696	31	20,673
Collective impairment	4,060	19,327	71	916	24,374
	14,527	28,806	767	947	45,047
Additional provision/(writeback)					
- Specific impairment	7,490	16,764	(455)	(31)	23,768
- Collective impairment	2,918	1,927	1	(697)	4,149
Loan write-off					
- Specific impairment	(6,445)	(10,317)	-	-	(16,762)
- Collective impairment	(3,360)	(10,470)	(31)	-	(13,861)
Acquisition through business combination					
- Specific impairment	335	77	-	-	412
- Collective impairment	-	2	-	-	2
Reclassification to asset held for sale					
- Specific impairment	-	(72)	-	-	(72)
- Collective impairment	-	(42)	-	-	(42)
	15,465	26,675	282	219	42,641
Specific impairment	11,845	15,932	241	-	28,018
Collective impairment	3,619	10,744	41	219	14,623
At 31 December 2014	15,464	26,676	282	219	42,641

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	Overdrafts ₦ million	Term loans ₦ million	Finance lease ₦ million	Other ₦ million	Total ₦ million
AT 1 JANUARY 2013					
Specific impairment	6,882	10,372	-	-	17,254
Collective impairment	3,402	17,249	87	1,332	22,070
	10,284	27,621	87	1,332	39,324
Additional provision					
- Specific impairment	11,631	9,219	695	31	21,576
- Collective impairment	648	924	(15)	(416)	1,141
Loans written off	(8,693)	(10,447)	-	-	(19,140)
Acquisition through business combination					
- Specific impairment	648	322	-	-	970
- Collective impairment	9	1,167	-	-	1,176
	14,527	28,806	767	947	45,047
Specific impairment	10,467	9,479	696	31	20,673
Collective impairment	4,060	19,327	71	916	24,374
At 31 December 2013	14,527	28,806	767	947	45,047

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

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Gross investment in finance lease, receivable		
– No later than one year	168	547
– Later than one year and no later than five years	3,555	2,678
– Later than five years	-	24
	3,723	3,249
Unearned future finance income on finance leases	(680)	(387)
Impairment allowance on leases	(282)	(767)
Net investment in finance lease, receivable	2,761	2,095
Net investment in finance lease, receivable is analysed as follows		
– No later than one year	151	147
– Later than one year and no later than five years	2,610	1,925
– Later than five years	-	23
	2,761	2,095

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Nature of security in respect of loans and advances:

Group	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Legal mortgage/debenture on business premises, factory assets or real estates	**535,263**	597,208	-	-
Guarantee/receivables of investment grade banks and state government	**746,557**	178,923	-	-
Domiciliation of receivables	**630,801**	112,102	-	-
Clean/negative pledge	**79,749**	47,791	-	-
Marketable securities/shares	**14,755**	374,221	-	-
Otherwise secured	**110,394**	486,159	**80**	72
Cash/government securities	**104,102**	17,772	-	-
	2,221,621	1,814,177	**80**	72

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

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Treasury bills with maturity of less than 90 days	**7,240**	438	-	-
Treasury bills with maturity over 90 days	**2,254**	146	-	-
Bonds	**4,232**	541	-	-
Total debt securities	**13,726**	1,125	-	-
Listed equity securities	**3,927**	4,150	-	-
Total equity securities	**3,927**	4,150	-	-
Derivative assets	**9,948**	5,012	-	-
Total assets at fair value through profit or loss	**27,601**	10,287	-	-

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.
- 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.

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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 2014		
	Notional contract amount ₦ million	Fair values	
		Asset ₦ million	Liability ₦ million
Foreign exchange derivatives			
Forward FX contract	281,325	1,451	(1,975)
FX accumulator contract	565	-	(133)
Currency swap	14,884	-	(1,062)
Put options	52,996	8,354	(7,747)
Equity derivatives			
Put options	-	143	-
	349,770	9,948	(10,917)
Current	296,774	1,451	(3,170)
Non-current	52,996	8,497	(7,747)
	349,770	9,948	(10,917)

	Group – 31 December 2013		
	Notional contract amount ₦ million	Fair values	
		Asset ₦ million	Liability ₦ million
Foreign exchange derivatives			
Forward FX contract	189,302	2,522	(71)
Currency swap	19,617	12	(4)
Put options	34,361	1,626	(1,626)
Equity option			
Put options	3,228	852	-
	246,508	5,012	(1,701)
Current	195,509	2,534	(4)
Non-current	50,999	2,478	(1,697)
	246,508	5,012	(1,701)

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23 INVESTMENT SECURITIES

	Group		Company	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
23.1 SECURITIES AVAILABLE FOR SALE				
Debt securities – at fair value:				
– Treasury bills with maturity of less than 90 days	**64,067**	255,206	**-**	-
– Treasury bills with maturity of more than 90 days	**277,514**	58,616	**-**	-
– Bonds	**152,995**	163,120	**-**	-
Equity securities – at fair value:				
– Listed	**3,493**	5,936	**-**	-
Equity securities – at fair value:				
– Unlisted	**55,085**	46,610	**2,806**	2,515
	553,154	529,488	**2,806**	2,515
Assets pledged as collateral				
Debt securities – at fair value:				
– Treasury bills	**19,203**	20,178	**-**	-
– Bonds	**-**	203	**-**	-
	19,203	20,381	**-**	-
Total securities classified as available for sale	**572,357**	549,869	**2,806**	2,515
23.2 SECURITIES HELD TO MATURITY				
Debt securities – at amortised cost:				
– Treasury bills with maturity of less than 90 days	**5,581**	-	**1,466**	-
– Treasury bills with maturity of more than 90 days	**7,845**	19,108	**-**	-
– Bonds	**145,059**	275,467	**-**	-
	158,485	294,575	**1,466**	-
Assets pledged as collateral				
Debt securities – at amortised cost:				
– Treasury bills	**3,963**	-	**-**	-
– Bonds	**45,317**	33,269	**-**	-
	49,280	33,269	**-**	-
Total securities classified as held-to-maturity	**207,765**	327,844	**1,466**	-
Total investment securities	**780,122**	877,713	**4,272**	2,515

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24 ASSET PLEDGED AS COLLATERAL

The assets pledged by the Group are strictly for the purpose of providing collateral to the counterparty. To the extent that the counterparty is not permitted to sell and/or repledge the assets in the absence of default, they are classified in the statement of financial position as pledged assets. These transactions are conducted under terms that are usual and customary to standard securities borrowing and lending activities.

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

	Group		Company	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Available-for-sale debt securities (Note 23.1)	**19,203**	20,381	**-**	-
Held-to-maturity debt securities (Note 23.2)	**49,280**	33,269	**-**	-
	68,483	53,650	**-**	-
The related liability for assets held as collateral include:				
Bank of Industry	**14,791**	7,394	**-**	-
Central Bank of Nigeria/Commercial Agriculture Credit Scheme Intervention fund	**15,624**	21,305	**-**	-
Due from Deustche Bank	**6,731**	-	**-**	-

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 ₦40.24 billion (2013: ₦41.6 billion) for which there is no related liability.

	Group		Company	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Current	**23,166**	20,178	**-**	-
Non-current	**45,317**	33,472	**-**	-
	68,483	53,650	**-**	-

25 INVESTMENT IN SUBSIDIARIES

25.1 PRINCIPAL SUBSIDIARY UNDERTAKINGS

	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
First Bank of Nigeria Limited (Note 25a)	**205,557**	205,557
FBN Capital Limited (Note 25b)	**4,300**	4,300
FBN Insurance Limited (Note 25c)	**2,262**	2,262
FBN Insurance Brokers Limited (Note 25d)	**25**	25
FBN Microfinance Bank Limited (Note 25e)	**-**	2,000
New Villa Limited (Rainbow Town Development Limited) (Note 25f)	**2,550**	2,550
Kakawa Discount House Limited (Note 25g)	**16,000**	-
FBN Trustees Limited (Note 25h)	**25,533**	25,533
FBN Funds Limited (Note 25i)	**4,550**	4,550
	260,777	246,777

During the year, First Bank of Nigeria Limited made additional investments of ₦2.677 billion and ₦135.3 million in FBN Mortgages and FBN Bank Guinea respectively. Also, FBN Capital Limited made additional investments of ₦123.5 million and ₦150 million in FBN Capital Asset Management Limited and FBN Securities Limited respectively.

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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 FBNBank DRC, FBN Insurance Limited, New Villa Limited (Rainbow Town Development Limited) and Oasis Insurance Plc in which it owned 75%, 65%, 55% and 65% respectively. There are no significant restrictions on any of the subsidiaries. All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company and the Group do not differ from the proportion of ordinary shares held. The total non-controlling interest for the period is ₦4.03 billion (2013: ₦4.51 billion).

SUBSIDIARY	Principal activity	Country of incorporation	Proportion of shares held directly by parent (%)	Proportion of shares held directly by the Group (%)	Statutory year end
First Bank of Nigeria Limited (Note 25a)	Banking	Nigeria	100	100	31 December
FBN Capital Limited (Note 25b)	Investment Banking and Asset Management	Nigeria	100	100	31 December
FBN Insurance Limited (Note 25c)	Insurance	Nigeria	65	65	31 December
FBN Insurance Brokers Limited (Note 25d)	Insurance	Nigeria	100	100	31 December
FBN Microfinance Bank Limited (Note 25e)	Banking	Nigeria	100	100	31 December
New Villa Limited (Rainbow Town Development Limited) (Note 25f)	Investment and General Trading	Nigeria	55	55	31 December
Kakawa Discount House Limited (Note 25g)	Discount House	Nigeria	100	100	31 December
FBN Trustees Limited (Note 25h)	Trusteeship	Nigeria	100	100	31 December
FBN Funds Limited (Note 25i)	Investment Banking and Asset Management	Nigeria	100	100	31 December

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

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

c. FBN Insurance Limited
In February 2010, NAICOM granted an operating licence to First Bank of Nigeria Plc (FirstBank) to establish a life assurance business in partnership with Sanlam Group of South Africa. Consequently, FirstBank incorporated a subsidiary, FBN Life Assurance Limited. FirstBank has a holding of 65% in the equity of FBN Life Assurance Limited. Consequent upon the restructuring of 2012, the investment is transferred to FBN Holdings Plc and the name of the company was changed to FBN Insurance Limited in 2014.

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

e. FBN Microfinance Limited
The Bank was incorporated in Nigeria on 18 March 2008 under the provisions of the Companies and Allied Matters Act CAP C20 LFN 2004 with registration number RC736874. The Bank was licensed to carry on the business of microfinance banking on 25 August 2008 by the Central Bank of Nigeria. It commenced microfinance banking business on 19 January 2009.

f. New Villa Limited (Rainbow Town Development Limited)
New Villa Limited is a special purpose vehicle incorporated on 28 November 2008. Its principal activities include investments and general trading.

g. Kakawa Discount House Limited
Kakawa Discount House Limited was incorporated in Nigeria as a limited liability company on 14 February 1995 and was granted a license to carry on the business of a discount house and commenced operations on 16 November 1995.

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

i. FBN Funds Limited
First Funds Limited was incorporated on 14 November 2002. It commenced operations on 1 April 2003. Its principal activities are to carry on venture capital and private equity business.

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SHAREHOLDER INFORMATION

25.2 CONDENSED SUBSIDIARY ACCOUNTS

31 December 2014	Banking Group ₦ million	Holdco ₦ million	FBN Capital ₦ million	FBN Trustees ₦ million	FBN Funds ₦ million	FBN Securities* ₦ million	FBN Microfinance ₦ million	FBN Insurance Brokers ₦ million	FBN Insurance ₦ million	Rainbow Town ₦ million	Others ₦ million	Total ₦ million	Adjustments ₦ million	Group ₦ million
SUMMARISED INCOME STATEMENT														
Operating income	338,593	16,969	8,709	3,106	14	727	1,202	792	4,704	(1,123)	4,527	378,221	(24,192)	354,028
Operating expenses	(218,631)	(11,286)	(3,222)	(1,384)	(562)	(1,348)	(913)	(553)	(3,371)	(339)	(3,371)	(245,494)	9,693	(235,801)
Impairment charge	(25,730)	-	(150)	-	-	18	(6)	(4)	(3)	-	(418)	(26,293)	351	(25,942)
Operating profit	94,232	5,683	5,337	1,722	(548)	(603)	283	234	1,330	(1,462)	224	106,433	(14,148)	92,285
Associate	136	-	-	-	-	-	-	-	-	-	-	136	463	599
Profit before tax	94,368	5,683	5,337	1,722	(548)	(603)	283	234	1,330	(1,462)	224	106,569	(13,686)	92,884
Tax	(9,526)	-	(1,530)	(1,028)	6	(248)	(176)	46	(242)	-	2,651	(10,045)	-	(10,045)
Profit/(Loss) for the year	84,842	5,683	3,807	694	(542)	(851)	108	280	1,088	(1,462)	2,875	96,522	(13,683)	82,839
Other comprehensive income	4,818	291	(81)	(416)	888	68	-	(1)	(88)	-	(3,806)	1,672	905	2,577
Total comprehensive income	89,660	5,974	3,726	278	346	(783)	108	279	1,000	(1,462)	(931)	98,194	(12,778)	85,416
Total comprehensive income allocated to non-controlling interest	15	-	-	-	-	-	-	-	381	(657)	1	(260)		
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	107	-	-	107		
SUMMARISED FINANCIAL POSITION														
Assets														
Cash and balances with Central Bank	697,601	-	1	-	-	-	90	-	500	-	1	698,194	(90)	698,104
Due from other banks	430,053	3,261	2,791	2,427	734	3,443	3,619	881	755	209	28,255	476,428	(15,517)	460,911
Loans and advances	2,193,563	80	1,869	3	-	-	1,594	74	-	-	26,867	2,224,050	(45,071)	2,178,980
Financial assets at fair value through profit or loss	10,708	-	2,021	-	143	14	-	-	48	-	14,666	27,601	-	27,601
Investment securities	598,904	4,272	12,228	5,197	3,679	246	149	107	11,903	-	86,299	722,984	(11,345)	711,639
Assets pledged as collateral	64,527	-	3,956	-	-	-	-	-	-	-	-	68,483	-	68,483
Inventory	-	-	-	-	-	-	-	-	-	40,775	-	40,775	(2,970)	37,805
Investment properties	-	-	-	-	-	-	-	-	322	-	2,504	2,826	-	2,826
Investment in subsidiaries	-	260,777	27,527	-	-	-	-	-	-	-	830	289,134	(289,134)	-

* These entities are direct subsidiaries of FBN Capital Limited. In line with IFRS 10, FBN Capital Limited has opted not to prepare consolidated financial statement.

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31 December 2014	Banking Group ₦ million	Holdco ₦ million	FBN Capital ₦ million	FBN Trustees ₦ million	FBN Funds ₦ million	FBN Securities* ₦ million	FBN Microfinance ₦ million	FBN Insurance Brokers ₦ million	FBN Insurance ₦ million	Rainbow Town ₦ million	Others ₦ million	Total ₦ million	Adjustments ₦ million	Group ₦ million
Investment in associates	-	1,500	1,330	-	-	-	-	-	-	-	-	2,830	(2,830)	-
Other assets	39,457	14,361	8,912	433	2,558	19	158	114	1,484	1,325	1,216	70,037	(29,345)	40,692
Deferred tax	2,384	-	82	1,032	140	138	-	32	-	-	5,185	8,992	-	8,992
Intangible assets	8,104	-	124	-	1	-	2	3	301	9	27	8,572	1,523	10,094
Property, plant and equipment	83,404	1,518	466	24	12	2	284	78	1,687	16	1,001	88,492	(284)	88,208
Assets held for sale	2,931	2,000	-	-	-	-	-	-	-	-	-	4,931	3,400	8,331
	4,131,636	287,769	61,307	9,116	7,267	3,862	5,896	1,289	17,000	42,334	166,851	4,734,329	(391,663)	4,342,666
Financed by														
Customer deposits	2,989,735	-	-	-	-	1,133	1,291	-	-	-	68,819	3,060,979	(10,126)	3,050,853
Due to other banks	163,710	-	1,307	-	-	-	1,950	-	-	-	10,208	177,175	(6,023)	171,151
Financial liabilities at fair value through profit or loss	9,915	-	-	-	-	-	-	-	-	-	1,002	10,917	-	10,917
Liability on investment contracts	-	-	-	-	-	-	-	-	-	-	60,703	60,703	(86)	60,617
Liability on insurance contracts	-	-	-	-	-	-	-	-	8,260	-	-	8,260	-	8,260
Borrowings	362,976	-	6,731	-	2,928	-	-	-	-	41,913	5,755	420,304	(50,597)	369,707
Tax payable	8,529	-	2,442	105	88	6	69	100	271	7	281	11,898	(69)	11,829
Other liabilities	131,702	9,590	8,829	4,060	72	1,734	163	178	4,154	2,216	2,811	165,508	(32,875)	132,633
Retirement benefit obligations	2,012	-	-	-	-	-	-	17	-	-	-	2,029	-	2,029
Deferred income tax liabilities	38	-	-	-	-	-	29	-	68	-	81	216	(29)	188
Liabilities held for sale	-	-	-	-	-	-	-	-	-	-	-	-	1,592	1,592
	3,668,617	9,590	19,309	4,165	3,088	2,873	3,502	295	12,753	44,136	149,660	3,917,990	(98,214)	3,819,776
Equity and reserves	463,017	278,179	41,999	4,951	4,181	988	2,393	996	4,247	(1,802)	17,191	816,340	(293,451)	522,890
SUMMARISED CASH FLOWS														
Operating activities														
Interest received	342,481	1,917	-	1,157	736	186	-	114	1,060	15	21,406	369,072	(17,032)	352,041
Interest paid	(96,306)	-	(516)	-	(465)	-	-	-	-	-	(15,054)	(112,341)	19,024	(93,316)
Income tax paid	(30,276)	-	(654)	(32)	(17)	(10)	(88)	(98)	(63)	-	(155)	(31,393)	64	(31,329)
Cash flow generated from operations	(676,144)	(4,023)	18,128	(3,891)	(2,371)	(2,348)	(2,357)	(133)	6,943	(6,405)	(12,198)	(684,799)	(31,479)	(716,278)
Net cash generated from operating activities	(460,245)	(2,106)	16,958	(2,767)	(2,116)	(2,172)	(2,445)	(117)	7,941	(6,390)	(6,001)	(459,460)	(29,422)	(488,882)

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31 December 2014	Banking Group ₦ million	Holdco ₦ million	FBN Capital ₦ million	FBN Trustees ₦ million	FBN Funds ₦ million	FBN Securities* ₦ million	FBN Microfinance ₦ million	FBN Insurance Brokers ₦ million	FBN Insurance ₦ million	Rainbow Town ₦ million	Others ₦ million	Total ₦ million	Adjustments ₦ million	Group ₦ million
Net cash used in investing activities	(14,290)	41,210	(8,093)	1,943	3,220	304	(84)	(30)	(2,093)	5	22,707	44,799	(57,626)	(12,827)
Net cash used in financing activities	198,831	(35,895)	(3,186)	(902)	15	150.00	(31)	(188)	(305)	5,653	1,160	165,302	33,534	198,836
Increase in cash and cash equivalents	(275,704)	3,210	5,679	(1,726)	1,119	(1,718)	(2,560)	(335)	5,542	(731)	17,866	(249,358)	(53,516)	(302,874)
Cash and cash equivalents at start of year	762,421	1,476	1,017	3,343	94	5,321	6,416	1,209	846	940	14,105	797,188	37,503	834,691
Effect of exchange rate fluctuations on cash held	(438)	42	-	-	-	-	-	7	-	-	-	(389)	1,028	639
Cash and cash equivalents at end of year	486,279	4,728	6,696	1,617	1,213	3,603	3,856	881	6,389	208	31,971	547,440	(14,985)	532,456

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BREAKDOWN OF OTHERS IN NOTES 25.2

31 December 2014	FBN Capital Partners* ₦ million	FBN Capital Asset Management* ₦ million	FBN Heritage Fund ₦ million	40th Century* ₦ million	Liquidity Management Fund* ₦ million	Twin Peaks* ₦ million	Kakawa Discount House ₦ million	IDF* ₦ million	FRED* ₦ million	Total ₦ million
SUMMARISED INCOME STATEMENT										
Operating income	96	1,711	216	(127)	1,431	192	1,594	(108)	(478)	4,521
Operating expenses	(61)	(1,459)	(187)	-	(1,359)	-	(781)	(36)	(2)	(3,885)
Impairment charge	-	-	-	-	-	-	(310)	-	(108)	(418)
Operating profit	35	252	29	(127)	72	192	503	(144)	(588)	224
Associate	-	-	-	-	-	-	-	-	-	-
Profit before tax	35	252	29	(127)	72	192	503	(144)	(588)	224
Tax	(8)	80	-	-	-	-	2,580	-	-	2,651
(Loss)/Profit for the year	27	332	29	(127)	72	192	3,083	(144)	(588)	2,875
Other comprehensive income	(3)	-	(26)	-	(1,716)	-	(1,681)	(10)	(369)	(3,806)
Total comprehensive income	24	332	3	(127)	(1,644)	192	1,402	(152)	(957)	(931)
Total comprehensive income allocated to non-controlling interest	-	-	1	-	-	-	-	-	-	1
Dividends paid to non-controlling interest	-	-	-	-	-	-	-	-	-	-
SUMMARISED FINANCIAL POSITION										
Assets										
Cash and balances with central bank	-	-	-	-	-	-	1	-	-	1
Due from other banks	81	297	711	-	24,452	357	1,896	395	66	28,255
Loans and advances	-	-	-	-	-	-	26,867	-	-	26,867
Financial assets at fair value through profit or loss	-	-	1,582	-	5,718	-	7,366	-	-	14,666
Investment securities	-	484	2,375	-	29,083	-	50,641	2,740	976	86,299
Assets pledged as collateral	-	-	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-	-	-
Investment properties	-	-	-	380	-	881	-	-	1,243	2,504
Investment in subsidiaries	-	-	-	-	-	-	-	-	830	830
Investment in associates	-	-	-	-	-	-	-	-	-	-
Other assets	69	283	57	1	239	42	525	-	-	1,216
Deferred tax	-	-	-	-	-	-	5,185	-	-	5,185
Intangible assets	-	-	-	-	-	-	27	-	-	27
Property, plant and equipment	-	-	-	-	-	-	1,001	-	-	1,001
Assets held for sale	-	-	-	-	-	-	-	-	-	-
	150	1,064	4,725	381	59,492	1,280	93,509	3,135	3,115	166,851

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31 December 2014	FBN Capital Partners* ₦ million	FBN Capital Asset Management* ₦ million	FBN Heritage Fund ₦ million	40th Century* ₦ million	Liquidity Management Fund* ₦ million	Twin Peaks* ₦ million	Kakawa Discount House ₦ million	IDF* ₦ million	FRED* ₦ million	Total ₦ million
Financed by										
Customer deposits	-	-	-	-	-	-	68,819	-	-	68,819
Due to other banks	-	-	-	-	-	-	6,229	3,979	-	10,208
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	1,002	-	-	1,002
Liability on investment contracts	-	-	-	-	60,703	-	-	-	-	60,703
Liability on insurance contracts	-	-	-	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-	-	5,755	5,755
Tax payable	1	195	-	-	-	-	85	-	-	281
Other liabilities	68	446	32	-	656	1	1,415	187	6	2,811
Retirement benefit obligations	-	-	-	-	-	-	-	-	-	-
Deferred income tax liabilities	-	-	-	-	-	-	81	-	-	81
Liabilities held for sale	-	-	-	-	-	-	-	-	-	-
	69	641	32	-	61,359	1	77,632	4,166	5,761	149,660
Equity and reserves	81	424	4,692	381	(1,866)	1,279	15,877	(1,031)	(2,646)	17,191
SUMMARISED CASH FLOWS										
Operating activities										
Interest received	-	-	268	-	7,554	-	13,584	-	-	21,406
Interest paid	-	-	-	-	(6,136)	-	(8,918)	-	-	(15,054)
Income tax paid	-	(51)	-	-	-	-	(104)	-	-	(155)
Cash flow generated from operations	(14)	(1,004)	(322)	-	(12,969)	(4)	2,247	24	(156)	(12,198)
Net cash generated from operating activities	(14)	(1,055)	(54)	-	(11,551)	(4)	6,809	24	(156)	(6,001)
Net cash used in investing activities	-	219	776	-	23,873	-	(2,161)	-	-	22,707
Net cash used in financing activities	(16)	28	(58)	-	-	-	1,206	-	-	1,160
Increase in cash and cash equivalents	(30)	(808)	664	-	12,322	(4)	5,854	24	(156)	17,866
Cash and cash equivalents at start of year	111	863	47	-	12,130	361	-	371	222	14,105
Effect of exchange rate fluctuations on cash held	-			-	-					-
Cash and cash equivalents at end of year	81	55	711	-	24,452	357	5,854	395	66	31,971

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26 ACQUISITION OF SUBSIDIARY

The Group concluded a number of acquisitions during the period. Details of these acquisitions are provided below:

a. Oasis Insurance Plc

In February 2014, FBN Insurance Limited acquired 100% equity interest in Oasis Insurance Plc. This acquisition will enable the insurance segment of the Group to undertake general insurance business in addition to the existing life insurance business. As a result of this acquisition, the Insurance segment of the Group will increase it market share of the insurance business. This will enhance the Group's insurance liabilities by about 14%. The accounting for the acquisition of this subsidiary was completed in December 2014 which resulted in a goodwill of ₦262 million.

Oasis Insurance Plc contributed net insurance premium of ₦837 million and fee commission of ₦86 million to the Group for the period March 2014 to December 2014 and a profit before tax of ₦205 million. If the acquisition had occurred on 1 January 2014, the Group net insurance premium would be higher by ₦251 million, Group fee income ₦8 million, and Group profit before tax ₦55 million.

b. ICB Senegal

In June 2014, First Bank of Nigeria Limited acquired 80% equity interest in ICB Senegal. This concluded the acquisition of the West Africa operations of International Commercial Bank (ICB) from International Commercial Bank Financial Group Holdings AG (ICBFGH) which commenced in 2013 with the acquisition of equity interests in four entities (ICB Ghana, ICB Sierra Leone, ICB Guinea, ICB Gambia) in October 2013. As a result of these acquisitions, the Commercial Banking segment of the Group will consolidate its position as one of the largest corporate and retail banking financial institutions in sub-Sahara Africa (excluding South Africa). This acquisition will enhance the Group's total asset base by about 1%. The accounting for the acquisition of these subsidiaries was completed in September 2014 and this resulted in an increase of ₦1.081 billion to goodwill from the provisional amount recognised in the 2013 consolidated financial statements.

ICB Senegal contributed interest income of ₦326 million and fee commission of ₦61 million to the Group for the period June 2014 to December 2014 but a loss before tax of ₦104 million. If the acquisition had occurred on 1 January 2014, the Group interest income would be higher by ₦232 million, Group fee income higher by ₦39 million, but Group profit before tax lower by ₦228 million.

c. Kakawa Discout House Limited

In September 2014, FBN Holdings Plc. acquired 100% equity interest in Kakawa Discount House Limited (KDH) in which the Group previously held 46% equity and accounted for as an associate. KDH has an approval in-principle (AIP) from the Central Bank of Nigeria (CBN) to convert to a merchant bank. As a result of this acquisition, the Other Financial Services segment of the Group will extend its business portfolio to merchant banking business and increase its share of the financial services industry in Nigeria. This acquisition will enhance the Group's total asset by about 2%.

As at 31 December 2014. the fair values of acquired assets, liabilities and goodwill for Kakawa Discount House Limited have been determined on provisional basis as this acquisition was done close 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 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 September 2015.

Kakawa Discount House Limited contributed interest income of ₦4.24 billion to the Group for the period October 2014 to December 2014 and a profit before tax of ₦503 million. If the acquisition had occurred on 1 January 2014, the Group interest income would be higher by ₦8.31 billion and Group profit before tax higher by ₦1.3 billion.

Acquisition consideration

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

The cash and balances with central banks did not include any mandatory or restricted balances.

The goodwill of ₦6.14 billion from the acquisition of the five ICB entities, Oasis Insurance Plc, and Kakawa Discount House Limited arises from a number of factors such as expected synergy through combining a highly skilled workforce and obtaining economies of scale.

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

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

The gross contractual amount for loans and advances to customers is ₦35.7 billion which excludes a loan loss provision of ₦2.9 billion.

The gross carrying value of other assets is ₦7.2 billion, which includes an account receivable of ₦0.15 billion. None of the trade receivables has 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.

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The fair values of acquired assets and liabilities, including goodwill, previously disclosed as provisional for ICB Ghana, ICB Sierra Leone, ICB Gambia and ICB Guinea have been finalised in the current year with no material changes to the fair value disclosed in the 2013 consolidated financial statements.

	ICB Ghana 31 October 13 ₦ million	ICB Sierra Leone 31 October 13 ₦ million	ICB Guinea 31 October 13 ₦ million	ICB Gambia 31 October 13 ₦ million	ICB Senegal 31 May 14 ₦ million	Oasis Insurance 19 February 14 ₦ million	Kakawa Discount House 30 September 14 ₦ million
Consideration							
Cash	10,559	1,686	2,243	1,435	2,038	2,547	8,640
Contingent Consideration	-	-	-	-	-	-	-
Total consideration transferred	10,559	1,686	2,243	1,435	2,038	2,547	8,640
Fair value of equity interest in KDH held before the business combination (Note 28)	-	-	-	-	-	-	7,360
Total consideration	10,559	1,686	2,243	1,435	2,038	2,547	16,000

Recognised amounts of identifiable assets acquired and liabilities assumed

	ICB Ghana Fair value ₦ million	ICB Sierra Leone Fair value ₦ million	ICB Guinea Fair value ₦ million	ICB Gambia Fair value ₦ million	ICB Senegal Fair value ₦ million	Oasis Insurance Fair value ₦ million	Kakawa Discount House Provisional Fair value ₦ million
Cash and balances with central banks	1,768	416	2,846	949	139	-	2
Investment securities	10,632	1,647	1,501	767	4,422	946	88,008
Loans and advances to banks	404	-	3,073	-	952	889	799
Loans and advances to customers	9,316	1,111	1,655	659	3,218	-	16,869
Inventory	-	-	-	-	-	-	-
Deferred tax asset	76	14	-	-	-	-	2,523
Other assets	277	238	234	73	62	895	2,908
Investment properties	-	-	-	-	-	343	-
Property, plant and equipment	319	14	67	22	102	1,052	1,006
Intangible assets	725	172	202	60	88	15	30
Deposits	(11,687)	(1,999)	(7,284)	(1,517)	(4,743)	-	(95,841)
Insurance contract liabilities	-	-	-	-	-	(834)	-
Deferred tax liability	-	-	-	-	-	(35)	(101)
Other liabilities	(4,695)	(217)	(706)	(84)	(2,438)	(63)	(1,728)
Total identifiable net assets	7,135	1,396	1,588	929	1,802	3,208	14,475
Non-controlling interest	-	-	-	-	-	924	-
Goodwill	3,424	290	655	506	236	263	1,525
Cash and cash equivalents acquired from the subsidiary is made up of the following:							
Cash and balances with central banks	723	416	1,230	782	(12)	-	2
Treasury bills	10,632	1,647	1,501	767	1,288	-	26,241
Loans and advances to banks	404	-	3,073	-	952	889	799
	11,759	2,063	5,804	1,549	2,228	889	27,042
Net cash on acquisition of subsidiary	1,200	377	3,561	114	190	(1,658)	18,402

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27 DISCONTINUED OPERATIONS

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) and the Group's interest in FBN Microfinance Bank Limited based on Group's decision to sell its interest in the company.

The property development portfolio of First Mortgages Limited is being presented as held for sale following the commitment to its sale by the Group in compliance with the Central Bank of Nigeria's (CBN) regulation on the scope of Banking Activities and Ancillary Matters No 3, 2010, which requires banks in Nigeria to concentrate on banking businesses. In August 2012, as part of the capital restructuring scheme of the FirstBank Group, shareholders approved the full divestment by FirstBank, of all 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 prior year balance was restated during the period. See details of the impact of the restatement in note 54.

Management assessed the appropriateness of the continued classification of the assets in line with IFRS 5 and remains committed to completing the sale.

Following the board's approval to dispose the Group's interest in FBN Microfinance Bank Limited on 12 August 2014, the Group's interest was classified as asset held for sale, having met all the conditions to be classified as such in accordance with IFRS 5 as the carrying amount is expected to be recovered principally by a sale rather than through continuing use. However, the operating results of FBN Microfinance Bank Limited is included in the Group's operating results from continuing operations because the disposal Group does not meet the definition of discontinued operations. The expected completion date for the transaction is June 2015.

The carrying amount of the assets and liabilties of the disposal Group classified as held for sale are as listed below.

	Group		Company	
	31 Dec 2014 ₦ million	Restated 31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Assets classified as held for sale				
Cash and balances with central banks	90	-	-	-
Loans and advances to banks	3,124	-	-	-
Loans and advances to customers	1,594	-	-	-
Investment securities	149	-	-	-
Other assets	157	-	-	-
Inventory	2,931	4,549	-	-
Investment in subsidiaries	-	-	2,000	-
Property, plant and equipment	284	-	-	-
Intangible assets	2	-	-	-
	8,331	4,549	2,000	-
Liabilities classified as held for sale				
Deposit from banks	46	-	-	-
Deposit from customers	1,291	-	-	-
Company income tax liability	69	-	-	-
Other liabilities	157	-	-	-
Deferred tax	29			
	1,592	-	-	-
Net asset	6,739	4,549	2,000	-

28 INVESTMENT IN ASSOCIATES (EQUITY METHOD)

i. Kakawa Discount House Limited

As at 1 January 2014, FBN Holdings Plc. and its subsidiaies (FBNH) had 46% Shareholding in Kakawa Discount House Limited (KDH). During the year FBNH acquired the balance 54% equity stake in KDH, thus becoming a fully owned subsidiary of FBNH. Consequently, equity accounting was discontinued and the investment in KDH classified as investment in subsidiaries and consolidated accordingly.

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.

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ii. Seawolf Oilfield Services Limited (SOSL)

FBN Holdings Plc. holds 42% shareholding in Seawolf Oilfields Services Limited (SOSL). During the year, Asset Mananagement Corporation of Nigeria (AMCON), a major creditor of SOSL, appointed a receiver manager to take over the business, resulting in the loss of significant influence of FBN Holdings Plc in the company.

SOSL is a company incorporated in Nigeria and is involved in the oil and gas sector. SOSL has share capital consisting only of ordinary share capital which are held directly by the Group; the country of incorporation or registration is also their principal place of business. SOSL is not publicly traded and there is no published price information.

iii. FBN Heritage Fund

FBN Holdings Plc. and its subsidiaries have 64% shareholding in FBN Heritage Fund, with FBN Holdings Plc. alone owning 36%.

FBN Heritage Fund is an open-ended Securities and Exchange Commission (SEC) registered mutual fund that invests in stocks, bonds, money market instruments, real estate and other securities in the Nigerian Capital Markets. FBN Heritage Fund is not publicly traded. However, the fund manager publishes daily unit price of the fund on the memorandum listing section of the Nigerian Stock Exchange. The unit price of the fund as at reporting date was ₦115.99.

Due to the exercise of control over FBN Heritage Fund at Group level, the entity is being accounted for as a subsidiary and consolidated accordingly.

	Group		Company	
	2014 ₦ million	2013 ₦ million	2014 ₦ million	2013 ₦ million
KDH				
Balance at beginning of period	**7,029**	6,321	**-**	-
Share of profit/(loss)	**599**	1,006	**-**	-
Share of other comprehensive income	**-**	(298)	**-**	-
Fair value gain/(loss) from acquisition of control	**(269)**	-	**-**	-
Transfer to investment in subsidiaries	**(7,360)**	-	**-**	-
At end of year	**-**	7,029	**-**	-
SOSL				
Balance at beginning of period	**-**	-	**7,781**	10,375
Impairment loss	**-**	-	**(7,781)**	(2,594)
At end of year	**-**	-	**-**	7,781
FBN HERITAGE FUND				
Balance at beginning of period	**-**	-	**1,500**	1,500
At end of year	**-**	-	**1,500**	1,500
	-	7,029	**1,500**	9,281

	SOSL	KDH
	2013 ₦ million	2013 ₦ million
SUMMARISED BALANCE SHEET IS AS FOLLOWS		
Cash and balances with CBN	**-**	**-**
Loans and advances to banks	**687**	**1,039**
Loans and advances to customers	**-**	**25,661**
Financial assets at fair value through profit or loss	**-**	**6,330**
Investment securities	**-**	**48,696**
Pledged assets	**-**	**19,900**
Other assets	**247,826**	**73**
Property and equipment	**47,198**	**1,051**
Intangible assets	**-**	**30**
Deferred tax assets	**-**	**2,533**
Total assets	**295,711**	**105,313**

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	SOSL	KDH
	2013 ₦ million	2013 ₦ million
Due to banks	-	38,123
Due to customers	-	52,541
Derivative financial instruments	-	265
Borrowing	128,858	-
Current income tax liability	774	87
Other liabilities	203,586	792
Deferred tax liabilities	-	101
Total liabilities	333,218	91,909
SUMMARISED STATEMENT OF COMPREHENSIVE INCOME		
Discount and similar income	-	12,418
Discount and similar expense	(6,733)	(9,629)
Net discount income	(6,733)	2,789
Impairment (charge) for/reversal of credit losses (net)	-	-
Net interest income after net impairment charge	(6,733)	2,789
Net gains from financial assets through profit or loss	-	933
Net gains from investment securities at fair value	-	(241)
Other operating income	9,561	607
Operating income	2,828	4,088
Operating expenses	(11,074)	(1,746)
Income tax	-	(176)
Profit/(loss) for the year from continuing operations	(8,246)	2,166
Profit for the year from discontinued operations	-	23
Profit/(loss) for the year	(8,246)	2,189
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)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR NET OF TAX	-	(648)
Total comprehensive income/(loss) for the year	(8,246)	1,541

The information above reflects the amounts presented in the financial statements of the associates and not FBN Holdings Plc's share of those amounts.

Reconciliation of summarised financial information presented to the carrying amount of its interest in associates.

	SOSL	KDH
	2013 ₦ million	2013 ₦ million
Opening net assets on 1 January	(22,469)	14,712
Adjustment	(6,791)	-
Profit or loss for the period	(8,246)	2,189
Other comprehensive income	-	(648)
Closing net assets/(liabilities)	(37,506)	16,253
Interest in associates	(15,753)	7,477
Carrying value	-	7,029

KDH and SOSL did not have any commitment or contingent liabilities as at 31 December 2013.

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29 PROPERTY, PLANT AND EQUIPMENT

Group

	Improvement and buildings ₦ million	Land ₦ million	Motor vehicles ₦ million	Office equipment ₦ million	Computer equipment ₦ million	Furniture, fittings and equipment ₦ million	Plant and machinery ₦ million	Work in progress ₦ million	Total ₦ million
COST									
At 1 January 2013	33,182	13,626	11,414	33,735	15,927	7,185	24	10,880	125,973
Additions	4,170	3,092	2,873	2,700	1,276	2,245	34	1,530	17,920
Acquisition of new subsidiary	226	134	109	134	228	57	36	24	948
Reclassifications	639	1,410	(7)	1,809	130	(414)	(36)	(3,541)	(10)
Other adjustments	-	-	-	-	-	-	-	(1,776)	(1,776)
Disposals	(357)	(63)	(1,833)	(495)	(2,139)	(115)	-	-	(5,002)
Write-offs	(87)	-	(3,423)	(8,226)	(7,302)	(1,894)	-	-	(20,932)
Exchange difference	26	-	44	151	52	2	-	-	275
At 31 December 2013	37,799	18,199	9,177	29,808	8,172	7,066	58	7,117	117,396
ACCUMULATED DEPRECIATION									
At 1 January 2013	3,875	-	7,162	21,740	13,246	4,521	22	-	50,566
Exchange differences	-	-	(21)	(41)	(55)	(33)	-	-	(150)
Charge for the year	849	-	1,933	4,763	1,777	957	5	-	10,284
Acquisition of new subsidiary	192	4	83	98	176	43	26	-	622
Reclassifications	258	1,410	4	1,815	123	(81)	(36)	(3,493)	-
Disposals	(61)	-	(1,449)	(488)	(2,143)	(137)	(27)	-	(4,305)
Write-offs	(85)	-	(3,423)	(8,216)	(7,302)	(1,894)	-	-	(20,920)
At 31 December 2013	5,028	1,414	4,289	19,671	5,822	3,376	(10)	(3,493)	36,097
Net book amount at 31 December 2013	32,771	16,785	4,888	10,137	2,350	3,690	68	10,610	81,299
COST									
At 1 January 2014	37,799	18,199	9,177	29,808	8,172	7,066	58	7,117	117,396
Additions	1,557	2,658	2,484	4,728	2,333	782	13	2,361	16,916
Acquisition of new subsidiary	1,716	223	439	144	176	158	19	-	2,875
Reclassifications	1,648	398	(64)	1,549	81	338	-	(4,448)	(498)
Disposals	-	(601)	(1,064)	(49)	(10)	(10)	(2)	(41)	(1,777)
Write-offs	-	-	(32)	(4)	(3)	(3)	-	(344)	(386)
Exchange difference	490	37	142	140	234	80	2	160	1,285
At 31 December 2014	43,210	20,914	11,082	36,316	10,983	8,411	90	4,805	135,811
ACCUMULATED DEPRECIATION									
At 1 January 2014	5,028	1,414	4,289	19,671	5,822	3,376	(10)	(3,493)	36,097
Exchange differences	70	-	94	61	192	53	1	-	471
Charge for the year	1,143	6	2,152	4,944	1,884	1,233	13	-	11,375
Acquisition of new subsidiary	100	-	290	97	151	87	15	-	740
Reclassifications	(72)	(1,410)	(37)	(1,882)	(198)	(146)	37	3,493	(215)
Disposals	-	-	(799)	(49)	(9)	(8)	-	-	(865)
Write-offs	-	-	-	-	-	-	-	-	-

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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
At 31 December 2014	6,269	10	5,989	22,842	7,842	4,595	56	-	47,603
Net book amount at 31 December 2014	36,941	20,904	5,093	13,474	3,141	3,816	34	4,805	88,208

Exchange difference on property, plant and equipment

The exchange difference on property, plant and equipment 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).

Company

	Improvement and buildings ₦ 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 2013	-	23	7	-	-	-	30
Additions	-	146	13	1	212	717	1,089
At 31 December 2013	-	169	20	1	212	717	1,119
ACCUMULATED DEPRECIATION							
At 1 January 2013	-	-	-	-	-	-	-
Charge for the year	-	19	4	-	24	-	47
At 31 December 2013	-	19	4	-	24	-	47
Net book amount at 31 December 2013	-	150	16	1	188	717	1,072
COST							
At 1 January 2014	-	169	20	1	212	717	1,119
Additions		87	2	2	7	578	676
Reclassifications	615	-	428	-	252	(1,295)	-
At 31 December 2014	615	256	450	3	471	-	1,795
ACCUMULATED DEPRECIATION							
At 1 January 2014	-	19	4	-	24	-	47
Charge for the year	61	52	47	1	68	-	229
At 31 December 2014	61	71	51	1	92	-	276
Net book amount at 31 December 2014	554	185	399	2	379	-	1,519

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30 INTANGIBLE ASSETS

	Group					
	Goodwill ₦ million	Customer relationship ₦ million	Brand ₦ million	Core deposits ₦ million	Computer software ₦ million	Total ₦ million
COST						
At 1 January 2013	1,646	-	-	-	4,861	6,507
Additions	-	-	-	-	1,144	1,144
Reclassification	-	-	-	-	116	116
Write-off	-	-	-	-	(2,218)	(2,218)
Other changes	(542)	-	-	-	-	(542)
Acquisition of subsidiary	6,034	-	-	-	151	6,185
Exchange difference	-	-	-	-	19	19
At 31 December 2013	7,138	-	-	-	4,073	11,211
Additions	-	-	-	-	2,208	2,208
Reclassification	-	-	-	-	-	-
Write-off	-	-	-	-	(732)	(732)
Other changes	(1,081)	52	330	699	-	-
Acquisition of subsidiary	2,133	-	-	-	461	2,594
Exchange difference	(996)	-	-	-	126	(870)
At 31 December 2014	7,194	52	330	699	6,136	14,411
AMORTISATION AND IMPAIRMENT						
At 1 January 2013	-	-	-	-	2,984	2,984
Amortisation charge	-	-	-	-	912	912
Reclassification	-	-	-	-	116	116
Impairment charge	552	-	-	-	-	552
Write-off	-	-	-	-	(2,218)	(2,218)
Acquisition of subsidiary	-	-	-	-	108	108
Disposals	-	-	-	-	-	-
Exchange difference	-	-	-	-	9	9
At 31 December 2013	552	-	-	-	1,911	2,463
Amortisation charge	-	20	207	139	1,018	1,384
Reclassification	-	-	-	-	-	-
Impairment charge	501	-	-	-	-	501
Write-off	-	-	-	-	(512)	(512)
Acquisition of subsidiary	-	-	-	-	393	393
Disposals	-	-	-	-	-	-
Exchange difference	-	-	-	-	88	88
At 31 December 2014	1,053	20	207	139	2,898	4,317
NET BOOK VALUE						
At 31 December 2014	6,141	32	123	560	3,238	10,094
At 31 December 2013	6,586	-	-	-	2,161	8,748

The amortisation charge for the year is included in the income statement.

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The goodwill balance of ₦6.14 billion includes ₦0.55 billion attributable to the acquisition of Banque International du Credit (BIC) in the Democratic Republic of Congo concluded in 2013; ₦3.80 billion attributable to the acquisition of the ICB West Africa entities in 2013 and 2014; ₦0.26 billion attributable to the acquisitin of Oasis Insurance Plc in 2014; and ₦1.53 billion attributable to the acquisition of Kakawa Discount House Limited in 2014.

See note 26 on goodwill arising on acquisition of ICB entities and Oasis Insurance Plc and provisional goodwill arising on acquisition of Kakawa Discount House Limited.

Impairment tests for goodwill

Goodwill is monitored on the operating segment level. The entity to which the goodwill relates is recognised as a cash generating unit (CGU) and segmented as part of the retail business outside Nigeria.

In the previous year, the value of goodwill on the FBNBank DRC acquisition was reduced to the recoverable amount by an impairment loss which is recognised in operating expenses in the income statement. In the current year, the value of goodwill in FBNBank Guinea was reduced to the recoverable amount by an impairment loss which has been recognised in operating expenses in the income statement.

The impairment in Guinea arose as a result of the outbreak of Ebola which has led to an adverse effect on the economy. The epidemic has recently been brought under control, and this is expected to reflect positively on the economy with time.

The recoverable amount of each 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 discount rate used is pre-tax.

Impairment testing on cash generating units containing goodwill

The key assumptions used in the value-in-use calculation for 2014 are as follows:

	BIC	ICB Ghana	ICB Guinea	ICB The Gambia
Terminal growth rate: %	6	6	10	6
Discount rate: %	24	27	31	25
Deposit growth rate: %	12	15	15	18
Recoverable amount of the CGU: (₦ million)	12,983	8,776	2,065	1,448

	ICB Sierra Leone	ICB Senegal	Oasis Insurance	Kakawa Discount House
Terminal growth rate: %	7	5	6	7
Discount rate: %	30	18	15	23
Deposit growth rate: %	18	15	-	7
Gross premium income growth rate: %	-	-	40	-
Recoverable amount of the CGU: (₦ million)	2,053	2,927	35,089	170,548

Management determined deposits to be the key value driver in each of the entities within the banking Group and gross premium income for the insurance business.

	BIC	ICB Ghana	ICB Guinea	ICB The Gambia
Goodwill (₦ million)	1,104	2,285	678	478
Net asset (₦ million)	6,158	5,272	1,937	925
Total carrying amount (₦ million)	7,262	7,557	2,615	1,403
Excess of recoverable amount over carrying amount	5,721	1,219	(550)	45

	ICB Sierra Leone	ICB Senegal	Oasis Insurance	Kakawa Discount
Goodwill (₦ million)	291	230	263	1,525
Net asset (₦ million)	1,556	1,755	4,598	15,873
Total carrying amount (₦ million)	1,847	1,985	4,860	17,398
Excess of recoverable amount over carrying amount	206	942	30,228	153,150

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31 DEFERRED TAX ASSETS AND LIABILITIES

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (2013: 30%, 2012: 30%).

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Deferred income tax assets and liabilities are attributable to the following items:		
DEFERRED TAX ASSETS		
Property and equipment	(8,219)	(363)
Allowance for loan losses	3,426	3,238
Tax losses carried forward	15,578	2,313
Other assets	1,318	(580)
Other liabilities	(7,488)	(630)
Defined benefit obligation	3,265	3,142
Prior year adjustment	987	-
Effect of changes in exchange rate	125	-
	8,992	7,120
DEFERRED TAX LIABILITIES		
Property and equipment	116	-
Allowance for loan losses	(15)	-
Tax losses carried forward	(2)	-
Other assets	24	-
Other liabilities	65	37
	188	37
Deferred tax assets		
- Deferred tax asset to be recovered after more than 12 months	7,501	8,165
- Deferred tax asset to be recovered within 12 months	1,491	(1,045)
	8,992	7,120
Deferred tax liabilities		
- Deferred tax liability to be recovered after more than 12 months	86	-
- Deferred tax liability to be recovered within 12 months	102	37
	188	37

Group	1 Jan 2014 ₦ million	Adjustment on acquired entities ₦ million	Recognised in P&L ₦ million	Recognised in OCI ₦ million	Assets classified as held for sale ₦ million	31 Dec 2014 ₦ million
Movements in deferred tax assets during the year:						
Property and equipment	(500)	-	(7,719)	-	-	(8,219)
Allowance for loan losses	3,631	-	(205)	-	-	3,426
Tax losses carried forward	419	2,523	12,636	-	-	15,578
Other assets	(405)	-	1,723	-	-	1,318
Other liabilities	(629)	-	(6,859)	-	-	(7,488)
Defined benefit obligation	3,145	-	(2)	122	-	3,265
Prior year adjustment	1,459	-	(471)	-	-	987
Effect of changes in exchange rate	-	-	125	-	-	125
	7,120	2,523	(772)	122	-	8,992

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Group

	1 Jan 2013 ₦ million	Adjustment on acquired entities ₦ million	Recognised in P&L ₦ million	Recognised in OCI ₦ million	31 Dec 2013 ₦ million
Movements in deferred tax assets during the year:					
Property and equipment	9,255	(115)	(9,640)	-	(500)
Allowance for loan losses	3,171	(258)	436	282	3,631
Tax losses carried forward	1	(426)	844	-	419
Other assets	752	(5)	(1,152)	-	(405)
Other liabilities	(10,286)	-	9,657	-	(629)
Defined benefit obligation	5,308	206	(3,004)	635	3,145
Prior year adjustment	-	-	1,459	-	1,459
	8,201	(598)	(1,400)	917	7,120

Group

	1 Jan 2014 ₦ million	Adjustment on acquired entities ₦ million	Recognised in P&L ₦ million	Recognised in OCI ₦ million	Liabilities classified as held for sale ₦ million	31 Dec 2014 ₦ million
Movements in deferred tax liabilities during the year:						
Property and equipment	-	101	15	-	-	116
Allowance for loan losses	-	-	(15)	-	-	(15)
Tax losses carried forward	-	-	27	-	(29)	(2)
Other assets	-	-	24	-	-	24
Other liabilities	37	34	(6)	-	-	65
	37	135	45	-	(29)	188

Group

	1 Jan 2013 ₦ million	Recognised in P&L ₦ million	Recognised in OCI ₦ million	31 Dec 2013 ₦ million
Movements in deferred tax liabilities during the year				
Other liabilities	225	(188)	-	37

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profit is probable. Temporary difference relating to the Group's investment in subsidiaries is ₦89.5 billion (2013: ₦64.8 billion). As the Group exercises control over the subsidiaries, it has 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 temporary differences above will not be recognised.

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32 OTHER ASSETS

	Group		Company	
	31 Dec 2014 ₦ million	Restated 31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
FINANCIAL ASSETS				
Premium debtors	**578**	471	**-**	-
Accounts receivable	**27,431**	31,466	**14,111**	42,831
	28,009	31,937	**14,111**	42,831
Less specific allowances for impairment	**(1,408)**	(1,533)	**-**	-
	26,601	30,404	**14,111**	42,831
NON-FINANCIAL ASSETS				
Inventory	**1,884**	2,464	**-**	-
Prepayments	**12,207**	12,772	**250**	454
	14,091	15,236	**250**	454
Net other assets balance	**40,692**	45,640	**14,361**	43,285

	Group		Company	
	2014 ₦ million	2013 ₦ million	2014 ₦ million	2013 ₦ million
RECONCILIATION OF IMPAIRMENT ACCOUNT				
At start of period	**1,533**	6,519	**-**	-
Acquisition of subsidiary	**11**	-	**-**	-
Write-off	**(422)**	(5,290)	**-**	-
Increase in impairment	**286**	304	**-**	-
At end of period	**1,408**	1,533	**-**	-

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

33 INVENTORY

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Work in progress	**18,323**	10,771
Interest capitalised	**10,868**	10,868
Stock of properties	**8,614**	8,614
At 31 December	**37,805**	30,253
Current	**8,614**	8,614
Non-current	**29,191**	21,639
	37,805	30,253

Inventory relates to real estate development of Rainbow Town Development Limited.

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34 INVESTMENT PROPERTIES

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
At start of period	**2,413**	4,003
Acquisition of subsidiary	**343**	-
Addition and capital improvement	**13**	-
Net gains/(losses) from fair value adjustment	**57**	52
Other changes	**-**	(1,642)
	2,826	2,413

Included in investment properties are mainly land acquired by the Group for capital appreciation. As the reporting period, the properties were valued by registered valuer. The open market values of the properties were determined using recent comparable market prices. The properties are located in Abuja and Lagos and were valued by Jide Taiwo & Co and Ubosi Eleh & Co. The investment properties fall into level 2 fair value hierarchy.

A rental income amounting to ₦3.4 million (2013: Nil) arose from the investment properties during the year. This amount, as well as the fair value adjustment, is included in other income in the income statement. No direct operating expense was incurred on the investment properties.

35 DEPOSITS FROM BANKS

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Due to banks within Nigeria	**78,859**	7,047
Due to banks outside Nigeria	**92,292**	74,985
	171,151	82,032

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.

36 DEPOSITS FROM CUSTOMERS

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Current	**747,627**	922,097
Savings	**728,728**	665,670
Term	**1,049,023**	716,677
Domiciliary	**515,476**	616,368
Electronic purse	**9,999**	8,269
	3,050,853	2,929,081
Current	**2,891,164**	2,849,476
Non-current	**159,689**	79,605
	3,050,853	2,929,081

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

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37 BORROWINGS

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Long-term borrowing comprise:		
FBN EuroBond (i)	**141,819**	47,249
Due to European Investment Bank (ii)	**565**	1,603
Due to Deutsche Bank (iii)	**6,731**	-
On-lending facilities from financial institutions (iv)	**32,449**	31,389
Borrowing from correspondence banks (v)	**188,143**	46,061
	369,707	126,302
Current	**206,299**	55,739
Non-current	**163,408**	70,563
	369,707	126,302
At start of the year	**126,302**	75,541
Acquisition of subsidiary	**2,497**	937
Proceeds of new borrowings	**315,792**	96,297
Finance cost	**17,995**	4,100
Foreign exchange (gains)/losses	**(9,721)**	(1,611)
Repayment of borrowings	**(71,308)**	(46,473)
Interest paid	**(11,850)**	(2,489)
At end of year	**369,707**	126,302

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2013: Nil).

(i) FBN Eurobond:

Facilities represent dollar notes I and II issued by FBN Finance Company B.V, Netherlands on 7 August 2013 and on 18 July 2014 for a period of seven years. The notes I bear interest at 8.25% per annum up to the bank call date of 7 August 2018, while notes II bear interest at 8.00% per annum to the bank call date of 23 July 2019. From the call date up to the maturity date, the notes I and II bear interest at a fixed rate of 6.875% and 6.488% per annum respectively plus the prevailing mid swap rate for United States Dollar swap transactions with a maturity of two years. The loans are redeemable, subject to having obtained the prior approval of the CBN, on the Bank call date of 7 August 2018 and of 23 July 2019, and not in part at the option of the issuer, at the liquidation preference amount plus any additional amounts and outstanding payments due.

(ii) Due to European Investment Bank:

Facility represents a medium-term loan (callable notes) secured from European Investment Bank. The loan is divided into tranche A of euro 35 million for a tenure of five years and tranche B of euro 15 million for a tenure of eight years, which qualifies it as tier II 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 2014 relates to tranche B.

(iii) Due to Deutsche Bank:

Facility represents a medium-term loan secured from Deustche Bank on 15 August 2014 for a period of 5 years to augment working capital. The loan bears interest at the rate of 2.68% per annum.

(iv) On-lending Facilities:

Included in on-lending facilities from financial institutions are disbursements from other banks and Financial Institutions which are guaranteed by FBN for specific customers. These facilities include the BOI funds and CACS intervention funds. See further notes below:

a. CBN/BOI facilities

The Central Bank of Nigeria (CBN), in a bid to unlock the credit market, approved the investment of ₦200 billion debenture stock to be issued by the Bank of Industry (BOI), which would be applied to the re-financing/restructuring of bank's loans to the manufacturing sector. During the year, the Bank of Industry (BOI) disbursed an additional ₦9.16 billion (2013: ₦2.4 billion) to First Bank of Nigeria Limited.The fund disbursed is for a period of 15 years effective from the disbursement date at an interest rate of 7% per annum.

b. CBN/CACS intervention funds

The Central Bank of Nigeria (CBN) in collaboration with the Federal Government of Nigeria (FGN) represented by the Federal Ministry of Agriculture and Water Resources (FMA & WR) established the Commercial Agricultural Credit Scheme (CACS). During the year, First Bank of Nigeria Limited received ₦6.8 billion (2013: ₦3.77 billion) for on-lending to customers as specified by the guidelines. Loans granted under the scheme are for a seven year period at an interest rate of 9% p.a.

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(v) Borrowings from correspondence banks:

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

38 RETIREMENT BENEFIT OBLIGATIONS

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Defined contribution plan	-	11
Defined benefits plan		
Gratuity scheme (i)	17	480
Defined benefits - pension (ii)	1,636	1,111
Gratuity scheme (iii)	376	322
	2,029	1,924

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 2014 and 31 December 2013.

Gratuity scheme 1

FBN Pension Custodian, FBN Insurance Brokers and FBN Microfinance 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 enity.

On 30 June 2014, FBN Pension Custodian funded the schemes and transferred the balance of ₦343 million to a Fund Manager. When the scheme was funded, it was transferred from Gratuity Scheme (1) into Defined Benefit Scheme (2). The staff gratuity scheme was discontinued with effect from 31 December 2014 and the calculated curtailment loss was adjusted in the current year.

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	Present value of the obligation ₦ million	Fair value of plan assets ₦ million	Net ₦ million
DEFINED BENEFIT PENSION OBLIGATIONS AT 1 JANUARY 2013	14,645	-	14,645
Service cost	2,003	-	2,003
Interest cost	1,753	(4)	1,749
Remeasurement			
Curtailment (gains)/losses	2,855	-	2,855
Plan amendments	1,123		1,123
- Return on plan asset not included in net interest cost on pension scheme	(1,078)	(2)	(1,080)
- Change in demographic assumptions	(2,167)	-	(2,167)
Payments:			
- Benefit payment	(9,328)	-	(9,328)
Reclassification of curtailed liability	(9,271)	(49)	(9,320)
Defined benefit pension obligations at 31 December 2013	535	(55)	480
Transfer to defined benefits - pension (ii)	(343)	-	(343)
Service cost	45	-	45
Interest cost	8	(7)	1
Remeasurement			
- Return on plan asset not included in net interest cost on pension scheme	-	2	2
- Change in demographic assumptions	(12)	-	(12)

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Group

	Present value of the obligation ₦ million	Fair value of plan assets ₦ million	Net ₦ million
Contributions:			
- Employer	-	(72)	(72)
Payments:			
- Benefit payment	(85)	1	(84)
Defined benefit pension obligations at 31 December 2014	148	(131)	17

Composition of plan assets

Group

	2014			2013		
	Quoted ₦ million	Unquoted ₦ million	Total ₦ million	Quoted ₦ million	Unquoted ₦ million	Total ₦ million
Debt instruments			131			55
- Government	-	103		-	54	
- Money market investments	-	27		-	1	
Others	-	1		-	-	
Total	-	131	131	-	55	55

Defined benefit – Pension 2

First Bank of Nigeria Limited 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.

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

Group

	Present value of the obligation ₦ million	Fair value of plan assets ₦ million	Net ₦ million
Defined benefit pension obligations at 1 January 2013	13,596	(9,233)	4,363
Interest expense/(income)	1,439	(984)	455
Remeasurement:			
- Return on plan asset 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
Transfer from gratuity scheme (1)	343	-	343
Interest expense/(income)	1,255	(1,190)	65
Service cost	69	-	69
Curtailment losses	23	-	23

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Group

	Present value of the obligation ₦ million	Fair value of plan assets ₦ million	Net ₦ million
Remeasurement:			
- Return on plan asset not included in net interest cost on pension scheme	-	1,861	1,861
- Change in demographic assumptions	(1,445)	-	(1,445)
Contributions:			
- Employer	-	(381)	(381)
Payments:			
- Benefit payment	(1,608)	1,598	(10)
Defined benefit pension obligations at 31 December 2014	10,438	(8,802)	1,636

Composition of plan assets

Group

	2014			2013		
	Quoted ₦ million	Unquoted ₦ million	Total ₦ million	Quoted ₦ million	Unquoted ₦ million	Total ₦ million
Equity instruments			1,556			3,316
- Banking	1,470			3,220		
- Oil service	53			44		
- Real estate	33			52		
Debt instruments			7,246			7,374
- Government		5,737			5,436	
- Corporate bond		466			155	
- Money market investments		976			1,564	
Money on call		67			209	
Others		-			10	
Total	1,556	7,246	8,802	3,316	7,374	10,690

The fair value of plan assets is calculated with reference to quoted prices and are within level 1 of the fair value hierachy.

Arising from the defined benefit pension plan, the Group is exposed to a number of risk, the most significant of which are deailed below:

Asset volatility: The plan liabilities are calculated using a discount rate set with reference to Federal Government Bond yields. If the plan assets underperform this yield, this will create a deficit. As the plans mature, the Group intends to reduce the level of investment risk by investing more in asset that better match the liabilities. In equity market, focus will be to seek to reduce the volatility on the fund and align asset allocation with the long term objectives of the fund whilst taking advantage of selling of 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 the life expectancy will result in an increase in the plan's liabilities. This risk is significantly curtailed by the weighted average liability duration of the plan which is currently seven years and retirement age of 60 years.

Under the funded plan, the Legacy scheme, the Group ensures that the investment positions are managed within the Asset-liability matching (ALM) framework that has been developed to achieve long-term investment 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 six years.

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	31 Dec 2014 %	31 Dec 2013 %
The principal actuarial assumptions were as follows:		
Discount rate on pension plan	14	11
Inflation rate	9	9
Future pension increases	-	-

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

	Assumption %	Defined benefit obligation ₦ million	Impact on liability %
Discount rate	14	10,079	-
	15	9,584	(4.9)
	13	10,628	5.4
Life expectancy	Base	10,079	-
	Improved by 1 year	10,148	0.7
	Decreased by 1 year	10,010	(0.7)

The above sensitivity analyses is for First Bank of Nigeria Limited and deemed to be representative of the Group. It is 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 International de Credit (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.

ICB Guinea and ICB Sierra Leone each have graduated gratuity schemes for staff on separation where staff receives a lump sum based on their qualifying basic salaries on the number of year spent. The aggregate balance on this scheme is deemed immaterial.

39 OTHER LIABILITIES

	Group		Company	
	31 Dec 2014 ₦ million	Restated h31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
FINANCIAL LIABILITIES:				
Customer deposits for letters of credit	34,264	58,029	-	-
Accounts payable	52,313	47,386	-	-
Creditors	16,457	16,212	7,950	3,519
Bank cheques	14,964	12,823	-	-
Collection on behalf of third parties	7,759	5,763	-	-
	125,757	140,213	7,950	3,519
NON-FINANCIAL LIABILITIES:				
Accruals	6,876	9,393	1,640	191
Other liabilities balance	132,633	149,606	9,590	3,710

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

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40 LIABILITY ON INVESTMENT CONTRACTS

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Long-term clients	-	-
Short-term clients	60,617	68,723
	60,617	68,723
Current	60,617	68,723
Non-current	-	-

41 LIABILITY ON INSURANCE CONTRACTS

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Outstanding claims	556	157
Unearned premium	917	104
Short-term insurance contract – claims incurred but not reported (IBNR)	264	317
Liability on long-term insurance contract – Life Fund	6,523	3,073
	8,260	3,651
Current	557	828
Non-current	7,703	2,823
	8,260	3,651

42 SHARE CAPITAL

	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
AUTHORISED		
50 billion ordinary shares of 50 kobo each (2009: 30 billion)	25,000	25,000

Issued and fully paid

	Number of shares ₦ million	Ordinary shares ₦ million
MOVEMENTS DURING THE PERIOD		
At 31 December 2013	32,632	16,316
At 31 December 2014	32,632	16,316

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43 SHARE PREMIUM AND RESERVES

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

- **Share premium:** premiums (i.e., excess over nominal value) from the issue of shares are reported in share premium.
- **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 banks 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
- **Capital reserve:** reserve arising from business restructuring
- **Available for Sale (AFS) fair value reserve:** the AFS fair value reserve shows the effects of the fair value measurement of financial instruments classified as available for sale presented in other comprehensive income. No gains or losses are recognised in the consolidated income statement.
- **SSI reserve:** this reserve is maintained to comply with the Central Bank of Nigeria (CBN) requirement that all licensed banks set aside a portion of the profit after tax in a fund to be used to finance equity investments in qualifying small and medium-scale enterprises. Under the terms of the guideline (amended by CBN letter dated 11 July 2006), the contributions will be 10% of profit after tax and shall continue after the first five years but banks' contributions shall thereafter reduce to 5% of profit after tax. However, this is no longer mandatory. The small and medium-scale industries equity investment scheme reserves are non-distributable.
- **Contingency reserve:** as required by insurance regulations, a contingency reserve is maintained for both the non-life insurance and life assurance contracts underwritten by the Group. The appropriation to contingency reserve for non-life underwriting contracts is calculated in accordance with section 21(2) and 22(1)(b) of the Insurance Act 2003. The reserve is calculated at the higher of 3% of gross premiums and 20% of net profits of the business for the year. The appropriation to contingency reserve for life underwriting contracts is calculated at the higher of 1% of the gross premium and 10% of net profits of the business for the year. The appropriations are charged to the Life Fund.
- **Statutory credit reserve:** the Group determines its loan loss provisions based on the requirements of IFRS. The difference between the loan loss provision as determined under IFRS and the provision as determined under Nigerian Prudential guideline (as prescribed by the Central Bank of Nigeria) is recorded in this reserve. This reserve is non distributable.
- **Treasury share:** this represents the purchase consideration of the shares of FBN Holdings Plc. held by one of its subsidiaries as at 31 December 2014 (2013: ₦2.28 billion). 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 (FCTR):** records exchange movements on the Group's net investment in foreign subsidiaries.

44 RECONCILIATION OF PROFIT BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	Group		Company	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Profit before tax from continuing operations	**92,884**	91,337	**5,683**	70,631
Adjustments for:				
- Depreciation and amortisation	**12,758**	11,196	**229**	47
- Impairment of goodwill (Note 30)	**501**	552	**-**	-
- Profit from disposal of property and equipment	**(435)**	(293)	**-**	-
- Foreign exchange gains	**(9,721)**	(1,611)	**(42)**	-
- Loss from disposal of investment securities	**230**	(2,811)	**-**	-
- Net gains from financial assets at fair value through profit or loss	**1,262**	1,504	**-**	-
- Impairment on loans and advances	**27,917**	22,714	**-**	-
- Write off of PPE and intangible assets	**606**	-	**-**	-
- Change in provision in other assets	**286**	304	**-**	-
- Change in provision for impairment of investments	**-**	-	**7,781**	2,594
- Change in retirement benefit obligations	**(258)**	(15,599)	**-**	-
- Share of profit from associates	**(599)**	(1,006)	**-**	-
- Dividend income	**(1,469)**	(1,227)	**(13,747)**	(74,057)
- Interest income	**(362,580)**	(323,621)	**(2,886)**	(924)
- Interest expense	**118,725**	93,506	**-**	-

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	Group		Company	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Increase/(decrease) in operating assets				
Cash and balances with the Central Bank (restricted cash)	**(222,526)**	(149,502)	**-**	-
Inventories	**(7,551)**	(8,577)	**-**	-
Loans and advances to banks	**(38,269)**	(103,856)	**-**	-
Loans and advances to customers	**(406,121)**	(240,347)	**(8)**	-
Financial assets at fair value through profit or loss	**(11,773)**	(5,435)	**-**	-
Other assets	**12,464**	2,613	**210**	(43,121)
Pledged assets	**(14,833)**	(3,541)	**-**	-
Assets held for sale	**1,618**	2,194	**-**	-
Increase/(decrease) in operating liabilities				
Deposits from banks	**54,031**	(7,099)	**-**	-
Deposits from customers	**50,199**	512,242	**-**	-
Financial liabilities	**9,217**	(95)	**-**	-
Liability on investment contracts	**(8,106)**	13,729	**-**	-
Liability on insurance contracts	**3,776**	1,524	**-**	-
Liability held for sale	**-**	(1,089)	**-**	-
Other liabilities	**(18,510)**	21,956	**(1,244)**	2,626
Cash flow used in operations	**(716,278)**	(90,339)	**(4,024)**	(42,204)

45 COMMITMENTS AND CONTINGENCIES

45.1 CAPITAL COMMITMENTS

At the balance sheet date, the company had no capital commitments (2013: ₦569 million) in respect of authorised and contracted capital projects.

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Authorised and contracted		
Group	**375**	1,142
Company	**-**	569

45.2 OPERATING LEASE RENTALS

At 31 December 2014, the Group was committed to making the following future payments in respect of operating leases for land and buildings. Subsisting lease agreements are expected to expire in June 2031 and February 2017 respectively.

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Within one year	**257**	250
Between two and five years	**834**	918
More than five years	**2,265**	2,173
	3,356	3,341

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45.3 LEGAL PROCEEDINGS

The Group is a party to a number of legal actions arising out of its normal business operations.

The Directors believe that, based on currently available information and advice of counsel, none of the proceedings will result in an outcome that has a material adverse effect on the financial position of the Group, either individually or in the aggregate. Consequently, no provision has been made in these financial statements.

45.4 OTHER CONTINGENT COMMITMENTS

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

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Performance bonds and guarantees	**429,279**	459,723
Letters of credit	**272,718**	233,892
	701,997	693,615

45.5 LOAN COMMITMENTS

	Group	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Undrawn irrevocable loan commitments	**90,379**	408,008

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments is disclosed in note 3.7.3b

45.6 COMPLIANCE WITH COVENANTS

The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. In the event of default, the lenders are entitled to take various actions, including the acceleration of amounts due under the loan agreements and all actions permitted to be taken by a secured creditor which would have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

First Bank of Nigeria Limited is subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and the Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel II. The Group complied with this loan covenant. See Note 4 for the calculation of the composition of the Group's capital in accordance with the Basel Accord. Other covenants are a maximum non performing loans (NPL) ratio, a maximum related party lending ratio, a minimum liquidity ratio, and minimum provisions for NPLs. Management believes that First Bank of Nigeria Limited is in compliance with these covenants at 31 December 2014 and 31 December 2013.

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46 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The information shown below relates to First Bank of Nigeria Limited and FBN Insurance Limited, as no other entity within the Group has an offsetting arrangement.

Financial instruments subject to offsetting, enforceable master netting and similar arrangement as at 31 December 2014 are as follows:

	Gross amount before offsetting in the statement of financial position (a) ₦ million	Gross amounts set off in the statement of financial position (b) ₦ million	Net amounts after offsetting in the statement of financial position (c)=(a)-(b) ₦ million	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amounts of exposure (f)=(c)-(d)-(e) ₦ million
				Financial instruments (d) ₦ million	Cash collaterals received (e) ₦ million	
ASSETS						
Financial assets at fair value through profit or loss	9,258	-	9,258	-	5,983	3,275
Reinsurance receivables	558	-	558	28	-	530
Total assets subject to offsetting, master netting and similar arrangements	9,816	-	9,816	28	5,983	3,805
LIABILITIES						
Financial derivatives	7,946	-	7,946	-	-	7,946
Trade payables	28	-	28	28	-	-
Total liabilities subject to offsetting, master netting and similar arrangements	7,974	-	7,974	28	-	7,946

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

The Group has master netting arrangements with counterparty banks, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as they were set off in the statement of financial position. The Group also made margin deposits with Merril Lynch and Goldman Sachs as collateral for its oustanding derivative positions. The counterparty may set off the Group's liabilities with the margin deposit in case of default.

In the insurance business, reinsurance payable and receivables create for the parties to the agreement, a right of set-off on recognised amounts that is enforceable only following a predetermined events as stipulated within the treaty agreements. Each party to the agreement will have the option to settle all such amounts on a net basis in the event of default of the other party. An event of default includes a failure by a party to make payment when due.

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are set off in the statement of financial position.

47 RELATED PARTY TRANSACTIONS

The Group is controlled by FBN Holdings Plc. which is the parent company, whose shares are widely held. FBN Holdings Plc, is a financial holding company licensed by the Central Bank of Nigeria. In 2014, there were no related-party transactions other than loan granted to a director.

A number of transactions are entered into with related parties in the normal course of business. These include loans and deposits. The volumes of related-party transactions, outstanding balances at the year-end, and related expense and income for the year are listed below.

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47.1 LOANS AND ADVANCES TO RELATED PARTIES

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

	Directors and other key management personnel and close family members	Subsidiaries
31 DECEMBER 2014		
Loans and advances to customers		
Loans outstanding at 1 January	52	7,332
Loans issued during the year	-	969
Loan repayments during the year	(15)	(8,301)
Loans outstanding at 31 December	37	-
31 DECEMBER 2013		
Loans and advances to customers		
Loans outstanding at 1 January	67	6,411
Loans issued during the year	-	921
Loan repayments during the year	(15)	-
Loans outstanding at 31 December	52	7,332

No impairment loss has been recognised in respect of loans given to related parties.

The loans to directors and other key management personnel are repayable from various cycles ranging from monthly to annually over the tenor and have average interest rates ranging from 5% to 24%.

47.2 DEPOSITS FROM RELATED PARTIES

The company had no deposits from related parties in 2014 (2013: Nil).

47.3 OTHER TRANSACTIONS WITH RELATED PARTIES

	Subsidiaries ₦ million
31 DECEMBER 2014	
Interest income	969
Intercompany payable	7,844
Intercompany receivable	(571)
31 DECEMBER 2013	
Interest income	921
Intercompany payable	3,447

47.4 KEY MANAGEMENT COMPENSATION

Key management includes executive directors and members of the Management Committee. The compensation paid or payable to key management for employee services is shown below:

	Group		Company	
	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Salaries and other short-term employee benefits	1,007	844	208	113
Post-employment benefits	389	567	6	1
Other long-term benefits	-	3,000	-	-
	1,396	4,411	214	114

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48 EMPLOYEES

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

	Group		Company	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Executive directors	1	1	1	1
Management	198	74	4	3
Non-management	10,265	9,748	19	17
	10,464	9,823	24	21

See note 15 for compensation for the above staff.

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

	Group		Company	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Below ₦2,000,000	1,575	1,383	7	10
₦2,000,001-₦2,800,000	734	95	-	3
₦2,800,001-₦3,500,000	481	655	-	3
₦3,500,001-₦4,000,000	55	46	1	-
₦4,000,001-₦5,500,000	2,368	2,635	1	3
₦5,500,001-₦6,500,000	1,703	1,596	1	-
₦6,500,001-₦7,800,000	764	1,051	2	-
₦7,800,001-₦9,000,000	462	281	2	-
₦9,000,001 and above	2,322	2,077	12	1
	10,464	9,819	26	20

49 DIRECTORS' EMOLUMENTS

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

	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million
Fees	49	48
Sitting allowances	8	6
Executive compensation	83	104
Other director expenses	611	148
	751	306
Fees and other emoluments disclosed above include amounts paid to:		
Chairman	45	44
Highest paid director	83	104

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

	31 Dec 2014	31 Dec 2013
₦3,000,001 and above	8	7
	8	7

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50 COMPLIANCE WITH REGULATIONS

No penalty was paid by the company during the year.

51 EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

No significant event occurred after the reporting date.

52 DIVIDENDS PER SHARE

A dividend of ₦35.9 billion at ₦1.10 per share (2012: ₦32.6 billion) that relates to the period to 31 December 2013 was paid in May 2014.

53 EARNINGS PER SHARE

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

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

	Group		Company	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Profit from continuing operations attributable to owners of the parent (million)	**83,059**	70,135	**5,683**	70,631
Weighted average number of ordinary shares in issue (million)	**32,630**	32,473	**32,632**	32,632
Basic/diluted earnings per share (expressed in naira per share)	**2.55**	2.16	**0.17**	2.16

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

54 RESTATEMENT

The Group has restated its previously issued Consolidated Statements of Financial Position as at 31 December 2013 and 31 December 2012 to correct for an error made in the reporting of the 'Held for Sale' property development portfolio of a subsidiary, FBN Mortgages.

The restatement is to adjust for wrong classifications into the held for sale portfolios in 2012 and 2013. The restatement impacted the following balances:

(i) Other assets;

(ii) Other liabilities;

(iii) Assets held for sale;

(iv) Liabilities held for sale.

The effect of the above errors is limited to the Consolidated Statement of Financial Position and as such the restatement has no impact on the Consolidated Income Statement and Consolidated Statement of Changes in Equity.

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(i) Impact of restatement on consolidated statement of financial position.

(a)	As at 31 December 2013 previously reported ₦ million	Restatement adjustment ₦ million	As at 31 December 2013 restated ₦ million
ASSETS			
Other assets	41,405	4,235	45,640
Asset held for sale	10,784	(6,235)	4,549
LIABILITIES			
Other liabilities	149,859	(253)	149,606
Liabilities held for sale	1,747	(1,747)	-

(b)	As at 31 December 2012 previously reported ₦ million	Restatement adjustment ₦ million	As at 31 December 2012 Restated ₦ million
ASSETS	40,252	5,740	45,992
Other assets	12,978	(7,757)	5,221
Asset held for sale			
LIABILITIES	2,836	(2,017)	819
Liabilities held for sale			

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VALUE ADDED STATEMENT

	Group			
	31 Dec 2014 ₦ million	%	31 Dec 2013 ₦ million	%
Gross income	480,602		395,942	
Interest and fee expense	(124,930)		(98,802)	
	355,672		297,140	
Administrative overheads	(144,244)		(107,926)	
Value added	211,428	100	189,214	100
DISTRIBUTION				
Employees				
Salaries and benefits	79,843	38	65,820	35
Government				
Taxation	10,045	5	20,706	11
The future				
Asset replacement (depreciation)	11,375	5	10,284	5
Asset replacement (amortisation)	1,384	1	1,464	1
Asset replacement (provision for losses)	25,942	12	20,309	11
Expansion (transfers to reserves)	82,839	39	70,631	37
	211,428	100	189,214	100

	Company			
	31 Dec 2014 ₦ million	%	31 Dec 2013 ₦ million	%
Gross income	16,969		74,988	
Interest and fee expense	-		-	
	16,969		74,988	
Administrative overheads	(2,117)		(1,658)	
Value added	14,852	100	73,330	100
DISTRIBUTION				
Employees				
Salaries and benefits	1,159	8	58	-
Government				
Company income tax	-	-	-	-
The future				
Asset replacement (depreciation)	229	2	47	-
Asset replacement (amortisation)	-	-	-	-
Asset replacement (provision for losses)	7,781	52	2,594	4
Expansion (transfers to reserves)	5,683	38	70,631	96
	14,852	100	73,330	100

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STATEMENT OF FINANCIAL POSITION

	As reported under IFRS				
	31 Dec 2014 ₦ million	Restated 31 Dec 2013 ₦ million	Restated 31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2010 ₦ million
ASSETS:					
Cash and balances with central bank	**698,104**	594,234	300,532	199,228	75,517
Loans and advances to banks	**460,911**	430,586	439,853	463,328	575,467
Loans and advances to customers	**2,178,980**	1,769,130	1,541,377	1,252,154	1,160,293
Financial assets at fair value through profit or loss	**27,601**	10,287	6,112	5,964	16,636
Investment securities	**711,639**	824,064	718,040	694,826	254,708
Assets pledged as collateral	**68,483**	53,650	50,109	72,129	122,009
Inventory	**37,805**	30,253	21,676	25,609	23,081
Managed funds	**-**	-	-	-	-
Investment in associates	**-**	7,029	6,321	7,489	8,996
Investment in subsidiaries	**-**	-	-	-	-
Other assets	**40,692**	45,640	45,992	63,061	39,282
Investment properties	**2,826**	2,413	4,003	4,055	2,440
Intangible assets	**10,094**	8,748	3,523	1,008	494
Property, plant and equipment	**88,208**	81,299	75,407	65,889	63,634
Deferred tax	**8,992**	7,120	8,201	6,954	12,274
Assets held for sale	**8,331**	4,549	5,221	-	-
	4,342,666	3,869,001	3,226,367	2,861,693	2,354,831
FINANCED BY:					
Share capital	**16,316**	16,316	16,316	16,316	16,316
Share premium	**254,524**	254,524	254,524	254,524	254,524
Reserves	**248,018**	196,432	167,927	96,251	129,607
Non-controlling interest	**4,033**	4,505	2,548	964	1,148
Deposits from banks	**171,151**	82,032	89,430	183,500	148,352
Deposits from customers	**3,050,853**	2,929,081	2,395,148	1,951,011	1,447,600
Financial liabilities at fair value through profit or loss	**10,917**	1,701	1,796	2,857	1,639
Liabilities on investment contracts	**60,617**	68,723	54,995	49,440	76,446
Liabilities on insurance contracts	**8,260**	3,651	2,127	824	-
Borrowings	**369,707**	126,302	75,541	106,204	126,350
Retirement benefit obligations	**2,029**	1,924	19,380	15,081	11,426
Current income tax	**11,829**	34,167	23,389	24,328	20,052
Other liabilities	**132,633**	149,606	122,202	159,325	120,470
Deferred income tax liabilities	**188**	37	225	1,069	901
Liabilities held for sale	**1,592**	-	819	-	-
	4,342,666	3,869,001	3,226,367	2,861,693	2,354,831

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INCOME STATEMENT

	As reported under IFRS				As reported under N-GAAP
	12 months ended 31 Dec 2014 ₦ million	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
Gross earnings	**480,602**	396,235	370,167	273,811	232,079
Net operating income	**355,070**	296,426	301,072	237,027	178,062
Insurance claims	**(1,043)**	(488)	(498)	(81)	-
Operating expenses	**(235,801)**	(185,298)	(193,513)	(146,064)	(119,274)
Group's share of associate's results	**599**	1,006	(592)	(1,507)	(3,657)
Impairment charge for credit losses	**(25,942)**	(20,309)	(12,549)	(38,011)	(21,590)
(Loss) on sale of assets to AMCON	**-**	-	-	(15,501)	-
Exceptional item	**-**	-	-	-	226
Profit before taxation	**92,884**	91,337	93,920	35,863	33,767
Taxation	**(10,045)**	(20,706)	(17,120)	(17,227)	(4,590)
Profit from continuing operations	**82,839**	70,631	76,800	18,636	29,177
Profit from discontinuing operations	**-**	-	-	-	-
Profit for the year	**82,839**	70,631	76,800	18,636	29,177
Profit attributable to:					
Owners of the parent	**83,059**	70,135	77,020	19,520	27,244
Non-controlling interest	**(220)**	496	(220)	(884)	1,933
	82,839	70,631	76,800	18,636	29,177
Earnings per share in kobo (basic/diluted)	**255**	216	237	57	89

In line with IFRS 1.22(b), the figures reported in the above statement of financial position for years 2010 to 2014 and income statement for years 2011 to 2014 have been prepared using relevant IFRS guidelines and standards. In contrast, the figures in the above income statement for the year 2010 have been prepared using the relevant Nigerian Generally Accepted Accounting Principle (N-GAAP) guidelines and standards.

Therefore, the numbers in the affected areas listed below should not be compared when using the financial statements without making necessary adjustments to the N-GAAP numbers. The nature of the main adjustments that would make the numbers comply with IFRSs are:

Financial statement area	Nature/main adjustments to convert 2010 balances to IFRS
Interest income and expense	Measured using the effective interest rate method
Impairment charge for credit losses	Test loans and advances for impairment in accordance with IAS 39 and assess provisions per prudential guidelines.

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FINANCIAL SUMMARY – COMPANY

STATEMENT OF FINANCIAL POSITION

	31 Dec 2014 ₦ million	31 Dec 2013 ₦ million	31 Dec 2012 ₦ million
ASSETS			
Cash and balances with central bank	-	-	-
Loans and advances to banks	3,261	1,477	-
Loans and advances to customers	80	72	-
Financial assets at fair value through profit or loss	-	-	-
Investment securities	4,272	9,847	15,771
Assets pledged as collateral	-	-	-
Investment in associates	1,500	9,281	11,875
Investment in subsidiaries	260,777	246,777	243,065
Other assets	14,361	43,285	236
Intangible assets	-	-	-
Property, plant and equipment	1,519	1,072	30
Deferred tax	-	-	-
Assets held for sale	2,000	-	-
	287,770	311,811	270,977
FINANCED BY			
Share capital	16,316	16,316	16,316
Share premium	254,524	254,524	254,524
Reserves	7,339	37,261	(947)
Deposits from banks	-	-	-
Deposits from customers	-	-	-
Financial liabilities at fair value through profit or loss	-	-	-
Borrowings	-	-	-
Retirement benefit obligations	-	-	-
Current income tax	-	-	-
Other liabilities	9,590	3,710	1,084
Deferred income tax liabilities	-	-	-
	287,769	311,811	270,977

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FINANCIAL SUMMARY – COMPANY

INCOME STATEMENT

	12 months ended 31 Dec 2014 ₦ million	12 months ended 31 Dec 2013 ₦ million	1 month ended 31 Dec 2012 ₦ million
Gross earnings	16,969	74,988	1
Net operating income	7,800	72,289	-
Gain from disposal of subsidiary	-	-	-
Operating expenses	(2,117)	(1,658)	(819)
Impairment charge for credit losses	-	-	-
(Loss) on sale of assets to AMCON	-	-	-
Exceptional item	-	-	-
Profit before taxation	5,683	70,631	(819)
Taxation	-	-	-
Profit after taxation	5,683	70,631	(819)
Earnings per share in kobo (basic)	17	216	(3)

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SHAREHOLDER INFORMATION

Resources for shareholders including a glossary of ratios, a summary of abbreviations and Group contact details.

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SHAREHOLDER RESOURCES

GLOBAL DEPOSITARY RECEIPTS (GDR) PROGRAMME

FBNHoldings (previously FirstBank) commenced a USD100 million GDR programme in May 2007.

A global depositary receipt (GDR) is a negotiable certificate representing ownership of shares. It is held by a depositary bank and represents a specific number of shares of a stock traded on a stock exchange of many countries. GDRs are quoted, traded and dividends usually paid in US dollars. GDRs facilitate the trading and holding of non-US securities by foreign investors.

At inception of the programme, 7,700,400 units were created, with each unit represented by 50 units of FirstBank ordinary shares. Over the years, several investors in the programme have converted their holdings in GDR to nominal FBNHoldings shares for the purpose of trading in the Nigerian equity capital market. Currently, there are 3,754 units outstanding.

On 26 November 2012, FBNHoldings was listed on the Nigerian Stock Exchange, replacing FirstBank, and the existing shareholders in FirstBank exchanged ordinary shares in FBNHoldings equal to the number of shares held in FirstBank.

As at 31 December 2014, the closing price of the GDR at the over-the-counter (OTC) market was USD2.40.

SHARE STATISTICS

	2014	2013
MARKET INDICATORS		
NSE all share index	**34,663.92**	41,329.19
SHARE STATISTICS		
Share price		
High for the year ₦	**16.29**	21.50
Low for the year ₦	**7.79**	15.20
Closing ₦	**8.80**	16.30
Shares traded		
Number of shares (million)	**620.15**	4,458
Value of shares (₦ million)	**4,676.47**	80,879

DIVIDEND HISTORY

FIRST BANK NIGERIA LTD

Payment number	Year end	Div type	Date declared	Total net div amt (₦)	Div per share	Net div amt unclaimed as at Dec 2013	% net div amt unclaimed
46	31 Mar 2003	final	4 Aug 2003	3,811,263,675.00	1.50	113,604,459.28	2.98
47	31 Mar 2004	final	23 Aug 2004	5,513,901,111.80	1.55	107,098,665.56	1.94
48	31 Mar 2005	final	29 Aug 2005	6,403,122,540.00	1.60	93,576,691.55	1.46
49	31 Mar 2006	final	28 Aug 2006	5,239,237,558.00	1.00	91,717,276.20	1.75
50	31 Mar 2007	final	3 Sept 2007	10,479,845,385.00	1.00	318,938,485.38	3.04
51	31 Mar 2008	final	25 Aug 2008	21,481,234,960.68	1.20	312,426,948.64	1.45
52	31 Mar 2009	final	24 Aug 2009	30,207,986,658.90	1.35	333,953,358.19	1.11
53	31 Dec 2009	final	31 May 2010	2,610,566,748.54	0.10	300,617,158.16	11.52
54	31 Dec 2010	final	6 Jun 2011	17,621,325,552.24	0.60	750,553,878.85	4.26
55	31 Dec 2011	final	4 Jun 2012	23,495,100,736.32	0.80	796,389,083.16	3.39
				126,863,584,926.48		3,218,876,004.97	2.54

FBN HOLDINGS PLC

Payment number	Year end	Div type	Date declared	Total net div amt (₦)	Div per share	Net div amt unclaimed as at Dec 2014	% net div amt unclaimed
1	31 Dec 2012	Interim	3 Jun 2013	29,434,858,173.90	1.00	1,457,520,111.58	4.95
2	27 May 2013	Final	26 May 2014	32,408,788,807.89	1.10	4,126,854,890.97	12.73
				61,843,646,981.79		5,584,375,002.55	9.03

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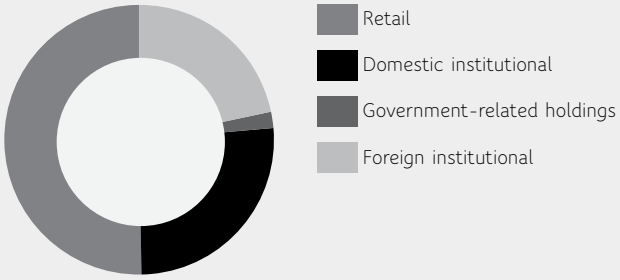
SHAREHOLDER RESOURCES

SHAREHOLDER ANALYSIS AS AT 31 DECEMBER 2014

Type of shareholding	Percentage held
Retail	50.14
Domestic institutional	26.23
Foreign institutional	21.68
Government-related holdings	1.95
	100

Breakdown of shareholders by type



2015 FBNHOLDINGS FINANCIAL REPORTING CALENDAR

Date	Event
Tuesday 7 April	Release of FY 2014 results on the floor of the NSE
Monday 13 April	FBNHoldings publication of FY 2014 results in the national dailies
Tuesday 14 April	FY 2014 results conference call
Thursday 23 April	FirstBank Annual General Meeting
Friday 24 April	Release of Q1 2015 results on the floor of the NSE
Tuesday 5 May	FBNHoldings publication of Q1 2015 results in national dailies
Thursday 21 May	FBNHoldings Annual General Meeting
Wednesday 29 July	Release of FBNHoldings H1 2015 on the floor of the NSE
Thursday 30 July	FBNHoldings publication of H1 2015 results in the national dailies
Thursday 30 July	FirstBank publication of H1 2015 results in the national dailies
Wednesday 5 August	H1 2015 results conference call
Tuesday 27 October	Release of 9M 2015 results on the floor of the NSE
Thursday 29 October	FBNHoldings publication of 9M 2015 results in national dailies
Thursday 29 October	FirstBank publication of audited 9M 2015 results in the national dailies
Friday 30 October	9M 2015 results conference call

These dates are subject to change. Please ensure you refer to the investor relations website for updates.

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SHAREHOLDER RESOURCES

SHARE CAPITALISATION HISTORY

	Authorised		Paid up			
Year	Increase (₦)	Cumulative (₦)	Increase (₦)	Cumulative (₦)	Cumulative no of shares	Consideration
31 Dec 1973	-	10,000,000	-	9,700,000	9,700,000	Cash
10 Jun 1975	5,000,000	15,000,000	1,940,000	11,640,000	11,640,000	Bonus
27 July 1976	-	15,000,000	2,328,000	13,968,000	13,968,000	Bonus
28 July 1977	10,000,000	25,000,000	6,984,000	20,952,000	20,952,000	Bonus
27 July 1978	5,000,000	30,000,000	8,381,000	29,333,000	29,333,000	Bonus
28 Dec 1978	10,000,000	40,000,000	-	29,333,000	29,333,000	-
26 July 1979	10,000,000	50,000,000	14,666,200	43,999,200	43,999,200	Bonus
24 July 1980	-	70,000,000	9,262,990	55,577,937	55,577,937	Bonus
26 July 1980	20,000,000	70,000,000	2,315,747	46,314,947	46,314,947	-
29 Apr 1981	-	70,000,000	5,557,792	61,135,729	61,135,729	Bonus
29 Apr 1982	50,000,000	150,000,000	-	61,135,729	61,135,729	-
16 Apr 1986	-	150,000,000	6,113,574	67,249,303	67,249,303	Bonus
9 Apr 1987	-	150,000,000	13,449,862	80,699,165	80,699,165	Bonus
8 Apr 1988	-	150,000,000	-	80,699,165	80,699,165	-
27 Apr 1989	-	150,000,000	-	80,699,165	161,398,330	Stock split from ₦1.00 to 50 kobo
26 Apr 1990	-	150,000,000	-	80,699,165	161,398,330	-
26 Apr 1991	-	150,000,000	-	80,699,165	161,398,330	-
27 Apr 1992	-	150,000,000	-	80,699,165	161,398,330	-
29 Apr 1993	-	150,000,000	26,899,721	107,598,886	215,197,772	Bonus
28 Apr 1994	150,000,000	300,000,000	107,598,882	215,197,768	430,395,536	Bonus
25 Apr 1995	-	300,000,000	53,799,441	268,997,209	537,994,418	Bonus
25 Apr 1996	-	300,000,000	67,249,301	336,246,510	672,493,020	Bonus
22 May 1997	700,000,000	1,000,000,000	1,000,000,000	436,246,510	872,493,020	Cash
22 May 1997	-	1,000,000,000	84,061,627	520,308,137	1,040,616,274	Bonus
23 July 1998	-	1,000,000,000	130,077,034	650,385,171	1,300,770,342	Bonus
27 July 2000	-	1,000,000,000	162,596,292	812,981,463	1,625,962,926	Bonus
26 July 2001	2,000,000,000	3,000,000,000	203,245,365	1,016,226,828	2,032,453,656	Bonus
31 July 2002	-	3,000,000,000	254,056,705	1,270,283,533	2,540,567,066	Bonus
31 July 2003	-	3,000,000,000	254,056,705	1,524,340,238	3,048,680,476	Bonus
19 Nov 2003	-	3,000,000,000	254,056,705	1,778,396,943	3,556,793,886	Cash
19 Aug 2004	-	3,000,000,000	222,299,589	2,000,696,532	4,001,393,063	Bonus
20 Jun 2005	-	3,000,000,000	500,174,160	2,500,870,692	5,001,741,383	Bonus
3 Jan 2006	-	-	20,009,495	2,520,880,187	5,041,760,373	FBN Holdings Plc shares issued in exchange for minority shares in FBN merchant bankers
3 Jan 2006	-	-	64,196,005	2,585,076,192	5,170,152,383	FBN Holdings Plc shares issued in exchange for MBC shares
3 Jan 2006	-	-	34,258,503	2,619,334,694	5,238,669,388	FBN Holdings Plc shares issued to majority shareholders in FBN merchant bank arising from the consolidation
24 Aug 2006	7,000,000,000	10,000,000,000	2,619,334,694	5,238,669,388	10,477,338,776	Increase/Bonus
22 Aug 2007	-	-	873,111,565	6,111,780,953	12,223,561,906	Bonus
1 July 2007	-	-	3,833,235,233	9,945,016,186	19,890,032,371	2007 hybrid offer
22 Aug 2008	5,000,000,000	15,000,000,000	2,486,254,046	12,431,270,232	24,862,540,463	Bonus
20 Aug 2009	-	15,000,000,000	2,487,000,000	4,143,756,743	29,006,297,206	Bonus (1 for 6)
27 Aug 2010			-	3,625,787,150	32,632,084,356	Bonus (1 for 8)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the third Annual General Meeting (AGM) of members of FBN HOLDINGS PLC will be held at the Zinnia Hall, Eko Hotel and Suites, Plot 1415 Adetokunbo Ademola Street, Victoria Island, Lagos, on Thursday, 21 May 2015 at 10.00am to transact the following:

ORDINARY BUSINESS:

1. To receive the audited accounts for the year ended 31 December 2014 together with the reports of the Directors, Auditors and Audit Committee thereon;
2. To declare a dividend;

3a. To elect Directors by Single Resolution;

3b. To appoint/re-elect retiring Directors;

4. To approve the appointment of PricewaterhouseCoopers as Auditor;
5. To authorise the Directors to fix the remuneration of the Auditor; and
6. To elect members of the Audit Committee.

SPECIAL BUSINESS:

To consider, and if thought fit, pass the following as special resolutions:

7. To approve the remuneration of Directors;
8. 'That pursuant to the Articles of Association of the Company, the Directors having so recommended to capitalise the sum of ₦1,631,604,218 from the Share Premium account and accordingly that such sum be set free for distribution among the members on the Register of Members at the close of business on Thursday, 30 April 2015, on condition that the same be not paid in cash but applied in paying up in full at par 3,263,208,436 ordinary shares of 50 kobo each to be allotted, distributed and credited as fully paid-up to and among such members in the proportion of one new ordinary share for every 10 ordinary shares held by them on that day, and such new shares shall rank for all purposes pari passu with the existing issued ordinary shares of the Company, the shares so distributed being treated for all purposes as capital and not as income and these new shares shall not qualify for payment of dividend in respect of the 2014 accounts, and the Directors shall give effect to this resolution on receipt of the necessary permission from the authorities.'

PROXY

A member entitled to attend and vote at the AGM is entitled to appoint a Proxy to attend and vote in his stead. A Proxy need not also be a member. A proxy form is at the end of the financial statements. All instruments of proxy should be duly stamped at the Stamp Duties Office and deposited at the registered Office of the Company or the Office of the Registrar, First Registrars Nigeria Limited, Plot 2, Abebe Village Road, Iganmu, Lagos not later than 48 hours before the time for holding the meeting.

DIVIDEND WARRANTS

If the dividend recommended by the Directors is approved by members at the AGM, the dividend warrants will be posted on 25 May 2015 to members whose names appear in the Register of Members at the close of business on 30 April 2015.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members and transfer books of the Company will be closed from 4 May to 8 May 2015 (both dates inclusive) for the purpose of payment of dividend.

AUDIT COMMITTEE

In accordance with Section 359(5) of the Companies and Allied Matters Act (CAMA), any shareholder may nominate another shareholder for appointment to the Audit Committee. Such nomination should be in writing and must reach the Company Secretary not less than 21 days before the Annual General Meeting. The Code of Corporate Governance of the Securities and Exchange Commission and Central Bank of Nigeria (CBN) respectively indicated that some of the members of the Audit Committee should have basic financial literacy and be knowledgeable in internal control processes. We would therefore request that nominations should be accompanied by a copy of the nominee's Curriculum Vitae.

ELECTION/RE-ELECTION OF DIRECTORS

i. Election of Directors

Dr Hamza Wuro Bokki, PhD, is being proposed for election as Independent Non-Executive Director while Omatseyin Ayida and Adebola Osibogun are being proposed for election as Non-Executive Directors.

Dr Hamza Wuro Bokki, Ph.D., was appointed as an Independent Non-Executive Director on 12 August 2014 while Omatseyin Ayida and Adebola Osibogun were appointed as Non-Executive Directors on 27 January 2015. Their appointments are being presented for shareholders' approval at the AGM subject to the approval of the CBN.

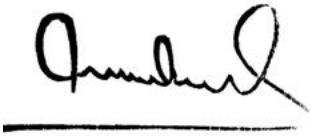
ii. Re-election of Directors

Oye Hassan-Odukale, MFR, and Abdullahi Mahmoud are retiring by rotation at the current meeting in line with section 259 of CAMA. The retiring Directors, being eligible, are therefore offering themselves for re-election as Non-Executive Directors at the AGM. The profiles of the Directors are contained in the Annual Reports and Accounts.

Re-election of Directors aged 70 years or more

Pursuant to Section 256 of the Companies and Allied Matters Act, special notice is hereby given that Alhaji Abdullahi Mahmoud, who is eligible for re-election, is 70 years old.

BY ORDER OF THE BOARD



Tijjani Borodo
FRC201300000002367
Company Secretary
35 MARINA, LAGOS
Dated this 24th day of March 2015

ELECTRONIC ANNUAL REPORT REQUEST FORM

*Name of shareholder .....

*Email address .....

IMPORTANT

Please insert your name and email address in BLOCK CAPITALS where asterisked. Kindly forward the completed form to the office of First Registrars Nigeria Limited, 2 Abebe Village Road, Iganmu, Lagos.

Please note that email addresses will not be used for any purpose other than communicating with you as a shareholder.

PROXY FORM
FBN HOLDINGS PLC (RC 916455)

Third Annual General Meeting to be held at the Zinnia Hall, Eko Hotel and Suites, Victoria Island, Lagos on Thursday, 21 May 2015 at 10am.

*We .....
(Name of Shareholder in block letters)

The undersigned, being a member of the above named Company hereby appoint

.....
or failing him/her the Chairman of the meeting as my/our Proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 21 May 2015 and at any adjournment thereof.

Unless otherwise instructed, the Proxy will vote or abstain from voting as he/she thinks fit.

Dated this ..... day of 2015

Signature .....

NOTES:

1. This form of proxy together with the Power of Attorney or other authority, if any, under which it is signed or a notarial certified copy thereof must reach the office of FBNH's registrars: **First Registrars Nigeria Limited, 2, Abebe Village Road, Iganmu, Lagos** not later than 48 hours before the time for holding the meeting.
2. Where the appointer is a corporation, this form may be under seal or under the hand of any officer or attorney duly authorised.
3. In the case of joint holders, the signature of any one of them will suffice, but the names of all joint holders should be shown.
4. It is a legal requirement that all instruments of proxy must bear appropriate stamp duty (currently ₦500.00) from the Stamp Duties Office.

We desire this proxy to be used in favour of or against the resolution as indicated alongside

RESOLUTION	FOR	AGAINST
1) To receive the consolidated Annual Report and Account		
2) To declare a dividend		
3a) To elect directors by single resolution		
3b) To re-elect the following directors; 1. Oye Hassan-Odukale, MFR 2. Abdullahi Mahmoud And appoint the following directors; 1. Dr. Hamza Wuro Bokki 2. Omatseyin Ayida 3. Adebola Osibogun		
4) To appoint Auditor		
5) To fix remuneration of Auditor		
6) To appoint Audit Committee Members		
7) To fix the remuneration of Directors		
8) To issue bonus shares		
Please indicate with 'X' in the appropriate box how you wish your vote to be cast on the resolutions set out above. Unless otherwise instructed, the Proxy will vote or abstain from voting at his/her discretion.		

Before posting the above form, please tear off this part and retain it for admission to the meeting.

ADMISSION FORM FBN HOLDINGS PLC (RC 916455)

ANNUAL GENERAL MEETING TO BE HELD at the Zinnia Hall, Eko Hotel and Suites, Victoria Island on Thursday, 21 May 2015 at 10am.

*Name of shareholder .....

*Name of proxy ..... (IF YOU ARE UNABLE TO ATTEND THE MEETING)

A member (shareholder) entitled to attend and vote is entitled to appoint one or more Proxies to attend and vote instead of him. A Proxy need not be a member. The above proxy form has been prepared to enable you to exercise your right to vote.

IMPORTANT

Please insert your name in BLOCK CAPITALS on both proxy and admission forms where asterisked. Insert the name of any person whether a member of the Company or not, with the exception of the Chairman of the Company, who will attend the meeting and vote on your behalf.

E-PRODUCTS ACTIVATION FORM

1. Complete, sign and date the form.
2. Fill out all compulsory (*) fields.
3. Fill out in CAPITAL LETTERS.

You need not worry about the safety of your shares any more. Simply stay aboard with our e-products and services.

E-share notifier SMS alert on transactions that occur on your share account (AGM and EGM, dividend payments, bonuses, debits/credits etc.)

M-access The smart way to access your stock balances, dividend amount etc. via SMS on your mobile phone. Simply send your assigned PIN to 6591. The service is available only in Nigeria and attracts ₦20/SMS by network operator.

Online access Online access to your share account statements. You can view and print your account statement, make a change of address and access dividend information etc.

INSTRUCTION

Please fill in the form and return to the address below:

THE REGISTRARS

First Registrars Nigeria Ltd, 2 Abebe Village Road, Iganmu, PMB 12692, Lagos, Nigeria.

SHAREHOLDER ACCOUNT INFORMATION

Surname* First name* Other names

Address line 1*

Address line 2

City State* Country

GSM no (Mobile)* GSM no (Telephone)*

Email address*

Signature(s)* Corporate stamp/seal*

CHARGES:

Individual: ₦1,000 per annum/product
Corporate bodies: ₦2,000 per annum/product

Please tick (✓) the product(s) you are activating.
All payments should be made into each product's account number respectively:

☐ E-share notifier activation Account No. 2013302579

☐ M-access activation Account No. 2011760908

☐ Online access activation Account No. 2013798370

in any FirstBank branch nationwide with a copy of the payment slip attached to this form upon submission.

FIRST REGISTRARS NIGERIA LTD
...the registrar of first choice
Website: www.firstregistrarsnigeria.com Email: ebusiness@firstregistrarsnigeria.com

E-DIVIDEND FORM

1. Complete, sign and date the form.
2. Fill out all compulsory (*) fields.
3. Fill out in CAPITAL LETTERS.

AFFIX PASSPORT
(To be stamped by bankers)

INSTRUCTION

Only clearing banks are acceptable.

Please fill in the form and return to the address below:

THE REGISTRARS

First Registrars Nigeria Ltd, 2 Abebe Village Road, Iganmu, PMB 12692, Lagos, Nigeria.

We hereby request that from now on, all my/our dividend warrant(s) due to me/us from my/our holdings be paid directly to my/our bank named below:

Bank name.....Bank branch.....

Bank address.....

Bank no (NUBAN).....Old bank no*.....

* Mandatory for shareholders with existing bank mandate instruction with us.

SHAREHOLDER ACCOUNT INFORMATION

Surname* | First name* | Other names

Address line 1*

Address line 2

City | State | Country

Mobile telephone* | Email address*

Signature(s)* | Joint/Company's signatories* | Company's seal

Branch sort code (very important)

Authorised signature of banker | Authorised stamp of banker

FIRST REGISTRARS NIGERIA LTD
...the registrar of first choice
Website: www.firstregistrarsnigeria.com Email: info@firstregistrarsnigeria.com

STOCKBROKER E-LODGEMENT ACTIVATION FORM (FBN HOLDINGS PLC)

To:
The Registrar
First Registrars Nigeria Limited
Plot 2, Abebe Village Road
Iganmu, PMB 12692
Marina, Lagos
Nigeria

E-LODGEMENT is a special product designed for stockbrockers. It is the electronic transfer of verified share certificates from First Registrars into the depository of CSCS. Here, stockbrokers are given access to view all lodgements made to CSCS on their behalf. It also allows stockbrokers to concentrate more on their core while saving time and money through E-LODGEMENT.

FOR STOCKBROKERS ONLY

Important! The form should be completed in CAPITAL LETTERS using a black or dark blue ballpoint/fountain pen. Characters and numbers should be similar in style to the following:

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z 1 2 3 4 5

Please fill in the form and return to the address above.

Name of stockbrokers .....

Address .....

.....

.....

.....

Mobile phone .....

Email .....

Authorised signatory/seal .....

NOTE: This service costs ₦25,000 per annum and all cheques should be made payable to The Registrar, First Registrars Nigeria Limited, Account No 2013798363

FIRST REGISTRARS NIGERIA LTD
...the registrar of first choice
Website: www.firstregistrarsnigeria.com Email: info@firstregistrarsnigeria.com

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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 number 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
Dividend per share	=	Dividend / Number of shares in issue
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

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GLOSSARY OF RATIOS

RATIO		BASIS OF COMPUTATION
Price to book	=	Share price / Total assets - intangible assets and liabilities
Price earnings	=	Market value per share / Earnings per share
Return on average assets	=	PAT / Average total assets x 100
Return on average equity	=	PAT / Average total equity x 100
Risk asset ratio	=	Total loans / Total assets
Risk-weighted assets*	=	Assets x weight of risks
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.

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ABBREVIATIONS

AC	Audit Committee
AGM	Annual General Meeting
ALCO	Assets & Liabilities Management Committee
ALM	Asset and Liability Management
AMCON	Asset Management Corporation of Nigeria
AML	Anti Money Laundering
AOB	Any other business
AOM	Area Operations Manager
ASI	All Share Index
ATM	Automated teller machine
AUM	Assets under management
BARAC	Board Audit & Risk Assessment Committee
BC	Board Committee
BCC	Board Credit Committee
BCMS	Business Continuity Management System
BDM	Business Development Manager
BDO	Business Development Office
BEC	Board Establishment Committee
BFGP	Board Finance & General Purpose Committee
BFIC	Board Finance & Investment Committee
BGC	Board Governance Committee
BGCI	Board Governance Committee (in attendance)
BIC	Banque Internationale de Crédit SARL
BOD	Board of Directors
BOFIA	Bank and Other Financial Institutions Act
BOM	Branch Operations Manager
BPC	Board Promotions and Disciplinary Committee
BRCC	Business Risk and Compliance Committee
BT	Board Tenders Committee
BU	Business Units
CAAP	Control Administrative and Accounting Procedure
CACS	Commercial Agriculture Credit Scheme
CAGR	Compound 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
CBI	Centre for Business Integrity
CBN	Central Bank of Nigeria
CCO	Chief Compliance Officer
CCTV	Closed-circuit television
CEO	Chief Executive Officer
CFP	Contingency funding plan
CFT	Countering the Financing of Terrorism
CGRS	Corporate Governance Rating System
CIS	Collective investment schemes
COE	Centre of Excellence
COSO	Committee of Sponsoring Organisation
COT	Commission on turnover
CPC	Centralised Processing Centre
CPI	Consumer Price Index
CPFA	Closed Pension Fund Administrator
CRM	Credit Risk Management
CRO	Chief Risk Officer
CRR	Collateral risk rating
CRSA	Control risk self-assessment
CSCS	Central Securities Clearing System
CSR	Corporate social responsibility
DNFBPs	Designated non-financial businesses and professionals
DPS	Dividend Per Share
DRC	Democratic Republic of Congo
DRCe	Disaster Recovery Centre
EaR	Earnings at risk
ECA	Export Credit Agencies
ECM	Equity capital markets
ED	Executive Director
EGM	Extraordinary General Meeting
EME	Emerging Market Economies
EMTS	Emerging Markets Telecommunication Services (Etisalat)
EPS	Earnings per share
ERM	Enterprise Risk Management
ESGMS	Environmental, Social and Governance Management System
EVP	Executive Vice President
EVPs	Employee Value Propositions
EVS	Employee Volunteering Scheme
EXCO	Executive Committee
FATCA	Foreign Account Tax Compliance Act
FBN BDC	FBN Bureau de Change Ltd
FBN MFB	FBN Microfinance Bank Ltd
FBN UK	FBN Bank (UK) Ltd

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ABBREVIATIONS

FCA	Fellow Institute of Chartered Accountants of Nigeria
FCCA	Fellow of the Association of chartered Certified Accountants
FCIB	Fellow of the Chartered Institute of Bankers of Nigeria
FCT	Federal Capital Territory
FFL	First Funds Ltd
FGN	Federal Government of Nigeria
FIOD	Fellow of the Institute of Directors, Nigeria
FIRS	Federal Inland Revenue Service
FMAN	Fund Managers Association 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
FSRCC	Financial Sector Regulatory Coordinating Committee
FSS	Financial System Strategy
FTNL	First Trustees Nigeria Ltd
FX	Foreign exchange
GDP	Gross Domestic Product
GDR	Global depositary receipt
GEC	Group Executive Committee
GMD	Group Managing Director
GPI	Gross premium income
HCMD	Human Capital Management and Development
HNI	High net worth individual
HR	Human Resources
IBAM	Investment Banking and Asset Management
IBG	Institutional Banking group
IBNR	Incurred but not reported
ICAFAS	Internal Control & Anti-Fraud Automated Solution
ICAN	Institute of Chartered Accountants of Nigeria
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IGRC	Integrated Governance, Risks and Compliance
IMF	International Monetary Fund
IR	Investor Relations
IRS	Internal Revenue Service
ISF	Information Security Forum
ISMD	Information Security Management Department
ISMS	Information Security Management System
ISO	International Organization for Standardization
IT	Information technology
ITF	Industrial Training Fund
JAMB	Joint Admissions and Matriculation Board
KPI	Key Performance Indicator
KRI	Key risk indicator
KYB	Know Your Customer's Business
KYC	Know Your Customer
L&D	Learning and Development
LAD	Loans and advances
LASACS	Large-Scale Agricultural Credit Scheme
LASG	Lagos State Government
LASMI	Lagos State Microfinance Institution
LEAP	League of Abiriba Professionals
LGD	Loss given default
LRP	Liquidity Risks Package
M&A	Mergers & Acquisitions
MANCO	Management Committee
MATs	Management Action Triggers
MBC	MBC International Bank
mb/d	Million barrels a day
MCC	Management Committee Credit
MCG	Management Committee General
MDAs	Ministries, departments and agencies
MDRI	Market Development and Restructuring Initiatives
MDSA	My Daily Savings Account
MENA	Middle East and North Africa
MFBs	Microfinance Banks
MGC	Management General Committee
MPC	Monetary Policy Committee
MPR	Monetary policy rate
MRAC	Management Risk and Assessment Committee
MRLP	Market Risk Limits Package
MRPC	Market Risk Policy Committee
₦	Naira
NAICOM	National Insurance Commission
NASB	Nigerian Accounting Standards Board
NBA	Nigerian Bar Association
NBFS	Non-banking financial services
NBS	National Bureau of Statistics
NDDC	Niger Delta Development Commission
NDIC	Nigeria Deposit Insurance Corporation

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ABBREVIATIONS

NED	Non-Executive Directors
NESG	Nigeria Economic Summit Group
NFIU	Non-Financial Institutions Unit
NGN	Nigerian naira
NGO	Non-governmental organisation
NIM	Net interest margins
NLI	Nigeria Leadership Initiative
NPL	Non-performing loan
NSE	Nigerian Stock Exchange
OECD	Organisation for Economic Co-operation and Development
OFR	Officer of the Federal Republic
OPEX	Operating expenditure
OPL	Open Position Limit
ORM	Operational Risk Management
ORMC	Operational Risk Management Committee
ORR	Obligor risk rating
OTC	Over The Counter
P&L	Profit and Loss Account
PAT	Profit after tax
P/B	Price to Book
PBOC	People's Bank of China
PBT	Profit before tax
PCI DSS	Payment Card Industry Data Security Standard
PD	Probability of Default
PDCA	Plan-Do-Check-Act
P/E	Price Earnings
PE	Private equity
PFA	Pension fund administrator
PFMS	People First Management System
PFP	Pay for Performance
PFR	Pay for Role
POS	Point of sale
PPP	Public Private Partnership
PSQA	Process and service quality assurance
QSP	Quick service points
RAC	Risk acceptance criteria
RBS	Risk-Based Supervision
RCSA	Risk and control self-assessment
RDAS	Retail Dutch Auction System
RICO	Resident Internal Control Officer
RM	Relationship Manager
RMA	Relationship Management Application
RMD	Risk Management Directorate
RMU	Remedial Management Unit
ROE	Return on Equity
ROM	Regional Operations Manager
RSA	Retirement Savings Accounts
RTGS	Real-Time Gross Settlement System
RTU	Risk Taking Unit
RUFFIN	Rural Finance Institution
SAC	Statutory Audit Committee
SAS	Statistical analysis software
SBU	Strategic Business Unit
SCUML	Special Control Unit on Money Laundering
SEC	Securities and Exchange Commission
SIFE	Students in Free Enterprise
SLA	Service level agreement
SLD	Specialised Lending Department
SME	Small and Medium Enterprises
SMEEIS	Small and Medium Enterprises Equity Investment Scheme
SMS	Short Message Service
SRF	Strategic Resource Function
SSA	Sub-Saharan Africa
TAT	Turnaround time
TRAP	Triggers for Accrual Portfolios
UAT	User acceptance testing
VaR	Value-at-risk
WARR	Weighted Risk Rating

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CONTACT INFORMATION

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First Pension Custodian Nigeria Limited	124 Awolowo Road, Ikoyi, Lagos	+234 1 2777800-1
FBN Mortgages Limited	76 Awolowo Road, Ikoyi, Lagos	+234 1 4615860-2
FBN Trustees Limited	16-18 Keffi Street, Off Awolowo Road, S/W, Ikoyi, Lagos	+234 1-4622673; +234 1-4622831-34; +234 1-4605120-24; +234 1-4605124; +2347080653100
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FBN Microfinance Bank Limited	305 Herbert Macaulay Way, Yaba, Lagos	+234 1 3428703, +234 1 3425517
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