FBN Holdings Plc
RC - 916455

One journey.
One business.

FBN HOLDINGS PLC
ANNUAL REPORT AND ACCOUNTS 2012

NIGERIA LONDON JOHANNESBURG PARIS BEIJING ABU DHABI DEMOCRATIC REPUBLIC OF CONGO

One journey. One business.

With our recently formed holding company structure, we are on the next stage of our transformation journey. Our Group is focused on creating value by exploiting opportunities and synergies created by our new structure.

We intend to drive value across our subsidiaries through synergies in our Commercial Banking, Investment Banking and Asset Management, Insurance and Other Financial Services business groups. Successfully exploiting synergies will enable us to build stronger businesses under the holding company structure.

With growth projected to remain elevated in Sub-Saharan Africa, we look forward to consolidating our position in banking in Nigeria, expanding our non-bank financial services and our commercial banking internationally. Over the medium term this should provide our holding company with substantial growth opportunities.

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

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

- The Commercial Banking business group is composed of First Bank of Nigeria Limited, FBN Bank (UK) Limited, FBN Bureau de Change Limited, Banque Internationale de Crédit (BIC), First Pension Custodian Nigeria Limited and FBN Mortgages Limited. First Bank of Nigeria Limited is the lead entity of the Commercial Banking business group.
- Investment Banking and Asset Management business group consists of FBN Capital Limited, First Trustees Nigeria Limited, First Funds Limited and FBN Securities Limited. FBN Capital Limited is the lead entity of the Investment Banking and Asset Management business group.
- The Insurance business group houses FBN Life Assurance Limited and FBN Insurance Brokers Limited.
- Other Financial Services business group includes FBN Microfinance Bank Limited.

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

This is the first Group annual report prepared under the International Financial Reporting Standards, which the Group has adopted. Consequently, prior year results have been restated to be consistent with this reporting standard. Unless otherwise stated, the income statement analysis compares the 12 months to December 2012 to the corresponding 12 months of 2011, and the balance sheet comparison relates to the corresponding position at 31 December 2011. Unless otherwise stated, all disclosed figures relate to continuing operations. Relevant terms that are used in this document but are not defined under applicable regulatory guidance or International Financial Reporting Standards (IFRS) are explained in the glossary or abbreviation section of this report.

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

In this report

Group overview

In this section

During the operating year, we hit a key milestone on a journey we embarked on three years ago to restructure our business model to create a stronger platform for growth. This effort was the first phase of our overall growth strategy (see page 37). The objective in the near term was to consolidate our leadership position in Nigeria, including an optimisation of our operating structure. FBN Holdings, which is now the listed entity, brings us closer to our aspiration of creating one multi-geographical financial services group.

"Our adoption of the holding company model... is designed to enhance the contribution of the non-commercial banking businesses to the holding company's bottom line."

Oba Otudeko, CFR

Chairman's statement

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"Shareholders of the holding company will benefit from the entire businesses in the Group and not only from a segment of Business/Group."

Bello Maccido

Chief Executive Officer's review

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How are we structured?

Prior to establishing FBN Holdings (the holding company/HoldCo), the Group's portfolio of businesses had rapidly developed, especially in the preceding decade. A revised structure was developed to provide a stronger platform to support the Group's future growth ambitions domestically and internationally.

Our Group structure

FBN Holdings Plc

Commercial Banking business group
- First Bank of Nigeria Ltd
  - FBN Bank (UK) Ltd
  - Banque Internationale de Crédit
  - First Pension Custodian Nigeria Ltd
  - FBN Bureau de Change Ltd
  - FBN Mortgages Ltd[1]

Investment Banking and Asset Management business group
- FBN Capital Ltd
  - First Trustees Nigeria Ltd
  - FBN Securities Ltd
  - First Funds Ltd

Insurance business group
- FBN Life Assurance Ltd
- FBN Insurance Brokers Ltd

Other Financial Services business group
- FBN Microfinance Bank Ltd

1 FBN Mortgages will now be retained as a subsidiary of First Bank of Nigeria.

Reporting by business group

FBN Holdings Plc is made up of four business groups (as shown left). In addition to reporting on Group performance we also report on performance under our four business groups (see pages 9–12).

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

FBN Holdings (HoldCo) is premised on the notion that the optimal legal structure of a diversified multi-geographical financial services group, such as FirstBank aspires to become, is not necessarily the same as the optimal operating structure for managing the business. The legal structure is typically optimised for tax efficiency, legal and regulatory compliance while the operating structure is usually designed to ensure product and service clarity for customers, organisational efficiency, clear direction, management and accountability.

Under HoldCo, we have established key business groups designed to meet the business needs of different client groups. The four business groups under the holding company are Commercial Banking, Investment Banking and Asset Management, Insurance, and Other Financial Services. These represent both the bank and non-bank financial services segments we have chosen to participate in given our strong conviction of their growth potential over the medium to long term, as well as the significant natural synergies that exist among them. The corporate centre of HoldCo acts as a 'strategic architect' with functions resembling an investment holding company ensuring that the holding company structure will help enhance our industry competitiveness, streamline and coordinate our various operations across a range of services and further exploit opportunities for synergy between the business groups.

Below is a summary description of our legal, operating and governance structure under FBN Holdings:

Legal structure

FBN Holdings Plc is now the legal entity for the Group holding company. It replaces the entity, First Bank of Nigeria Ltd as the listed entity on the Nigerian Stock Exchange (NSE). Under HoldCo, are the following legal entities:

- First Bank of Nigeria Limited
  - – FBN Bank (UK) Limited
  - – Banque Internationale de Crédit
  - – First Pension Custodian Nigeria Limited
  - – FBN Bureau de Change Limited
  - – FBN Mortgages Limited;
- FBN Capital Limited
  - – First Trustees Nigeria Limited
  - – FBN Securities Limited
  - – First Funds Limited;
- FBN Life Assurance Limited;
- FBN Insurance Brokers Limited; and
- FBN Microfinance Bank Limited.

Operating structure

Operationally, HoldCo has oversight of four major business groups aligned along financial services sectors that we believe have significant growth potential. We have grouped similar businesses in order to improve coordination and specialisation and under each business group is one or more divisions structured around a single client group or limited product areas, with clear reporting lines into the heads of the business groups. The groups are:

Commercial Banking – This is our core commercial banking business, which provides both individual and corporate clients with financial intermediation functions. In addition, we have three non-bank financial services businesses, i.e., a bureau de change, pension fund custodian and primary mortgage institution. All our international banking subsidiaries and representative offices also fall under the Commercial Banking group.

Investment Banking and Asset Management (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) client base.

Insurance – This group includes both our life assurance business, FBN Life Assurance, and our brokerage business, FBN Insurance Brokers.

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

Governance structure

FBN Holdings is led by a CEO, whose focus is on developing the long-term Group vision and executing a growth strategy for our businesses, ensuring that business groups successfully identify and exploit synergies. The HoldCo Board is responsible for top-level strategic/governance issues and oversight for executive management across the groups. Similarly, the executive management of each business group is responsible for strategy development/implementation, and key management and operational decisions that drive business success. Regular meetings are established to ensure adequate tracking and business performance against approved plans and budgets of the Group. A Group Executive Committee, consisting of the HoldCo CEO and the MD/CEOs of the individual business groups, has also been set up to sit between HoldCo and the business groups to ensure the right level of operational supervision of the activities of the business groups.

What do we do?

FBN Holdings Plc is the Nigerian-based (non-operating) financial holding company for the banking and non-banking operations of the FirstBank Group. The subsidiaries of FBN Holdings offer a broad range of products and services across commercial banking, investment banking, insurance and microfinance business in seven countries.

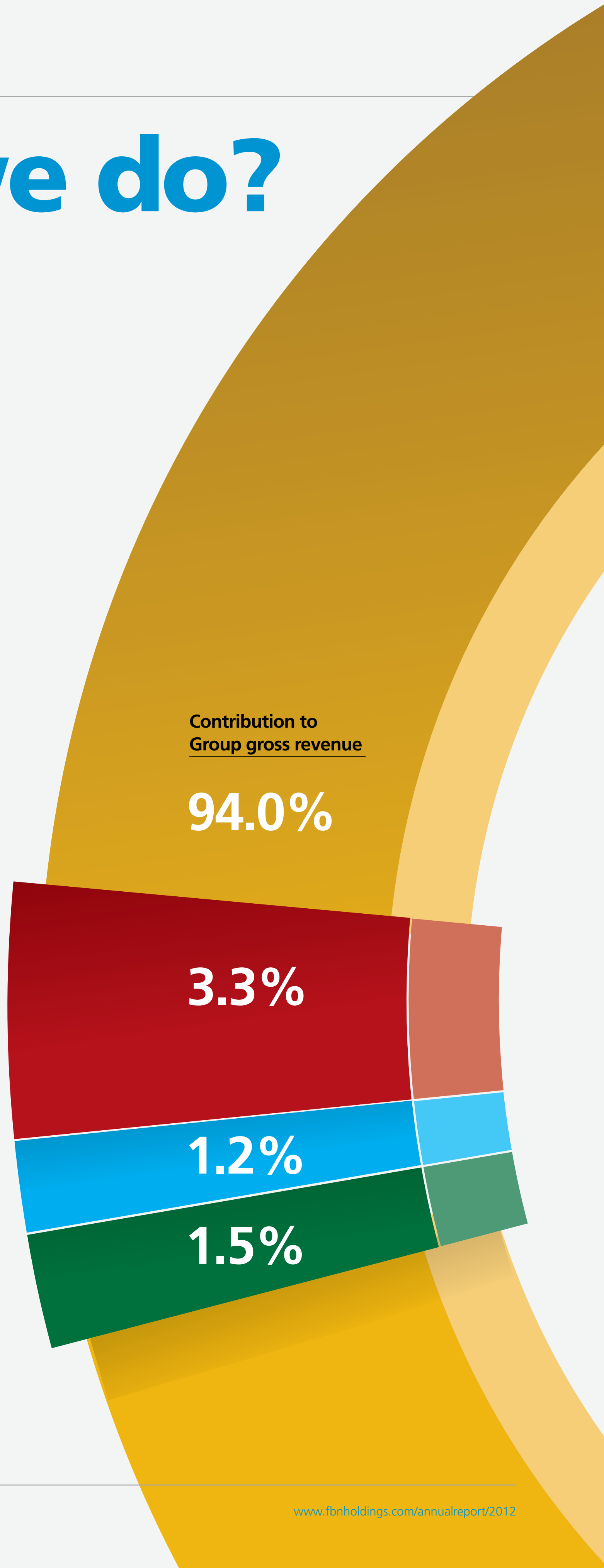
FBN Holdings' principal bank subsidiary is First Bank of Nigeria Ltd (FirstBank), a commercial bank with operations in seven countries. We also have FBN Capital, a leading investment banking and asset management company; FBN Life Assurance, a life assurance business; and FBN Microfinance Bank, which offers microfinance services. The bank subsidiaries of FBN Holdings operate nationally (in Nigeria) and through overseas branches and subsidiaries, as well as representative offices. All our non-bank subsidiaries only operate in Nigeria. Their activities are organised along four business groups and a description of each business group and the products and services they provide to their respective clients are below:

Commercial Banking
Offers banking services to individuals and businesses, serving over 8.5 million customers.

Investment Banking and Asset Management
Arranges finance, provides advice, manages funds and sells investment products to clients.

Insurance
Offers insurance and life assurance services to customers.

Other Financial Services
Currently serves as an incubator for our smaller non-bank financial services businesses. Our Microfinance Bank here provides microfinance services to the mass-market retail segment.



What do we do?

Commercial Banking

First Bank of Nigeria Ltd
- FBN Bank (UK) Ltd
- Banque Internationale de Crédit[1]
- First Pension Custodian Nigeria Ltd
- FBN Bureau de Change Ltd
- FBN Mortgages Ltd[2]

Gross revenues

₦338.9bn

(2011: ₦265.6bn)

Profit before tax

₦86.2bn

(2011: ₦39.2bn)

Total capital adequacy ratio (CAR)[3]

21.5%

(2011: 25.5%)

Number employed

8,611

(2011: 7,982)

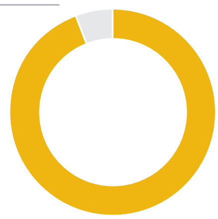
Performance highlights

- Strong deposit base of ₦2.4 trillion reflecting strength of wide distribution platform.
- Good growth at 24.8% in net loans and advances.
- Stable NPL ratio of 2.6% despite increase in loan growth.
- Strong bottom line growth at 120% in profit before tax.
- Launched Firstmonie®, a mobile money business to leverage our scale and retail knowledge in capturing the huge un-banked opportunity.

Contribution to Group gross revenue

94.0%

(2011: 97.0%)



FirstBank is the largest banking group by assets in Sub-Saharan Africa (SSA) excluding South Africa (i.e. 'middle Africa'), offering banking services to a rich network of both individual customers and businesses. First Bank of Nigeria Ltd represents the main legal entity and previously played an operating holding company function before the implementation of HoldCo. Other entities under FirstBank include FBN Bank (UK) Ltd – a fully licensed bank in the UK with offices in Paris; Banque Internationale de Crédit (BIC) – a leading tier 2 bank headquartered in the Democratic Republic of Congo (DRC), which was acquired in 2011 in line with our international expansion strategy (discussed further on page 38); and First Pension Custodian Ltd (First Pension), providing pension fund custody services. Other subsidiaries include FBN Bureau de Change, which holds a class B bureau de change licence and FBN Mortgages, a primary mortgage institution.

The Nigerian banking business operates nationally and internationally with a customer base of over 8.5 million served through a large distribution network consisting of 714 branches in Nigeria, 1,865 ATMs, and 18,581 point-of-sale terminals (POS). Under FBN Holdings Plc, FirstBank represents 97% of pre-tax profit at ₦83 billion with a return on average equity (ROAE) of 22.2%. Headquartered in Lagos, FirstBank also has a network of representative offices in Abu Dhabi, Beijing and Johannesburg set up to capture trade-related businesses between respective geographies. Marketing activities are organised along five customer segments allowing for greater specialisation and an increased customer value proposition. More information on FirstBank and its performance during the year is presented on pages 94 to 103.

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

BIC is a recent addition to the banking portfolio with our acquisition of a 75% equity stake in the fourth quarter of 2011. More details on BIC can be found on pages 106 and 107.

Other subsidiaries in the Commercial Banking group are First Pension Custodian Nigeria Limited (FPCNL), which provides warehousing and asset management services to licensed pension fund managers, FBN Bureau de Change and FBN Mortgages.

1 Banque Internationale de Crédit (BIC) is a 75% owned subsidiary of First Bank of Nigeria Ltd.

2 FBN Mortgages will now be retained as a subsidiary of First Bank of Nigeria. Divestment of FBN Registrars completed in Q4 2012.

3 This is the capital ratios of the Bank only. The individual entities within the Group complied with all the externally imposed capital requirements to which they are subject.

What do we do?

Investment Banking and Asset Management

FBN Capital Ltd
- First Trustees Nigeria Ltd
- FBN Securities Ltd
- First Funds Ltd

Gross revenues

N11.8bn

(2011: N2.1bn)

Profit before tax

N4.3bn

(2011: (N2.8bn))

Asset under management

N90.2bn

(2011: N95.4bn)

Number employed

124

(2011: 100)

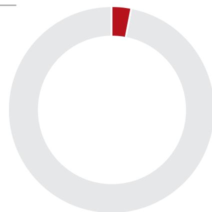
Performance highlights

Continued strategic focus on providing superior advisory services, capital raising and funds management. Key business lines remain Investment Banking Advisory, Asset Management, Trustees, Markets (Debt and Equity), and Private Equity/Principal Investments.

Contribution to Group gross revenue

3.3%

(2011: 0.8%)



FBN Capital is the lead entity of the Investment Banking and Asset Management (IBAM) business group of FBN Holdings. IBAM arranges finance, provides advice, manages funds and sells investment products to clients. Key lines of business include:

Investment banking

FBN Capital is a leading transaction adviser across numerous sectors, offering corporate finance, structured finance and strategic advice to clients. Mergers and acquisitions (M&A) capabilities include mergers, acquisitions, privatisations, management buy-outs, leveraged buy-outs, divestments, spin-offs, joint ventures and take-overs, as well as private investments in public equities (PIPEs) and group private transactions. Its industry footprint is widespread across financial services, energy and natural resources, infrastructure, consumer markets and information and communication technology.

The Investment Banking division also offers project and structured finance solutions. It assists a variety of clients in structuring and arranging optimal financing solutions for both greenfield and brownfield projects spanning all sectors of the Nigerian economy. Our funding and public private partnership solutions allow our clients to capitalise on new opportunities or expand existing business lines and our deal team sector specialist offers valuable experience in local and international markets, and maintains key relationships at local, State and Federal levels.

Markets (sales and trading)

The Capital Markets group coordinates FBN Capital's activities in the Nigerian capital markets. This includes origination, execution and after-market services. They structure primary and secondary market transactions that are designed to solve clients' financing and risk management challenges through the use of securities and other hybrid instruments.

Asset management

Asset management provides specialist portfolio and fund management service. This includes managing investment accounts of high net worth individuals and institutional clients including insurance companies, pension funds, public and private mutual funds, public and private trusts, endowment and charity funds, as well as segregated and special accounts.

Principal investing/private equity

First Funds Ltd, a subsidiary of FBN Capital Ltd, is our primary platform for providing growth capital to firms looking to finance expansion plans. Investments cut across various sectors including food and beverages, hospitality, travel and leisure, healthcare, leasing, telecommunications, real estate, and oil and gas. Our team of specialists work to the priority of unlocking shareholder value through partnerships with entrepreneurial management teams.

Trustee services (corporate and public trusts)

As a leading trustee services provider for over 30 years through our subsidiary First Trustees Ltd, we have a strong history and market position driven by a seasoned team of experts. We offer syndicated loan trusts, corporate bond trusts, share warehousing trusts, unit trusts, and individual or portfolio government bond purchases. First Trustees represents one of the largest divisions within the IBAM business group.

What do we do?

Insurance

- **FBN Life Assurance Ltd**[1]
- **FBN Insurance Brokers Ltd**

Gross revenues

₦4.2bn

(2011: ₦0.9bn)

Profit before tax

₦0.6bn

(2011: (₦0.2bn))

Loss ratio

21.5%

(2011: 6.4%)

Number employed

109

(2011: 73)

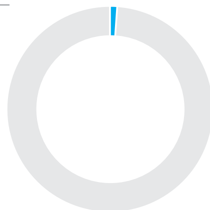
Performance highlights

- Gross premium income (GPI) of ₦2.9 billion.
- A suite of individual life products was also developed and launched for the retail market driving growth in business volumes and enhancing revenue and profitability.
- The life assurance business recorded the first year of profitable operations returning a profit before tax (PBT) of ₦426.6 million (2011: ₦204.1 million) after the first two years of operations.

Contribution to Group gross revenue

1.2%

(2011: 0.3%)



The Insurance business group covers our insurance-related subsidiaries, i.e., FBN Life Assurance (FBN Life) and FBN Insurance Brokers. The FirstBank Group historically held only an insurance brokerage business. In partnership with South Africa-based Sanlam, we established a life assurance business, FBN Life Assurance, given the attractive industry dynamics and strong synergies with our Commercial Banking business. FBN Life generated ₦2.9 billion in gross premium income and a PBT of ₦426.6 million. Achieving higher levels of insurance awareness and an improved regulatory framework remains a major business driver in addition to the success of the bancassurance model, leveraging the retail banking strength of the Commercial Banking group.

1 FBN Life Assurance Limited is a 65% owned subsidiary of FBN Holdings Plc.
FBN Insurance Brokers Ltd is a wholly owned subsidiary of FBN Holdings Plc.

What do we do?

Other Financial Services

FBN Microfinance Bank Ltd

Gross revenues

₦5.4bn

(2011: ₦5.3bn)

Profit before tax

₦1.6bn

(2011: (₦0.3bn))

Total capital adequacy ratio (CAR)

37%

(2011: 48%)

Number employed

247

(2011: 223)

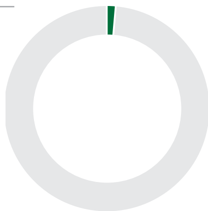
Performance highlights

- Net interest income growth of 19.5% to ₦933 million driven by increased volume in microfinance lending.
- Challenging operating environment due to increased regulation and higher operating costs due to drop in consumer demand.
- Advancement of credit to our defined market segment through a 17.7% growth in loans and advances.

Contribution to Group gross revenue

1.5%

(2011: 1.9%)

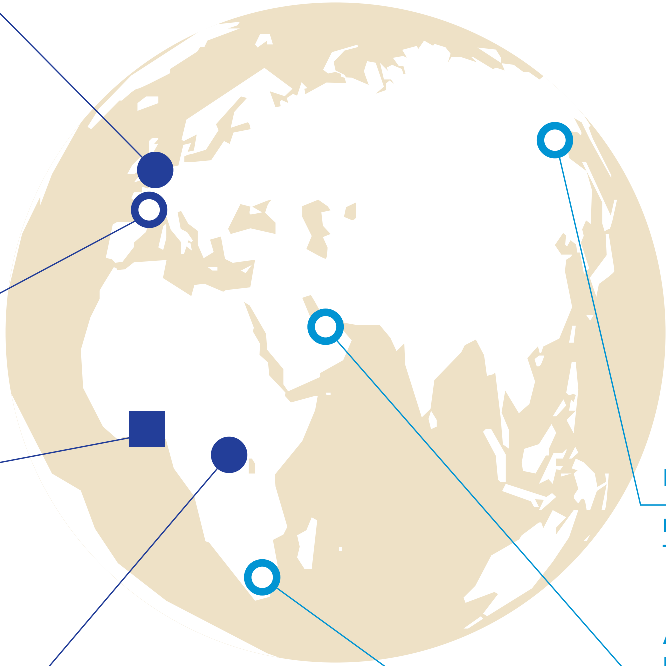


Finally, we have the Other Financial Services business group, which serves as an incubator for our other non-bank financial services businesses. FBN Microfinance Bank provides financial services to low-income retail customers. It aims at addressing the challenges of the huge un-banked adult population.

Where are we located?

All our business groups largely operate only within Nigeria, with the exception of the Commercial Banking group, which spans three continents – Africa, Asia and Europe. We have an international expansion strategy, primarily for the core banking business, which guides our expansion outside Nigeria.

International expansion strategy p38



Key:
- Head office
- Subsidiary
- Branch of London
- Representative office

London, UK
Subsidiary
Name FBN Bank (UK) Ltd **Est.** 2002
Type Licensed bank
Total assets ₦514 billion
Total deposits ₦274 billion
Net loan book ₦232 billion
Profit before tax ₦6.4 billion

Paris, France
Branch of London
Name FBN Bank (UK) Ltd **Est.** 2008
Type Licensed bank (Paris branch office)

Lagos, Nigeria
Head office
Name First Bank of Nigeria Ltd **Est.** 1894
Type Licensed bank
Total assets ₦2.8 trillion
Total deposits ₦2.2 trillion
Net loan book ₦1.3 trillion
Profit before tax ₦83.3 billion

Kinshasa, DRC
Subsidiary
Name Banque Internationale de Crédit **Est.** 1960
Type Licensed bank
Total assets ₦46.3 billion
Total deposits ₦36.1 billion
Net loan book ₦18.7 billion
Profit before tax ₦907 million

Beijing, China
Name First Bank of Nigeria Ltd **Est.** 2009
Type Representative office

Abu Dhabi, United Arab Emirates
Name First Bank of Nigeria Ltd **Est.** 2011
Type Representative office

Johannesburg, South Africa
Name First Bank of Nigeria Ltd **Est.** 2004
Type Representative office

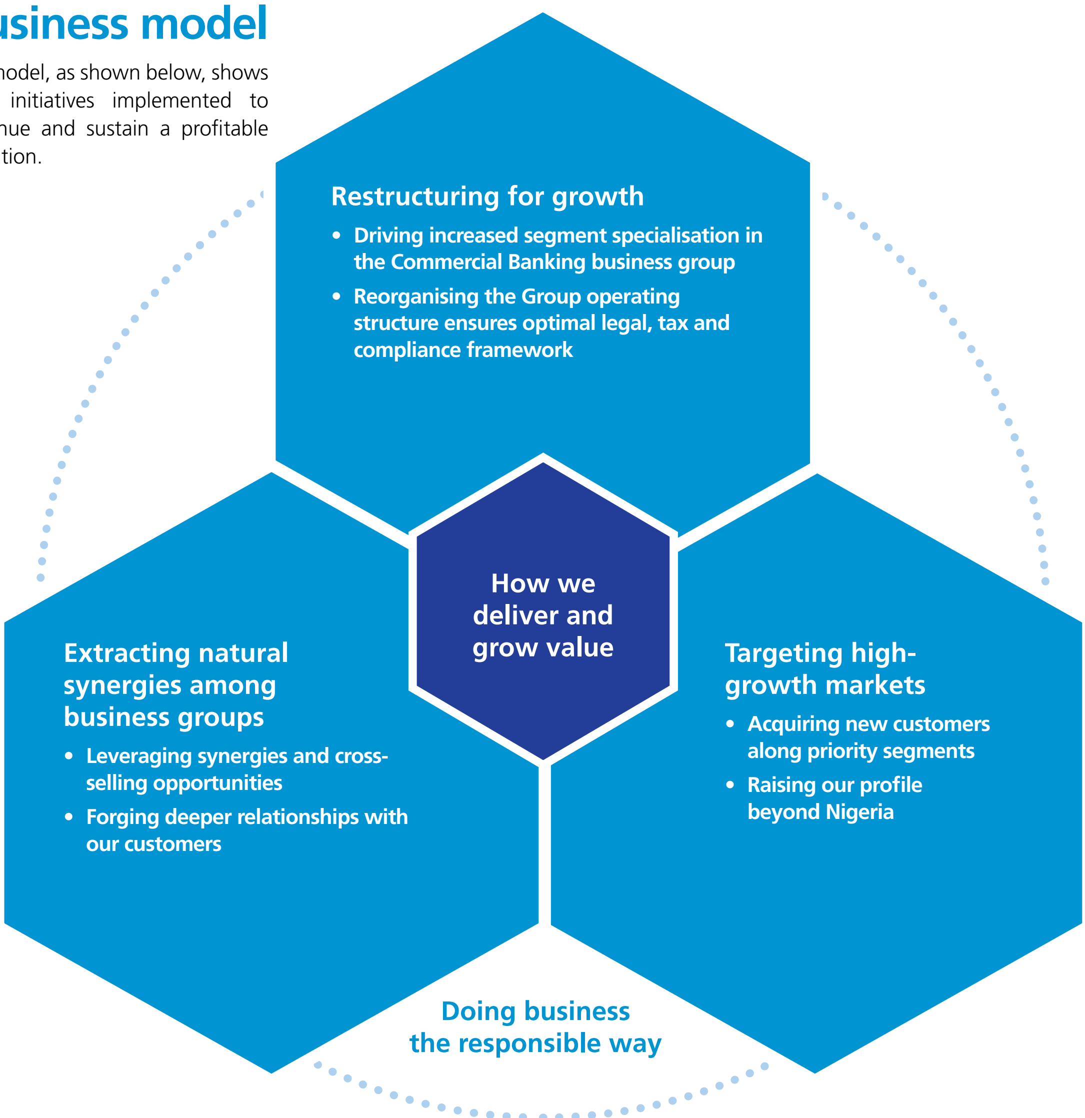
All loans and deposit are to customers only.

How do we generate long-term value?

FBN Holdings aspires to become the dominant financial services group across middle Africa[1]. The Group begins from a position of strength, having established itself over a 118-year history as the largest bank in Nigeria and already as the largest private sector banking group in SSA.

Our business model

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



1 Sub-Saharan Africa (SSA) excluding South Africa.

How do we generate long-term value?
Our business model

Restructuring for growth

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

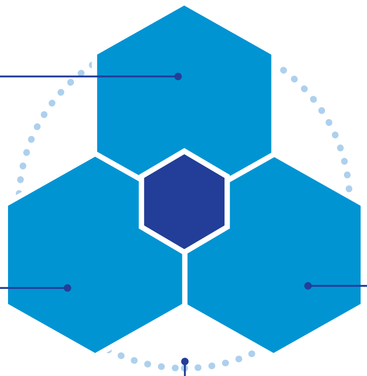
Within the Commercial Banking business group, we will drive increased segment specialisation across the organisation in line with the demands of an increasingly discerning customer base, evolving competitive environment and international best practices.

Consequently, we developed a framework that would see the re-organisation of the operating and legal structures of our Group, including the implementation of a holding company.

Targeting high-growth markets

We are seeing tangible benefits of a modified (Bank) operating model with the development of segment and functional specialists. We have enhanced our focus on the customer – acquiring new customers along priority segments such as Emerging Corporate and Retail.

Over the medium term, we intend to raise our profile beyond its current borders, expanding 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.



Extracting natural synergies among business groups

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

Insurance business group
- Life assurance underwriting
- Insurance brokerage

Commercial Banking business group
- Institutional banking
- Corporate banking
- Retail banking
- Public sector banking
- Private banking
- Pension Custodian
- Mortgages
- Bureau de Change

Investment Banking and Asset Management business group
- Advisory
- Capital markets
- Principal investing and private equity
- Asset management
- Securities services

Other Financial Services business group
- Microfinance

Doing business the responsible way

Operating in a responsible way underpins everything we do and is key to sustaining long-term value for our shareholders.

We seek to deliver business responsibly:

- through strong leadership and governance;
- by careful risk management; and
- using our citizenship approach.

Our citizenship approach
p55

How do we generate long-term value?

Our business model

Why we are uniquely positioned to generate long-term value

- We are focusing on pursuing growth in profitable areas.
- Africa is one of the most rapidly growing economic regions in the world with consumer-facing industries leading the pack.
- The growing urban population and rising levels of wealth have positive implications for the consumer finance business. Our strategy has been designed to exploit these opportunities.
- Our HoldCo structure allows for better coordination between business groups and will allow us to capture synergies between them.

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

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

Our business strategy has been designed to capture these opportunities by leveraging on our strong Commercial Banking platform to build other non-bank financial services businesses. The scale of the banking group provides a significant advantage in serving the banking needs of all customer segments both on the asset and the liability side. Corporate customers with more specialised banking needs will be served from our IBAM group and the Insurance business will aim to build scale in a market with very low product penetration. The HoldCo structure allows for better coordination among business groups by functioning as an investment holding company with portfolio oversight over business groups. We will profitably grow our business in a systematic manner across target segments (such as retail and mid-corporates) and geographies. Lastly, our enhanced ability to capture synergies among business groups is a key strategic theme discussed in further detail on page 37.

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, 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.

What are the Board's key responsibilities and priorities?

Our Board is responsible for building long-term shareholder value and ensuring effective management across our portfolio of businesses. It balances its role of providing oversight and strategic counsel with its responsibility to ensure compliance with regulatory requirements within acceptable risk tolerance parameters and ensures that appropriate controls, systems and practices are entrenched to safeguard the assets of the Group.

Left to right
Lt. General Garba Duba, Rtd, Director
Abdullahi Mahmoud, Director
Bello Maccido, Chief Executive Officer
Oba Otudeko, CFR, Group Chairman
Bisi Onasanya, Director
Oye Hassan-Odukale, MFR, Director

Corporate governance
p132

What are the Board's key responsibilities and priorities?

Chairman's statement

In the two-year period that I chaired the Board of Directors of FirstBank Group, our strategic vision was to position the Group in a way that guaranteed its ability to remain ahead of the change curve on a sustainable basis.

Your Chairman's view
The Chairman is responsible for leading the Board, ensuring Board effectiveness and overseeing the creation of long-term shareholder value.

Introduction

In the two-year period that I chaired the Board of Directors of FirstBank Group, our strategic vision was to position the Group in a way that guaranteed its ability to remain ahead of the change curve on a sustainable basis. Over the last decade, change has been the dominant theme in the nation's financial services industry. As Nigeria's oldest and pre-eminent financial services provider, we then felt that FirstBank had to respond and reinvent itself against continuously changing global and local macroeconomic environments, an increasingly competitive international financial services marketplace, rapid technological advances and unprecedented shifts in regulation.

The resulting change agenda was consistent with the Group's definition of its main challenge at the beginning of the new millennium: driving the change responses necessary to remain competitive in the industry's rapidly changing landscape while remaining true to its commitment to be the clear leader and Nigeria's bank of first choice. As reforms to the domestic economy proceeded apace, and our economy became a more functional member of the global marketplace, FirstBank expanded this commitment to lead the provision of made-to-measure financial services in Nigeria to include becoming Sub-Saharan Africa's leading financial services group.

Our transition to FBN Holdings Plc

Convinced of the cost savings and synergies obtainable from combining previously discrete but conceptually related subsidiaries under one roof, during 2009, we responded to the changes in the financial services industry, by commencing a re-alignment of our businesses for growth. As part of the envisioning stage of this process, it was clear that we had to re-think the legal and operating structure of the Group if we were to free the latent strengths of the respective component businesses. At the same time we had to cut down on duplications and unnecessary complexity, enhance coordination, strengthen governance and Group oversight, and ultimately capture the synergies that justify our being in a range of financial services businesses in the first place. The overall objective of this was to maximise shareholder value.

Accordingly, we had completed a re-appraisal of our Group's operating and governance structure from first principles long before the CBN's decision in 2010 to roll-back the universal banking model. It was on this basis that we actualised the setting up of FBN Holdings Plc (FBN Holdings) as a non-operating holding company (HoldCo) and legal entity domiciled in Nigeria, and regulated by the CBN as an 'other financial institution'.

> "Our choice of structure is designed to enhance coordination among 'business groups' by combining a number of complementary businesses..."

Our choice of structure is designed to enhance coordination among 'business groups' by combining a number of complementary businesses functioning broadly, e.g., in the investment banking and asset management space. It should also create an operating structure within business groups that will align best practices with business exigencies, e.g., the shifting of our Commercial Banking group from a geography-based operating model to one that is market segment-based. Subsequent to the restructuring, FBN Holdings now oversees the following four business groups:

- Commercial Banking group – led by FirstBank;
- Investment Banking and Asset Management group – led by FBN Capital;
- Insurance group – led by FBN Life Assurance; and
- Other Financial Services – led by FBN Microfinance.

FBN Holdings' central stakeholder value proposition will come from our ability to drive value across our subsidiaries through the synergies in the retail end of the business between our insurance operations and our banking business, and at the corporate and investment banking level between our Investment Banking and Asset Management business and our Commercial Banking business. In addition, the strengthened focus on corporate centre functions such as IT, group risk, group finance, and the added discipline and rigour that will naturally follow in funding and capital allocation decisions as well as enhanced governance will ensure that FBN Holdings is set up for sustainable industry leadership.

> "With growth projected to remain elevated in Sub-Saharan Africa on the back of the respective governments' successful reform initiatives, we look forward to a period of sustained growth in the provision of non-commercial banking financial services."

In addition, our shared services structure will enhance efficiency across businesses. Optimal use of technology within the Group should drive down costs and speed up the new product development process within the Group, while reducing the time to market as we launch new products and ideas. The exchange of institutional memory that a shared services infrastructure makes available should also help increase resilience across the Group and the robustness of institutional response to industry-specific shocks.

Thus, we would be in a position to deliver least-cost financial solutions to our customers across their value chain, leveraging the respective competences of Group entities. At the same time, a more streamlined Group structure should make compliance with the diverse requirements of the groups' regulatory universe a lot more focused, efficient and effective.

Our vision for HoldCo

Given that the erstwhile First Bank of Nigeria Plc was technically an operating holding company, we have structured the new governance model to take full advantage of the holding company configuration. The apex bank's roll-back of the universal banking model, which provides the legal framework for our adoption of the holding company model, has been designed to ring-fence low-risk commercial banking deposits from high-risk investment banking activities. Our adoption of the holding company model, in addition, is designed to enhance the contribution of the non-commercial banking businesses to the holding company's bottom line. Previously, the Group Managing Director, of the then First Bank of Nigeria Plc, was responsible for the fortunes of the subsidiaries. Inevitably, this placed considerable strain on available resources, and may have supported a bias in favour of the Group's banking business.

The HoldCo structure allows us to correct this bias in a way that lends the respective boards of the subsidiaries a narrower and sharper focus on their operations, while according the Managing Director/Chief Executive Officer a broader take on the activities of the different subsidiaries. In addition, the holding company structure provides us with a framework for objectively assessing medium- to short-term opportunities across the financial services landscape and deciding where to take a position, for the medium- to long-term growth of the business. With growth projected to remain elevated in Sub-Saharan Africa on the back of the respective governments' successful reform initiatives, we look forward to a period of sustained growth in the provision of non-commercial banking financial services. Over the medium term, this window of opportunities should provide our holding company substantial growth opportunities in the region. Accordingly, one of our targets is to grow, over the medium term, the contribution of the non-bank subsidiaries to the Holding Company's bottom line.

The successful exploitation of synergies is the second pillar of the HoldCo structure. Successfully exploiting synergies would enable us to build stronger, though separate businesses under the HoldCo structure as against the option of spinning-off the non-banking businesses. The ease with which we may grow the non-bank subsidiaries' contribution to the pool is a function of how well we develop and strengthen cross-holding synergies across the holding company. In this regard, two dimensions of our current business lines recommend themselves. At the retail end of the holding company's subsidiaries' businesses, a new range of banking services/products could be developed incorporating support services/products from our life insurance business, without breaching the principle and letter of regulatory attempts to separate consumer banking operations from riskier investment banking ones. Our commercial banking business should likewise be able to help its retail customers to diversify their portfolios through investment in mutual fund vehicles from the asset management side of our business.

In the same vein, direct synergies exist between the Public Sector group in the Commercial Banking business, and our investment banking subsidiary. Both could partner in providing advisory services to sub-national governments and in the structuring of sub-national debt offerings. As, indeed, the corporate and investment banking groups in the Commercial Banking business could also work with the investment banking subsidiary to design project financing and structured loans for the diverse infrastructure financing that should begin to come on stream, as governments' public-private partnership projects are implemented.

A substantial part of the opportunities that have opened in the global market is largely driven by both the emergence of new technologies, and their convergence in ways that amplify the contribution of each. The resulting platforms, including the internet, and the multi-form frameworks provided by the convergence of information and communication technologies invite us to engage with the emerging technology-based business ecosystem in search of products that improve both customer ease of access to and

₦1 trillion
The expected growth in the value of insurance contracts by end 2017

22.5%
Regulator's target for insurance penetration in the next four years

use of financial services. Through our e-channel services and the new mobile money platform, we have leveraged new technologies to grow our footprint while improving overall customer experience.

Our operating environment

Globally, countries continued to struggle with the consequences of the 2007/08 economic and financial crises. The concern of policy makers in Europe with the euro zone crisis persisted throughout the year, albeit the European Central Bank's decision to financially backstop the region did mean that worries over which country would be the first to leave the zone eased. China did not immediately pick up the slack as most commentators had expected, despite expansionary macroeconomic policies having been put in place there. But, as in the US, towards year end, evidence of a recovery was noticeable.

Against this backdrop, our subsidiary companies had to tackle a number of challenges within their operating environments during the year. In the UK, tighter lending conditions were relieved by the growth-boosting effects of the Queen's Diamond Jubilee celebration, and spending on the hosting of the Olympic Games. With the authorities in the UK continuing to tighten the policy environment as they correct for the lapses implicated in the last crisis, FBN Bank (UK) reinforced its risk, corporate governance and prudent capital management frameworks in order to grow its share of customer wallet.

In the Democratic Republic of Congo, low-intensity hostilities threatened to balloon into full-scale war, which required us to periodically review our operations and institute changes as necessary. Overall, slower economic growth had the effect of limiting our banking operations, including the effects of stronger competition for the limited financing opportunities that were available.

In Nigeria, however, the operations of our flagship, FirstBank, were helped by a more stable operating environment, as the Central Bank of Nigeria's tighter policy posture yielded positive results. Rising yields on government securities were a major positive, as indeed were the strong inflows of foreign portfolio investments, and the effect of these on the naira exchange rate.

Tighter economic conditions and ongoing balance sheet adjustments in response to the domestic stock market crash were the more adverse conditions that our Investment Banking and Asset Management business had to contend with in the review period. The Federal Government's announcement of forbearances for stockbrokers did not have the desired effect on liquidity in the sector as the value was not overly significant and the forbearances came too late in the year. Nonetheless, our asset management and trustees businesses were able to buck these trends during the review period and record commendable results/financials.

The Pension Commission's decision to increase the paid-up share capital of licensed pension fund administrators (PFAs) had a beneficial effect on the industry. With the consolidation of a number of operators, this segment of the industry is expected to reap efficiency gains that will benefit all players. First Pension Custodian leveraged this tailwind by driving improvements in its client relationships.

The value of insurance contracts closed 2012 at ₦300 billion or a little under 1% of gross domestic product. This low level clearly reinforces our decision to increase our presence in the industry. With the regulator presently committed to grow the domestic insurance space, having established a target for insurance penetration (of the insurable population) from 10% as at end 2012 to 22.5% in the next four years, we are convinced that the outlook for our insurance business will remain positive. Furthermore, we are looking at the possibility of entering into the non-life segment of the market in light of the expected growth in the value of insurance contracts to ₦1 trillion by end 2017, our early success with FBN Life, as well as our continued belief in the strong synergies that our Commercial Banking business avails to insurance including broad and immediate distribution, a captive client base, and a brand that is second to none in its perception as being trustworthy.

In view of its relative infancy, and potential abuse downside, the CBN continued with strong regulatory oversight of the microfinance bank sector in the year to end December 2012. While some of these new regulations, including the new minimum paid-up capital requirements and stronger reporting requirements, provided headwinds into which our operations had to run, others such as reversal of the universal banking model and the move towards a cash-lite economy provided our microfinance operations with a window of opportunity to expand its market reach.

Our holding company approach

Regulatory compliance

The landmark piece of regulation that has permanently altered the face of financial services in Nigeria – CBN's 2010 repeal of the Universal Banking Guidelines of a decade – was a change we not only well anticipated but also effectively navigated in the transition to our new holding company Group structure.

In an environment in which a rapidly changing landscape has come to dominate, perhaps the biggest shift has occurred in industry regulation – with a generally much more rigorous and granular set of policies existing today than existed a decade ago. This change is mirroring a similar shift that is occurring globally as regulators examine the role of the financial services sector within the broader economy and attempt to strike the balance of allowing market forces to operate while protecting the broader economy and the welfare of citizenry from market failures and attendant system shocks. As an industry pacesetter that prides itself as having produced two Central Bank of Nigeria governors as well as four ministers of finance from the ranks of its executive management in recent times, we have been in the forefront of compliance as well as supporting, advising on and adapting to change across the range of government bodies that regulate our various businesses, and, as FBN Holdings, we do not intend to deviate from that path.

Governance

As the flagship of the old FirstBank Group, First Bank of Nigeria has a dominant presence in the nation's corporate governance space. In part, this was in response to strong regulatory focus on governance issues, both the CBN and Securities and Exchange Commission (SEC) having adopted their respective codes of corporate governance. In the main, however, the Bank's legacy commitment to a robust ethical framework has meant a continuous search for better ways to govern its operations in the overall interest of stakeholders.

Building on this heritage, we shall over the next 12 months focus on strengthening the different subsidiary boards and their independence. Our approach to strengthening Group-wide governance involves the setting up of a Group Executive Committee (GEC) comprising all managing directors/CEOs of the subsidiaries, and the Chief Risk Officer and Chief Financial Officer of First Bank of Nigeria. This way, the holding company retains a bird's eye view of goings-on in the subsidiaries, without compromising the independence needed for each to run separately.

> "...the Bank's legacy commitment to a robust ethical framework has meant a continuous search for better ways to govern its operations in the overall interest of stakeholders"

Given that the holding company is non-operating and each subsidiary will have its own board of directors, FBN Holdings will be lean and focused on setting Group standards and monitoring compliance. By this approach, human resource and information technology policies will be implemented through Group-wide functional guidelines aimed at enhancing uniformity and common practices across the Group. This way, corporate governance practices will be consistent across the Group and aligned to regulatory expectations as well as to leading best practices. Subsidiaries, on the other hand, will continue to be responsible for implementing detailed growth and expansion strategies.

Doubtless, these changes will be both challenging and exciting, but we have ensured in the design of HoldCo's legal and administrative structure, and in the staffing of key responsibilities, that we have in place capacity and skill levels adequate for the task of delivering strong returns to stakeholders across FBN Holdings' value chain.

Board goals

Our goals during the year in review were to align both our ownership and operational structures with the CBN's regulatory requirements through the incorporation of FBN Holdings and thereafter operationalise the internal structures of the holding company.

As the Board fine-tunes the main dimensions of our business plan going forward, we shall be guided by the objectives of maximising Group shareholder value, aiding the subsidiary companies with the resources required to attain market leadership in their various businesses, and ensuring that risk is kept within acceptable limits.

We also plan to provide the right level of stewardship and focus on distinct priorities as the holding company evolves. In the near-term, the focus is on ensuring a smooth transition to the holding company structure while putting in place a lean but highly skilled team and basic mechanisms for Group oversight and synergy realisation. In the medium term, the focus increasingly will be on deepening corporate centre functions (e.g., investor relations, IT, group risk, finance, human resource, etc.) and over the medium to long term as the Group evolves and the contribution of non-bank subsidiaries increases, establishing shared services functions (e.g., group procurement) become an increasing priority.

Capital and liquidity management

In all of these, our core challenge is to see the financial services requirements of all customers of the Group holistically, and to offer bespoke financing structures and investment vehicles for each segment of our market. Uniquely, the holding company structure hands us the tool to nudge members of the Group along our collective desired direction. In addition to assisting subsidiary companies with the resources required to attain market leadership in the various markets, the holding company will deploy appropriate capital management strategies to help subsidiary companies move in the desired direction. Subsidiaries will increasingly be held accountable to appropriate returns on equity targets and capital charges will be applied across subsidiaries and within them at business line levels. Ideally, this should allow us to optimally allocate scarce resources across our portfolio of businesses in a way that helps us to continuously enhance shareholder value.

Risk management

Continuing a strong tradition in the old FirstBank Group, risk management will remain one of the central pillars of FBN Holdings. Essentially, we will be building a holistic approach to risk management that will combine all risks under one of a limited number of oversight functions. Specifically, we shall:

- govern risk management by well-defined policies and structure that are clearly communicated across the Group;
- aim to build a shared perspective on risks that is grounded in consensus;
- promote clear segregation of duties between market-facing business units and risk management functions; and
- take risk-related issues into consideration in all business decisions and continue to strive to maintain a conservative balance between risk and revenue considerations.

Shareholder engagement

We are committed to improving the environmental, social and governance performance of FBN Holdings through strengthening channels of communication between the Company and its diverse stakeholder base.

For shareholders, Group reporting along International Financial Reporting Standards (IFRS) will help with improving the transparency of our reporting. In addition to established fora like the Annual General Meeting, management will continue to conduct semi-annual non-deal roadshows with institutional investors and hold quarterly investor calls that will increasingly feature a broader Group perspective.

31.6%

growth in year-on-year aggregate earnings from 2011 to 2012

At the retail investor level, the main deliverable is to drive long-term loyalty and reduce the volatility that leads to rapid churns in share ownership. However, the difficulties involved with targeting retail investors present a unique challenge for our shareholder engagement strategy. Accordingly, our retail investor outreach will include organising conferences with HoldCo's retail investors where a number of related organisations, such as the SEC and CBN, will hold education sessions. Carefully targeted blast emails will also be used to reach out to this important category of investors.

How did we perform?

Our Group posted commendable results in 2012 with year-on-year aggregate earnings increasing from ₦273.8 billion in 2011 to ₦360.3 billion, representing a growth of ₦86.5 billion or 31.6%. This growth in earnings was made up of ₦287.3 billion in interest income, up from ₦212.9 billion the previous year, driven primarily by increased revenue momentum from Treasury Bills, loans and advances and bonds, and ₦73.1 billion in non-interest income with 82.1% in fees and commission income. The strong growth in fees and commissions was mainly due to increased commissions earned on transactions (COT) driven by growth in transactional volumes. The strategies deployed by the Commercial Banking business in terms of the aggressive mobilisation of customer deposits paid off, even though this was achieved at the expense of higher costs associated with high-interest-rate environment and lower margins. Consequently, interest cost of ₦54.3 billion for the period on customers' deposits was significantly higher than in the previous year due to shifts in the structural composition of the balance sheet. Although operating expenses grew by 32% from the ₦146.1 billion recorded in 2011 to ₦192.2 billion in 2012, the Group's profit before tax increased from ₦35.9 billion in 2011 to ₦92.7 billion in 2012, representing an increase of over 158%. This performance was in part due to our renewed focus on underlying businesses, enhanced creativity in our service offerings and our emphasis on cautious growth while reducing asset impairments.

Over 158%

increase in the Group's profit before tax from 2011 to 2012

All these downsides to our operations were minimised despite the highly challenging business environment that persisted for most of 2012, which witnessed an unprecedented level of insecurity in parts of the country and was characterised by a harsher interest rate regime in the financial services industry. This performance testifies to the strengths that can be derived from the synergies that exist within the Group, as well as the benefits of diversification across the various business lines.

Outlook

While we see progressive improvements in the global macro-economy, Nigeria is on a sound footing to increase its standing within the African macroeconomic environment. The FirstBank Group has taken the decisive step of transitioning to a holding company structure and is only one of a handful of institutions to do so, recognising the strong value within markets like ours in participating in highly complementary businesses that serve fundamentally the same market. Our initial steps in this direction have been deliberate and well thought-through and are part of a broader map that will see us implement best-in-class corporate centre oversight, leverage Group shared services over time, and enhance investment returns through optimal capital allocation. We are therefore confident that the journey we have embarked upon will aid us in maintaining sustained leadership in Nigeria and on the broader continent, and will enable our shareholders to benefit bountifully from the new era of prosperity that much of Africa is poised to experience.

Thank you.

Oba Otudeko, CFR
Group Chairman

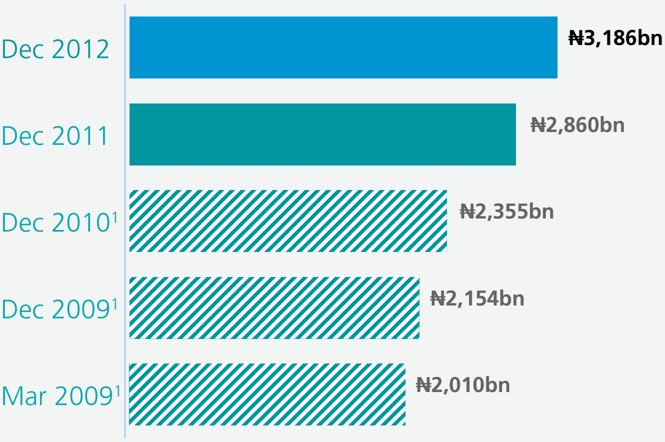
April 2013

How did we perform in 2012?

Our 2012 figures, as shown below, represent the performance of FBN Holdings Plc. For context we have included prior-year figures for FirstBank Group too.

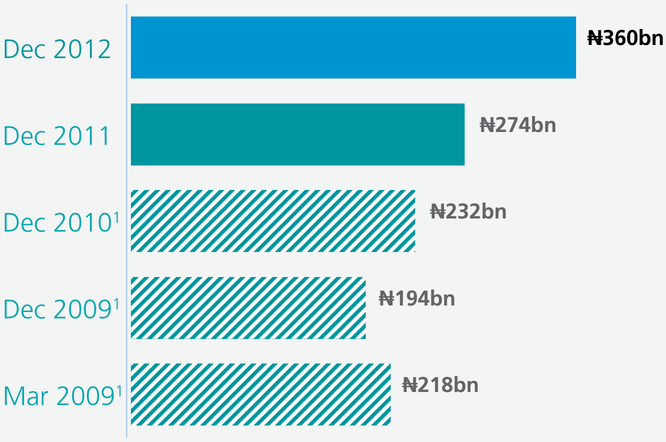
Total assets

+11.4% since Dec 2011



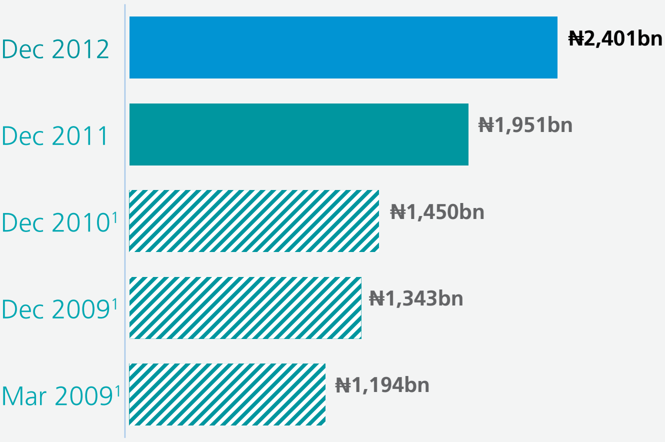
Gross earnings

+32% since Dec 2011



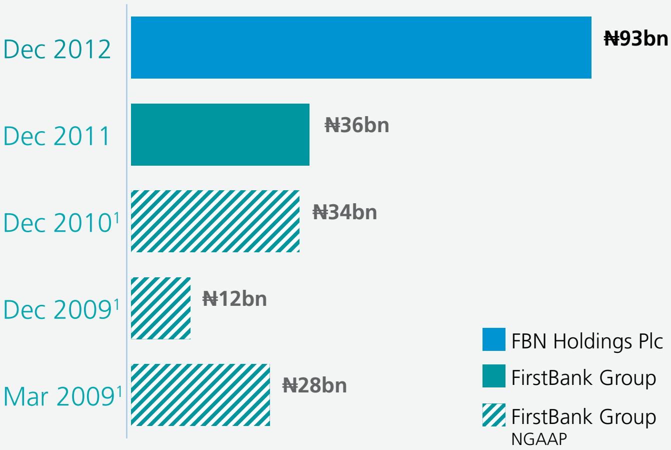
Deposit liabilities

+23% since Dec 2011



Profit before taxation

+158% since Dec 2011



1 Mar 2009, Dec 2009 and Dec 2010 figures are all NGAAP

How did we perform in 2012?

Financial highlights

	12 months to Dec 2012 ₦ million	12 months to Dec 2011 ₦ million
Major balance sheet items		
Total assets	**3,186,129**	2,860,169
Gross loans and advances	**1,581,011**	1,285,404
Deposit liabilities	**2,400,860**	1,951,321
Share capital	**16,316**	16,316
Shareholders' funds	**438,847**	368,580
Major profit and loss account items		
Gross earnings	**360,345**	273,811
Charge for doubtful accounts	**12,299**	38,011
Profit before taxation	**92,701**	35,863
Taxation	**17,031**	17,227
Profit after taxation	**75,670**	18,636
Dividend		
Declared	**32,632**[1]	26,106
Information per 50k ordinary share		
Earnings (basic)	**₦**	**₦**
Basic	**2.33**	0.60
Adjusted	**2.33**	0.60
Net assets	**13.45**	11.30
Total assets	**97.64**	87.65
Stock exchange quotation	**15.72**	8.90
Ratios	**%**	%
Cost to income	**61.9**	53.1
Return on average assets	**2.5**	0.7
Return on average shareholders' funds	**18.8**	5.1
Capital adequacy	**21.80**	22.16
Number of branches/agencies and subsidiaries	**790**	717
Number of shares in issue (million)	**32,632**	32,632

1 Proposed

How did we perform in 2012?

Non-financial highlights

Commencement of FBN Holdings

FBN Holdings effectively commenced operations on 4 October 2012. The adoption of the holding company structure aligns the ownership and operation of the subsidiaries within the current CBN regulatory framework, which requires the separation of commercial banking business from other financial services businesses. This structure also creates an operating model to profitably grow the Group's presence in the market for commercial banking and non-banking financial services. In addition, this enables the Group to streamline its businesses by aligning and clustering similar or overlapping businesses under four broad business groups, namely: Commercial Banking[1], Investment Banking and Asset Management[2], Insurance[3] and Other Financial Services[4].

FBN Holdings was listed on the Nigerian Stock Exchange on 26 November 2012. Existing shareholders in FirstBank exchanged ordinary shares in FBN Holdings equal to the number of shares held in FirstBank. The issued and fully paid-up share capital of FBN Holdings is 32,632,084,345 ordinary shares of 50 kobo each (16,316,042,172.50), which was the same as the issued and paid-up capital of First Bank of Nigeria.

Strategic review

The strong financial performance recorded in the year under review was a result of successful implementation of the Group's strong organic growth initiatives, business diversification and better synergies among members of the Group. During the year, members of the Group coordinated better to jointly exploit business opportunities so that clients across different climes can enjoy the same high-quality services.

Strong and growing retail network

With a disciplined approach to branch expansion in the commercial banking space in Nigeria (73 new branches were added in 2012) in the year under review, we have been able to grow our retail network significantly. This extensive footprint continues to give us access to low-cost deposits. With the launch of Firstmonie, our mobile money platform with an agent network of over 3,000, the expectation is that this advantage will be further enhanced.

Successful channel migration and increased adoption of e-payment solutions

The percentage of active retail accounts with electronic cards increased to 87% from 53% in the previous year. With over 5.37 million debit cards now in issue, FirstBank has the highest number of cards in the Nigerian banking market. There has also been improved adoption of e-payment solutions by corporate and public sector institutions which helped in driving up transaction volumes.

Business expansion

Groupwide, we extended our products and services offerings to new frontiers. In the UK, we made better inroads into the corporate banking segment especially with the structured trade commodity and project finance businesses. In Nigeria there was significant deepening of relationships and business volume expansion in the corporate banking and institutional banking segments, with particular focus on the newly established emerging corporates sub-segment of the Corporate Banking group. In the Democratic Republic of Congo (DRC) the products and services offering was expanded to include e-business service offerings targeting SME, corporate and government agencies.

The holding company structure also creates an operating model to profitably grow the Group's presence in the market for commercial banking and non-banking financial services

"Overall, in the 2013 KPMG customer satisfaction survey, assessing 2012 performance, the Bank moved from a ranking of eighth to seventh in the retail customer segment survey and from third to second in the corporate customer segment."

1 Commercial Banking business group has First Bank of Nigeria Limited, FBN Bank (UK) Limited, FBN Bureau de Change Limited, Banque Internationale de Crédit (BIC), First Pension Custodian Limited and FBN Mortgages Limited. First Bank of Nigeria Limited is the arrow head of the Commercial Banking business group.

2 Investment Banking and Asset Management consists of FBN Capital Limited, First Trustees Nigeria Limited, First Funds Limited, FBN Securities Limited. FBN Capital is the arrow head of the Investment Banking and Asset Management business group.

3 Insurance business group houses FBN Life Assurance Limited and FBN Insurance Brokers Limited.

4 Other Financial Services has FBN Microfinance Bank Limited.

How did we perform in 2012?

Non-financial highlights

Service delivery and operational excellence

We continued our focus on improving service delivery and operational excellence. In FirstBank, we implemented the process and service quality assurance (PSQA) initiative which aims to achieve better process governance and process standardisation, and to improve process visibility and strategic alignment. To drive our financial inclusion initiative, we rolled out our mobile money payment service, Firstmonie, in the third quarter of 2012. Our Insurance business restructured its internal operations for effective claims management and administration while our Investment Banking and Asset Management business stabilised its IT infrastructure to provide more efficient and effective services.

Overall, in the 2013 KPMG customer satisfaction survey, assessing 2012 performance, the Bank moved from a ranking of eighth to seventh in the retail customer segment survey and from third to second in the corporate customer segment.

Talent and performance management

In line with our objective to attract and retain the best talent, a talent framework was developed as an essential platform for capacity building. This covers areas such as talent pool identification and career management and development, as well as succession planning. During the year, to ensure the availability of the skills and capabilities required for continuous achievement of business objectives, the performance and reward management processes were linked to set goals and objectives.

In tandem with our resolve as a performance- and merit-driven organisation within the Bank, we continue to monitor and track the achievement of individuals, teams, groups, Key Performance Indicators (KPIs) and enterprise scorecards towards developing the capabilities of individuals and teams in order to deliver sustained success while providing incentives and rewards schemes to encourage high performance.

With over

5.37m

debit cards now in issue, FirstBank has the highest number of cards in the Nigerian banking market

To drive our financial inclusion initiative, we rolled out our mobile money payment service, Firstmonie

How did we perform in 2012?

Chief Executive Officer's review

Our distinguished shareholders, ladies and gentlemen, it gives me great pleasure to welcome you to the inaugural Annual General Meeting of your company, FBN Holdings Plc. It is also my pleasure to present to you the first set of consolidated financial statements for the FirstBank Group since our restructuring into a holding company.

Your Chief Executive Officer's view
The Chief Executive Officer is responsible for the day-to-day operations of FBN Holdings plc, overseeing the implementation of Group strategy. In this review, he gives his view of performance during the year against strategy as well as looking ahead to priorities during the coming year.

Introduction

Since its inception in 1894, the FirstBank brand has been a symbol of resilience, strength and continuous resurgence within the Nigerian financial services industry. In keeping with our practice of constant innovation, our Commercial Banking business group, First Bank of Nigeria Ltd (FirstBank), in 2009 reviewed its governance structure within the context of its vision and strategy, and concluded that there was a need to restructure the Group into a holding company to streamline and coordinate similar or overlapping business activities into clusters of business groups. This was expected to enhance the Group's competitiveness and help to exploit synergies between the subsidiaries in a coordinated fashion while encouraging growth in the different business groups. Consequently, the Group realigned its business structure into four broad groups, namely: Commercial Banking, Investment Banking and Asset Management, Insurance, and Other Financial Services. The arrowheads of these business groups are FirstBank Limited, FBN Capital Limited, FBN Life Assurance Limited and FBN Microfinance Limited respectively.

Subsequent to this decision, the Central Bank of Nigeria (CBN) released the CBN Regulation on Scope of Banking Activities & Ancillary Matters in 2010, Regulation No. 3, which required banks to separate their commercial banking activities from other financial services. The release of this regulation reinforced our belief that the decision to establish a holding company to streamline different activities of the FirstBank Group into similar business groups was well timed and appropriate to ensure that it was well positioned to compete in the increasingly global Nigerian financial industry.

Further to the restructuring, your company, FBN Holdings Plc (FBN Holdings) was established as a non-operational holding company in September 2012 to oversee the four business groups, and was listed as a publicly quoted company on the Nigerian Stock Exchange (NSE) on Monday 26 November 2012. This was done after the receipt of all Board and required regulatory approvals, including the approval of the scheme of merger by FirstBank shareholders at its Extraordinary General Meeting (EGM).

Related information

p35 Operating environment
p37 Group strategy
p48 Key risks

Objective of the holding company

The overarching objective of the establishment of the holding company structure is for the Group to create an operating model that will foster our aspirations to become the dominant financial services group in Sub-Saharan Africa, as this structure allows us as a Group to retain our investments in other financial services while continuing our commercial banking legacy, thereby enhancing value for shareholders.

Our new structure will revolve around the creation of a corporate centre that is removed from the daily tactical activities of the Group, but acts as the architect for driving growth across the entire organisation. The corporate centre's responsibilities include the definition of overall strategic direction for the Group, ensuring alignment of all business groups with overall Group strategy, monitoring implementation, identifying and maximising business synergies across the subsidiary businesses, optimising Group revenue through performance monitoring and capital allocation as well as minimising risk through the definition of the Group-wide risk management framework. In addition, the corporate centre will be responsible for aligning the corporate governance framework through the constitution of governing boards and committees and facilitating a Group-wide financial reporting structure with FBN Holdings as the reporting entity.

25%
aggregate earnings increase for the Bank to ₦313.8bn in 2012

17%
of total loans were granted to the economy by the Commercial Banking business group

Our evolution

We envisage that our company, FBN Holdings, will evolve and progress in stages that reflect its development and achievement of its objectives. Already, we have defined our operational model and architecture in line with a lean operational framework, which comprises key functional areas including Finance, Risk, Strategy, Human Capital and Investor Relations.

In 2013, which will be our first full year of operating under the new holding company structure, we will facilitate the actualisation of Group synergies that have been identified, with our primary focus being the maximisation of revenue through the monitoring of the Group strategy, as well as the implementation of the Group-wide risk management framework to address Group credit, market, investment, operational and reputational risks for overall risk minimisation. In this year, we will also migrate to the light recognition of shared services across the Group through operational committees involving all business groups. In the long term, we anticipate that having fully extracted synergies across the business groups, FBN Holdings will be able to enhance its definition of shared services by incorporating a centralised procurement system into the shared services platform, which will provide centralised services to the various subsidiary businesses.

Industry review

In Nigeria, the financial services industry operated from a better state of stability in 2012, although commercial banks had to contend with the challenges of a high interest rate regime, which limited liability generation as investors tried to maximise returns by diverting available free funds into risk-free government securities and curtailed lending activities to the real sector due to the high cost of borrowing. Our Commercial Banking business group, however, continues to deploy its deep retail franchise to generate deposits from customers while contributing about 17% of total loans granted to the economy.

The Investment Banking sector, while stable, was constrained for most of the year by subdued activity in the equity markets and the limited appetite for raising capital by operatives in the real sector. Although secondary market activity in the equity market brightened up towards the end of the year as the All Share Index (ASI) crossed the 25,000 mark, this segment was still not as active as the fixed-income segment. Despite this, our Investment Banking franchise, FBN Capital, maintained its leadership position in Debt Capital Markets and Project/Structured Finance and was awarded the Best Debt House in Nigeria award for the third consecutive year by the EMEA Finance African Banking Awards 2012.

The domestic insurance sector was challenged by the country's security situation in 2012. Security challenges presented a major cause for concern to investors, exacerbating the issue of investment risk and increasing the requirements for certain types of special risks insurance, which were largely unavailable in the Nigerian market. Where available, these types of insurance were secured through international risk syndications, which significantly increased the financial cost of meeting the insurance requirements. With closure of industries and markets as a result of incidences of insecurity resulting in rising unemployment and reduced disposable incomes, the demand for insurance products was quite low with growth largely driven by compulsory insurance requirements.

During the year, the regulators revised the Microfinance Regulatory and Supervisory Framework and stipulated a requirement for a national bank to have a minimum paid-up capital of ₦2 billion, with a fixed asset to shareholders' funds ratio of not more than 20%. This prompted FBN Holdings to increase its equity in the microfinance business to ₦2 billion in order to ensure that the business group continues to compete on a national scale.

In the United Kingdom, a number of measures were introduced to increase financial market regulation and maintain a higher level of financial stability. The liquidity and capital regimes for banks and building societies were tightened to ensure that banks hold more capital and liquidity to support their operations. The capital and liquidity positions of our UK business, FBN Bank (UK), are within regulatory recommendations.

The Democratic Republic of Congo's (DRC) economy improved in 2012, notwithstanding the turmoil and unrest in the eastern part of the country. This improvement will, however, require significant investment in infrastructure to ensure it remains sustainable. Our DRC operations will continue to leverage the Group to retain a strong foothold in financing infrastructure in the DRC.

Performance review

At FBN Holdings, we remain committed to our vision of becoming Sub-Saharan Africa's leading financial services group. With our new streamlined structure, we are poised to ensure that we remain the undisputed leader in every business we participate in through the delivery of superior financial services to all segments of our customers, while pursuing our goal of growing our franchise beyond our borders. While the Commercial Banking business group remains the flagship of the FirstBank Group, our expectation is that the current configuration of the other non-banking subsidiaries will encourage them to fully exploit their potential through the operational independence that has been vested on them as well as the clear demarcation between the banking and non-banking franchises.

With the global economy only slowly emerging from the constraints imposed on it by the global financial and economic crisis, just about every subsidiary segment operated in very demanding circumstances. In the event, our businesses managed decent performances, with the banking group leading the way. Specifically, the Bank saw aggregate earnings increase by 24.9% from ₦251,312 billion in 2011 to ₦313,822 billion in 2012, while profit before tax of ₦83.3 billion rose by 110% over the ₦39.7 billion returned in 2011. FBN Bank (UK) likewise grew total assets by 11.17% to ₦514,027 (£2.05 billion) in 2011. Profit before tax as at year end 2012 stood at ₦6.6 billion (£26.1 million) as against the ₦4.3 billion (£17.6 million) achieved in 2011. First Pension Custodian grew total income by 50.17% from ₦1.7 billion in 2011 to ₦2.6 trillion in 2012, while profit before tax rose by 64.13% to ₦1.3 billion from ₦802 million over the same period.

76%
of people across Sub-Saharan Africa without access to formal financial services in 2012

50%
of capital market deals executed by the Investment Banking and Asset Management business group in 2012.

Weakened by the slowdown in capital market activities, the fall in investment banking revenue took its toll on FBN Capital. These strong headwinds notwithstanding, the Asset Management unit successfully launched two new open-ended mutual funds (FBN Money Market Fund and FBN Fixed Income Fund) during the year. Both funds were oversubscribed by 20% and 13% respectively, confirming investor interest in, and the viability of, such products. With total assets under management of ₦90.2 billion (₦71.9 billion in mutual funds and ₦18.3 billion in discretionary portfolio management mandates) the unit made a strong contribution to revenues over the period. In the event, FBN Capital grew its total earnings over the review period from ₦10.1 billion as at year end 2011, to ₦11.6 billion by December 2012. Consequently, this business group was able to hold on to its leadership of the industry.

In the DRC, we moved to strengthen our operations through the secondment of key personnel from FirstBank. Our goal in this regard is two-fold. First, to ensure that the practice in the new subsidiary is consistent with the high standards required if we are to become the industry standard bearers in the DRC; and second, to ensure as much as possible a commonality of practice in the Commercial Banking business group. This way, we intend to further the strategic continuum that should see the Bank grow its pan-African footprint in parallel with the expansion of business opportunities across the sub-continent.

Outlook

The outlook for the financial services sector in Sub-Saharan Africa remains promising, and our objective remains to ensure that the FBN Group is well positioned to harness the unfolding opportunities within the region. With a population count of 874.8 million (World Bank, 2011) across Sub-Saharan Africa (76% without access to formal financial services – Global Findex, 2012) and recorded trade flows of US$936.6 trillion in 2011, the opportunities to deepen FirstBank's business across the sub-region are limitless. Nigeria remains our template and we shall leverage on the deep knowledge of the Nigerian market to drive our expansion strategies within the region, using our foray into the DRC as a case study. Lessons learnt from our DRC expansion will guide our future expansion into the region.

Given the current economic and financial path in Nigeria, our Commercial Banking business group will continue to make the development of e-business initiatives a major focus in 2013. The increase in teledensity in Nigeria as well as the full implementation of the CBN's national financial inclusion strategy will create significant opportunities for alternative banking channels and enhance banking activities. Consequently, our mobile money franchise, Firstmonie, will be extensively driven and employed as an agent in the effort to reduce financial exclusion in Nigeria. Outside Nigeria, our international Commercial Banking subsidiaries will concentrate on capturing the available opportunities to provide trade finance across their jurisdictions.

Our Pension business will continue to pool considerable long-term savings, which will be allocated to infrastructural funds to support the emerging prominence of the infrastructure sector of the economy.

In Investment Banking, we will focus on creating deal opportunities from a number of ongoing private and public sector initiatives including the ongoing power privatisation, the expected increase in indigenous participation in oil and gas activities as a result of the likely passage of the Petroleum Industry Bill (PIB), divestment of legacy banks and the Federal Government's renewed drive to strengthen the non-oil sector through agricultural and other initiatives.

As growth in the insurance industry is directly correlated with economic activity, we intend to harness the growth opportunities in insurance in 2013 by expanding our insurance portfolio to include the general insurance business, which we intend to drive using the bancassurance advantage, leveraging on our 714 Bank branches in Nigeria.

Our Microfinance business will thrive on the financial inclusion strategy, which recommends an increase in the share of microfinance credit as a percentage of total credit extended to the private sector, increased participation of state and local government credit schemes as well as improvements in the accessibility and participation of women in microfinance schemes. With the business well capitalised at the ₦2 billion CBN-imposed threshold for national microfinance banks, we are well poised to compete in spite of the licensing of new microfinance banks and non-governmental organisations (NGOs) with international affiliations.

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

Bello Maccido
Chief Executive Officer

April 2013

www.fbnholdings.com/annualreport/2012

How did we perform in 2012?

Recognition of our performance

Best Bank Award

Global Finance Awards 2012

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

Best Local Bank in Nigeria

EMEA Finance Award 2012

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

Best Private Bank

World Finance Banking Awards

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

Bank of the Year Awards

The Banker Magazine

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

Best Investment Bank

World Finance Banking Awards

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

ACI Award for Growth

ACI Awards

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

The Number 1 Bank Brand in Nigeria

The Banker Magazine

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

Best in Application Technology

Africa Information Society Merit Award 2012

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

The Best Retail Bank in Nigeria

The Asian Banker International Excellence in Retail Financial Services Awards 2012

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

Verve Congratulatory Award to FirstBank

Verve Awards 2012

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

How did we perform in 2012?

Recognition of our performance

Verve Award for Growth in Issuance and Activation

Verve Interswitch Awards 2012

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

Bank of the Year

Lagos Enterprise Awards 2012

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

Verve Award for Best Cashless Policy Driver 2012

Verve Interswitch Awards 2012

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

Bank of the Year

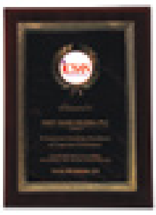
Hall of Grace Awards

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

African Telecoms Deal of the Year 2011 (Etisalat Nigeria)

Project Finance Deals of the Year Awards

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



A Corporate Award for Excellence in Corporate Governance

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

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

Best in Mobile Banking

Nigerian Telecom Award

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

African Financial Brand of the Year 2012

African Business Leadership Awards

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

The 2012 Sectoral Leadership in Banking

Pearl Awards

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

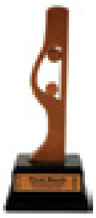
Bank of the Year 2012

African Governance & Corporate Leadership Award

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

How did we perform in 2012?

Recognition of our performance



Most Socially Responsible Company in Consumer Issues

Social Enterprise Responsibility Awards 2012

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

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

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

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

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

Great Place to Work Awards

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

Best Practice in the Banking & Insurance Sector

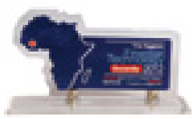
The Chartered Institute of Personnel Management Award for HR Best Practice 2012

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

Best Contributing Employer in Human Resources Development for Year 2011

Industrial Training Funds Award

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



Best Use of IT in Mobile Payment

The Nigerian Financial Technology Awards 2012

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

Best Contributing Employer in Safety Training Promotion for Year 2011

Industrial Training Funds Award

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

Further awards detailed in this report

p62 Great Place to Work Award

p65 First in number of electronic transactions processed and other achievements

Our approach

to ensuring long-term sustainability

In this section

Our approach is central to building a stronger bank for the long term and to building the sustainability of the Group for the long run. Key to our aspiration is to ensure a well-diversified financial services group with a strong balance sheet and ability to effectively manage risk. Our impact to society is greatest by offering the best value proposition to our clients and generally contributing to national development through the development of an efficient and effective banking sector.

Our Group strategy
37

Leadership and governance
44

Delivering business responsibly
55

How do we manage our business?

As discussed earlier, HoldCo manages four major business groups aligned along the financial services sectors we operate in, i.e., Commercial Banking (including our international operations), Investment Banking and Asset Management, Insurance and Other Financial Services.

Business groups are structured to meet the needs of industry segments thereby increasing specialisation and allowing for future growth. Each MD/CEO (of the business groups) is responsible for strategy formulation and execution in line with the Group (HoldCo) plan. Each business group is further organised into one or more divisions to serve distinct customer segments and/or product areas.

FBN Holdings is run as a lean non-operating company and the corporate centre includes a minimal number of support functions such as investor relations, finance, risk, strategy and marketing. Responsibilities of the corporate centre include:

- formulating Group strategy;
- providing Group-wide oversight;
- driving synergies across the Group;
- ensuring proper alignment of corporate governance framework through the constitution of governing boards and committees; and
- facilitating Group financial reporting with the holding company as the reporting entity.

Corporate centre activities are generally focused on establishing and maintaining distinctive processes that drive effectiveness (e.g., performance management). These activities include greater risk management supervision and enable optimal capital allocation decisions between the Bank and other businesses. The concentration of the corporate centre/shared services resources at the Group level allows for each business group to focus on their core business. It eliminates duplication of roles and costs by centralising shared services and facilitating maximum extraction of scale benefits for the entire Group.

How is our marketplace evolving?

Trends

The average growth rate realised in Sub-Saharan Africa (SSA) for the nine years leading to 2011 was 5%, while that for high-income Organisation for Economic Cooperation and Development (OECD) countries was 1%. However the average GDP per capita in Sub-Saharan Africa was quite dismal when compared with that of the high-income OECD countries during the same period in review. Life expectancy at birth in SSA and high-income OECD countries in 2011 was 52 and 79 respectively.

A review of financial services across the SSA environment reveals a number of opportunities that underscore our reason for positioning our Group in these markets and these sectors.

In 2011, the annual amount required to bridge the infrastructural divide in the telecommunications, agriculture, power, transport, and water supply and sanitation sectors in SSA was estimated to be $93.3 billion, highlighting the significant opportunities that exist for financial services providers. Similarly, retail finance services in Africa currently lag behind other developing countries especially with respect to financial depth and the level of financial inclusion within the region.

The ratio of private credit to GDP in Africa, other developing and high-income economies was 24%, 77% and 172% respectively. In addition to that, the average proportion of market capitalisation to GDP at 39% for most African stock exchanges with the exception of South Africa is still relatively small when compared with 44% and 62% in other developing and high-income economies, suggesting that there are opportunities to grow capital market operations within the region.

Some financial inclusion statistics reveal that 23% of adults in the region have an account with a financial institution. The level of ownership, however, varied from 4% of adults in the Democratic Republic of Congo (DRC) to 51% in South Africa. Mobile money payment platforms have achieved a relatively high success rate in Africa. In Kenya, 68% of adults reportedly use mobile money services, with the country recording the highest success rate for mobile money services in Africa. Across SSA however, mobile money penetration is only 16%, signalling yet another growth opportunity.

Credit intermediation is another feature of the financial services industry that is yet to be fully explored in the region. The financial inclusion assessment exercise reveals that the level of borrowing among adults in the Sub-Saharan region is relatively high (47% of adults surveyed in SSA admitted to have borrowed in the last 12 months). The source of these borrowings is however skewed towards informal arrangements, primarily from friends, family and informal lenders. An enterprise survey conducted by the International Monetary Fund (IMF) shows that the average number of companies on the continent that had access to credit was substantially lower than in other developing economies. 45% of the enterprises surveyed cited access to credit as a major business constraint. The outlook was reportedly more severe for small and medium enterprises (SMEs) in Africa as they have had to rely more on internal funds than on external funding/bank lines than their counterparts in other developing countries.

This trend also applies to the insurance services sector, as the contribution of SSA to the global insurance sector was 0.2% in 2011. Although the expectation is that general insurance activities will continue to grow, riding on the back of the anticipated growth within the region, retail insurance penetration still trails that of comparable emerging markets. This has been attributed to the lower-income levels, high incidence of low-income earners and a possible lack of appreciation or understanding of the benefits of insurance in terms of mitigating the adverse impact of personal and/or business risks. About 3% of adults in Africa are reported to have personally paid for health insurance and only 6% of those in the agro allied sector have purchased any form of insurance to guard against such risks that might arise from mishaps with crop cultivation, livestock management and related farming activities. The need to close the insurance gap between the SSA countries and other world emerging markets presents a huge opportunity for insurance businesses to thrive in the medium to long term.

In Nigeria, 46% of the potentially bankable people are estimated as not to have access to formal financial services. Reducing this deficit can be achieved by improving the entry barrier to financial services for this segment of the community. The DRC, another resource-rich country with a large population (estimated at 67 million in 2012), is also a

5%

average growth rate realised in Sub-Saharan Africa for the nine years to 2011 (1% for OECD countries)

23%

of adults in the region have an account with a financial institution

relatively lucrative source of growth. Although a relatively high-risk environment, it comes with the attendant high returns if the underlying political risks are adequately assessed and managed. Reconstructive work after the war will instigate economic activity while the relative peace conditions provide a first mover advantage of sorts for positioning services to the under-banked members of the public.

Interestingly, mobile phones and banking services are expected to transform the industry in the DRC, as was the case with the telecoms revolution in Nigeria. Mobile banking services were officially launched by a mobile phone operator in the DRC early last year. This is the first institution that has been endorsed by the Banque Centrale du Congo (BCC) to offer an electronic payment platform and will require partnership with commercial banks for a full rollout of the payment system.

Global economy

In 2012, the advanced economies dallied between contraction and mild growth. The slowdown filtered through trade channels as emerging economies also exhibited a softening in the rates of growth. Policy makers across the globe were faced with the challenge of identifying the appropriate stimulus that would engender sustainable growth.

The window for such interventions is somewhat limited for advanced economies, as the use of fiscal stimulus is limited and attempts to inject money in the form of quantitative easing has not been effective. The outlook for the price of oil will be dependent on the strength of some or more of these underlying factors.

Emerging markets, by virtue of their state of development and fiscal health, can accommodate growth via government intervention. They have also become a potential destination spot for investors seeking high yields. Nigeria has not been excluded from the receipt of foreign direct and portfolio investments. The financial services sector in Nigeria can therefore leverage not only the opportunities that arise in serving the un-banked but also the banking and financial needs that will arise from the productivity gains expected from government interventions in the infrastructural and power sectors.

FBN Holdings Company in Sub-Saharan Africa and diaspora

Our mission in SSA is to use our financial services platform to support aggregate growth but more importantly to serve as a catalyst in alleviating poverty and contribute to rising income levels. This we intend to achieve by providing services to retail clients as well as businesses in existing and emerging sectors. The mobile money services platform is a strategic interface and probably our first major contact with the informal sector and rural dwellers. The adoption of this service is still at the formative state in the region and particularly in Nigeria, therefore still offers the opportunity for growth.

We will ensure that as a Group, we play a prominent role in infrastructure-related projects (a rough estimate puts the annual spend on this sector in Africa at $93 billion per annum). The holding company structure provides us with the opportunity to provide all infrastructural financing-related services, from lending, syndications, advisory, debt structuring, etc. across the subsidiaries.

Our business is configured to provide the banking, investment and wealth management requirements of government, businesses and individuals. We will continue to capitalise on the ongoing financial inclusion policy by ensuring we design appropriate channels that will enable us to effectively serve the under and un-banked population in the region. We will leverage on lessons learnt in Nigeria, which can then be adapted for other target countries in the sub-region. Market penetration strategies would be influenced by relative stability of the target market, level of development and risk.

Africans in diaspora are estimated to be about 135 million spread across about 30 countries with Brazil, followed by the USA named as the top two host countries. Nigeria has also recently been announced as one of the key recipients of foreign remittances from the diaspora communities. This presents another opportunity to participate in the transfer of funds but also other ancillary engagements with the benefactors and beneficiaries of the repatriated funds. African local banks with a global outreach can most certainly extend a service gap that ensures that Africans at home and abroad have a full spectrum of financial services offerings that they might not necessarily presently enjoy.

The partnership between Sanlam and FBN Life Assurance has begun to bear fruits as we begin to extend our footprint within the insurance space. We plan to leverage on the strengths of the two well-established firms; Sanlam as the largest insurer in South Africa and FirstBank as the largest Nigerian commercial bank to command a strong retail insurance presence.

We remain conscious of the changing landscape in terms of local and potentially foreign competitive pressures in our space and face the challenge by keeping our focus on the client and ensuring that our processes and people are well aligned to deliver on our unique value proposition of a one-stop shop offering diversified financial services.

16%

mobile money penetration across Sub-Saharan Africa (68% in Kenya)

46%

of potentially bankable people in Nigeria are estimated not to have access to formal financial services

What is our strategy?

2012 was the mid-point of our current strategic planning cycle and gave us an opportunity to review our Group strategy to assess performance within the industry in making any necessary adjustments. Our plan was formulated with the aspiration of transforming the largest Nigerian banking group into a dominant regional player.

At the time, FirstBank had established itself firmly as a leading player in the domestic market, which represents a sizeable proportion of SSA's banking assets. However, compared to large and rapidly growing emerging economies like India and China, it is clear that growth potential in Africa's financial services industry is vastly untapped. We sensed an urgency for FirstBank to begin executing a strategy that will position it as a clear leader in Nigeria, and ultimately SSA financial services.

Our aspirations today are consistent with the initial plan and we have executed successfully as our results clearly show. Each of the five strategic themes detailed below remain relevant and we will continue to drive implementation over the coming operating year.

Our Group strategy summary

Key Performance Indicators **p40**

Strategic themes	Description	Key Performance Indicators
Restructuring for growth	Improving flexibility in the Group's structure to accelerate profitable growth	**Growth** • Revenue growth • Earnings per share • Return on average equity
Business line expansion	Enhancing yields through increased focus on high-growth segments	**Expansion** • Non-banking revenue • Revenue outside Nigeria • Fee income
International expansion	Grow our franchise within and beyond our borders	
Synergies and cross-selling	Harnessing the power of the Group to drive superior returns	• Revenue growth • Customer satisfaction surveys
Sequencing growth systematically	Proper sequencing of strategic initiatives prioritising foundational changes	• Return on average equity

Strategic themes

Restructuring for growth

Improving flexibility in the Group's structure to accelerate profitable growth

FBN Holdings Plc is a key milestone for the Group as it is the culmination of our proactive efforts in optimising the operating and governance structure of the Group. A response to regulations over a period in our history led to a portfolio of subsidiaries with a low degree of coordination with costly implications (i.e., overlaps in business, uncoordinated balance sheet commitments, disjointed market approach and limited subsidiary oversight). Today, FBN Holdings is a non-operating financial holding company with clear business mandates for each group and deeper specialisation/client focus. We are better structured for growth and best positioned to capture the benefits of a broad set of financial services products regionally.

Business line expansion

Enhancing yields through increased focus on high-growth segments

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

Over the next operating year, we will continue to focus on the customer, i.e., acquiring new customers along priority segments (i.e., emerging corporates, affluent retail and the un-banked), growing customer profitability and leveraging our enhanced operations platform to offer better service.

International expansion

Grow our franchise within and beyond our borders

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

More details on BIC can be found on pages 106 and 107.

Synergies and cross-selling

Harnessing the power of the Group to drive superior returns

Strong natural synergies and cross-selling opportunities exist between banking and other financial services sectors, and we have intensified efforts to leverage our unique offering to forge deeper relationships with our customers. Going forward, we will focus on establishing the required enablers to influence better collaboration among business groups and/or lines of business. Specific opportunities we intend to pursue across and within HoldCo include:

- Commercial Banking group and IBAM – e.g., collaborating on State Government bond issuances, structured/project finance for infrastructure development, and trusteeship opportunities within the corporate and public sector spaces.
- FirstBank Ltd and FBN Bank (UK) – implementing an integrated private banking structure spanning across multiple geographies as well as global trade finance opportunities.
- Commercial Banking group and Insurance group – capturing bancassurance opportunities by cross-selling insurance products through our branch network. In addition, the oil and gas sectors continue to create new opportunities for innovative insurance.
- Commercial Banking group and Microfinance – the whole theme of financial inclusion offers exciting opportunities for collaboration, e.g., mobile payments combined with microfinance 'know-how' could be used to unlock the un-banked space.

Sequencing growth systematically

Proper sequencing of strategic initiatives prioritising foundational changes

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

Progress against targets

FBN Holdings Plc – priorities by growth horizon

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

What is our strategy?

Key Performance Indicators

FBN Holdings Plc

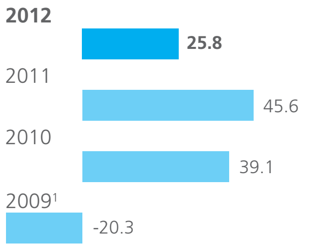
FirstBank Group (based on NGAAP figures)

Growth

Harnessing the power of the Group to drive profitable growth

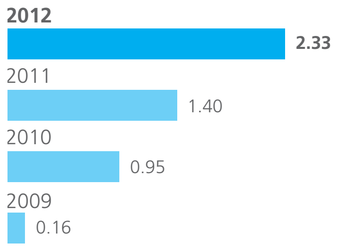
Revenue growth

Percentage increase in net revenue



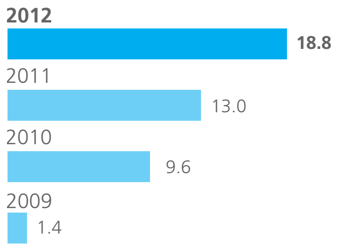
Earnings per share

Naira measure of PAT per share



Return on average equity

Percentage measure of post-tax return on average equity deployed



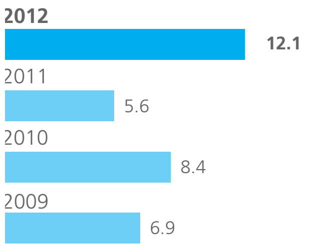
	Revenue growth	Earnings per share	Return on average equity
Target	Aggressively grow revenue to meet/ exceed market growth rate	To lead in total returns to shareholders, profitability, capital efficiency	Exceed cost of capital and deliver market competitive returns
Outcome	Slower growth in net revenue hauled by increased interest expense	Strong growth in EPS driven by improved profitability	Growth driven by higher profit

Expansion

Enhancing yields through increased focus on high-growth segments and regions

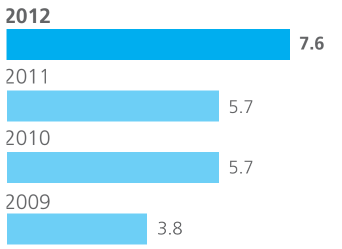
Non-banking revenue[2]

Percentage of net revenue from non-banking businesses



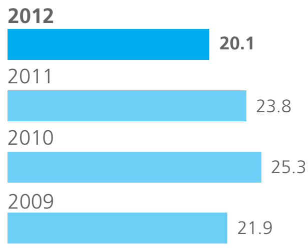
Revenue outside Nigeria

Percentage of total revenue from non-Nigerian businesses



Fee income

Percentage of net revenue



	Non-banking revenue	Revenue outside Nigeria	Fee income
Target	Leverage faster-growing NBFS (non-banking financial services) segments and bank synergies to grow subsidiary contribution to at least 25%	Strengthen Group's competitive positioning and maximise shareholder value	Outperform industry to enhance yields
Outcome	Improving contribution of other subsidiaries revenue to Group revenue	Increasing diversification as we work through international expansion strategy	Fee income retracts due to faster growth in interest income

1 2009 is nine months to December 2009.
2 This implies all subsidiaries other than First Bank of Nigeria.

What is our strategy?
Key Performance Indicators

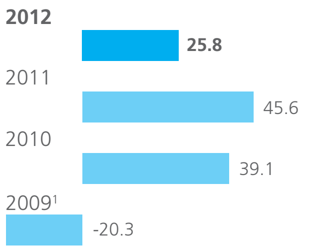
FBN Holdings Plc
FirstBank Group (based on NGAAP figures)

Group synergies and cross-selling

Harnessing the power of the Group to drive superior returns

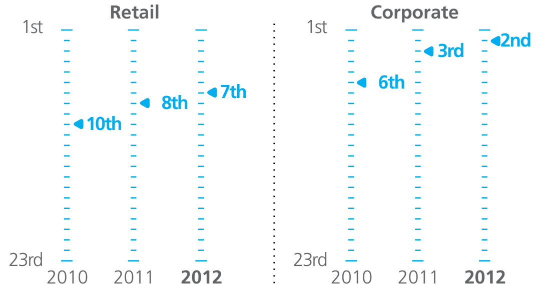
Revenue growth

Percentage increase in net operating income



Customer satisfaction ratings

Value rank in satisfaction surveys



Target

Enhance contribution to Group revenue

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

Outcome

Slower growth in net revenue hauled by increased interest expense

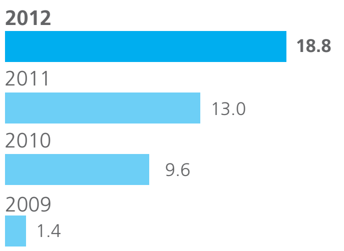
We have made impressive strides in the last four years and are now aiming for a 'Top 3' position in all customer segments

Sequencing growth systematically

Proper sequencing of strategic initiatives by prioritising foundational changes

Return on average equity

Percentage return on average equity



Target

To be a leader in our chosen market(s), enhance market positioning, earnings diversification and profitability

Outcome

Systematically increasing presence internationally while enhancing profitability

1 2009 is nine months to December 2009.

What makes our business model sustainable?

Overview

Our aspiration is to deliver growth by building a leading SSA financial services group. The sustainability of our business performance is driven by our structure, people and reach – giving us a true competitive advantage. Our structure has clustered similar businesses to improve coordination and specialisation while ensuring an optimal legal and compliance framework. Specifically, the separation of the Commercial Banking business from other operations, provides a platform for enhanced focus on growth of non-bank subsidiaries, allows for greater risk management supervision and enables optimal capital allocation decisions. Our passion to constantly up-skill the competencies of our people has been the driving force behind our employee transformation programme with initiatives such as talent management, cross-posting, mentoring, etc. 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.

One of the primary benefits of the holding company structure will originate from our ability to drive value across our subsidiaries through the synergies in the retail end of the business between our insurance operations and our banking business, and at the corporate and investment banking level between our Investment Banking and Asset Management business and our Commercial Banking business. In addition, the strengthened focus on corporate centre functions and the added discipline and rigour that will naturally follow in funding and capital allocation decisions as well as enhanced governance will ensure that the institution is set up for sustainable industry leadership.

Our shared services structure will also enhance efficiency across businesses. Optimal use of technology within the Group will drive costs down and speed up the new product development process within the Group, while reducing the time to market for the launch of new products and ideas.

The differentiating aspect of FBN Holdings' approach is the scale and scope of our business and brand portfolio, as well as our geographic reach. The diversity of our business portfolio creates highly valuable scale benefits that are difficult to replicate. In Nigeria, our Commercial Banking business has the widest distribution network, with 790 business locations, branches, cash centres and QSPs, and serves possibly the largest client list across all key customer segments. In terms of loan growth, credit quality and net interest margins (NIM) relative to our peers, our scale provides a more defendable interest margin. Similarly, our non-banking business groups enjoy economies of scale created by the large brand premium underpinning the Commercial Banking group.

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

Strong leadership

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

The Board comprises six members made up of five Non-Executive Directors (NEDs) and a Chief Executive Officer (CEO). To ensure appropriate oversight function, the CEO sits on the Board of each of the direct subsidiaries (business groups) of FBN Holdings.

For more information on our leadership and governance, see page 44.

Careful risk management

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

Our risk management is guided by our key elements philosophy including a holistic and integrated approach in bringing all risks together under a limited number of oversight functions but with responsibility for managing risks existing 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 to achieve and maintain a conservative balance between risk and revenue considerations.

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 page 47.

Delivering business responsibly

FBN Holdings' goal of driving long-term growth includes the protection of its stakeholders' interests. To enable growth as a business, profit making is significant and we recognise that we must do this sustainably and responsibly. In addition to our responsibilities to our customers, investors, employees and shareholders, we are aware of our responsibilities to preserve the environment and support the communities in which we operate. We are also committed to conducting business transparently and dependably by managing our business processes towards ensuring an inclusive positive impact on society. This involves operating ethically and sustainably in our dealings with all stakeholders as well as empowering the communities in which we operate. In order to create long-term value for our stakeholders, and as part of our responsibility to involve our stakeholders' perspectives in decision-making, we ensure we acknowledge that our business decisions affect them. This approach informs our citizenship priorities. Our key citizenship priorities are employee diversity and inclusion; financial inclusion; environmental sustainability; and philanthropy. For more information, see page 55.

Ethics and compliance

The Group prides itself on having one of the most compliant and leading holding company structures in the industry. Its governance structure/framework is unparalleled with Board and management appointments, including transitions at executive levels, made with ease and devoid of rancour and business disruptions.

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 (for further information, go to page 58). With an enviable corporate governance framework and also leveraging on the quality of its workforce, the Group has experienced continued growth in its various business operations in line with its strategic priority, which is '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 the high quality of its staff, the conduct of the Group's workforce remains professional, based on well-established ethical and code of conduct frameworks that guide expected behaviour. Employees are regularly sensitised to expected behavioural patterns through several internal campaigns aimed at ensuring that our people operate in line with high ethical standards.

What makes our business model sustainable?

Leadership and governance

A rigorous approach towards observing best practices in corporate governance is crucial to ensuring the Group's long-term sustainability.

Oba Otudeko, CFR, Group Chairman

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

The first step towards having an effective Board is ensuring that persons with excellent business knowledge and Board experience are appointed to the Board. As may be gleaned from the Directors' profiles at page 144, each of the Directors have sat or are currently sitting on the boards of holding companies or group of companies and it is expected that this will prove beneficial to the Board in providing the seamless supervision a holding company demands. Each member of the Board is expected to attend at least two to three major trainings in a year and their performance will be evaluated annually through a Board appraisal process to be anchored by an external consultant as appointed by the Board.

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

The developing phase of the Group means considerable time and effort in the coming year will be spent on putting in place structures to ensure strict observance of global best practices in corporate governance including making key appointments from within and outside the Group to aid coordination within the Group.

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

To enhance transparency and disclosure in our financial reports, the Group has adopted International Financial Reporting Standards (IFRS), thus aligning with the strongest global standards of transparency in financial reporting.

Biographies
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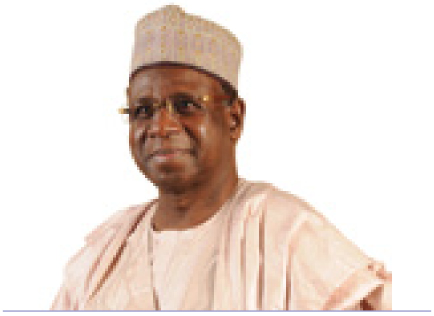
Board of Directors

Oba Otudeko, CFR
Group Chairman

Bello Maccido
Chief Executive Officer



Abdullahi Mahmoud
Director

Bisi Onasanya
Director

Lt. General Garba Duba, RTD
Director

Oye Hassan-Odukale, MFR
Director

Managing Directors of subsidiaries

Bisi Onasanya
GMD/CEO,
First Bank of Nigeria Limited

Peter Hinson
Managing Director,
FBN Bank (UK) Limited

Louis-Odilon Alaguillaume
Managing Director,
Banque Internationale de Crédit, SARL Resigned 17/02/2013

Kayode Akinkugbe
Managing Director,
FBN Capital Limited

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

Subu Giwa-Amu
Managing Director,
FBN Mortgages Limited

Adekunle Awojobi
Acting Managing Director,
First Trustees Limited

Valentine Ojumah
Managing Director,
FBN Life Assurance Limited

Pauline Nsa
Managing Director,
FBN Microfinance Bank Limited

Fidelis Ojeah
Managing Director,
FBN Insurance Brokers Limited

Olatunji Odesanya
Managing Director,
FBN Securities Limited

Martins Shoga
Acting Managing Director,
FBN Bureau de Change Limited

Magaret Baale
Managing Director,
First Funds Limited

What makes our business model sustainable?

Risk management approach summary

Overview

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

Responsibility for risk management exists at all levels within the Group, from the Board and the Management Committees down through the organisation to each business manager and risk owner. The Board drives the risk governance and compliance process through the Board Audit & Risk Assessment Committee and the Board Credit Committee. The Board Audit & Risk Assessment Committee evaluates the processes for identifying, assessing, monitoring and managing key risk areas; it also evaluates the adequacy of the Group's risk management systems and control environment. The Board Credit Committee is responsible for approving the Group's credit risk management strategies, policies, standards, products, approval limits/authorities and risk appetite.

The Board risk control functions are supported by various management committees (Management Credit Committee, Assets & Liabilities Management 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.

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

Performance in 2012

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

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

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

In relation to investment activities, the Investment Banking and Asset Management group (IBAM) expanded its activities in the equities markets during the course of 2012 while maintaining moderate market risk on its portfolios.

Responsibility for risk management

Risk factors overview

These risk factors highlight the major risks impacting on the Group's activities, the mitigation measures put in place to curtail these risks occurring and the personnel or unit responsible for the management of such risks.

Credit risk

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

Type of risk

Credit

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

Impact on business

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

Mitigation measures

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

Type of risk

Portfolio limit risk

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

Impact on business

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

Mitigation measures

Adherence to portfolio limits and regulatory requirements.

Responsibility

Strategic Business Units, Risk Management and Chief Risk Officer.

Market and liquidity risk

Type of risk

Interest rate risk

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

Impact on business

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

Mitigation measures

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

Type of risk

Foreign exchange risk

This is the possibility of loss posed by exposure to unanticipated changes in the exchange rate between two currencies.

Impact on business

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

Mitigation measures

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

Type of risk

Investment risk

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

Impact on business

Could lead to diminution in the value of investments.

Mitigation measures

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

Type of risk

Counterparty credit risk

Pre-settlement and settlement risk.

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

Impact on business

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

Mitigation measures

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

Type of risk

Liquidity risk

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

Impact on business

Could lead to insolvency and eventual reputational risk.

Mitigation measures

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

Responsibility

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

Operational risk

Type of risk

People risk

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

Impact on business

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

Mitigation measures

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

Type of risk

Operations risk

The risk 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.

Impact on business

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

Mitigation measures

- A comprehensive Control Administrative and Accounting Procedure (CAAP) Manual put in place to guide operational activities and processes of the Group
- The establishment of a central processing centre specialising in various operation areas, and the migration of some activities which were hitherto handled at the branches
- The introduction of a functional reporting structure to the operations job families to allow for effective supervisory control of the operations of the Group
- The introduction of a self-assessment programme to allow process owners to identify control weaknesses with a view to taking proactive remedial actions
- Automation and re-engineering of our processes
- Putting in place robust business continuity planning and disaster recovery programmes
- Stepping up operational risk awareness training and programmes
- Monitoring and managing key risk indicators (KRIs) in processes, products and activities.

Type of risk

System or technology risk

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

Impact on business

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

Mitigation measures

- The Group has a Disaster Recovery Centre (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.

Operational risk continued

Type of risk

External events and third-party risk

Impact on business

External events could lead to disruption in business and financial loss to the Group. Third-party failure could lead to poor service, reputational damage and financial loss to the Group. Technology failure due to activities of hackers and inadequate financial capacity to fulfil obligations could impact negatively on the Group's service delivery.

Mitigation measures

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

Type of risk

Regulatory and compliance risk

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

Impact on business

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

Mitigation measures

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

Responsibility

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

Information security risk

Type of risk

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

Impact on business

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

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

Mitigation measures

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

Responsibility

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

Legal risk

Type of risk

Litigation and adverse claims

Impact on business

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

Mitigation measures

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

Type of risk

Asset security cover risk

Impact on business

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

Mitigation measures

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

Type of risk

Contractual performance risk

Impact on business

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

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

Mitigation measures

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

Responsibility

Litigation and adverse claims – 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.

Compliance risk

Type of risk

Regulatory risk

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

Impact on business

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

Mitigation measures

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

Type of risk

Reputational risk

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

It is the risk arising from negative perception on the part of customers, counterparties, shareholders, investors or regulators that can adversely affect the ability to maintain existing or establish new, business relationships and continued access to sources of funding.

Reputational risk, typically through the provision of implicit support, may give rise to credit, liquidity, market and legal risk, all of which can have a negative impact on the Group's earnings, liquidity and capital position.

Impact on business

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

Mitigation measures

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

Responsibility

The primary responsibility for complying with regulatory requirements lies with all members of staff conducting particular transactions or activities to which regulation applies. However, the Board of Directors is ultimately accountable for compliance through the Chief Compliance Officer.

Doing business the responsible way

FBN Holdings has the goal of driving long-term economic growth, which includes protecting the interests of the Bank's depositors as well as retaining the diversity of the Bank's financial services businesses. To enable economic growth as a business, profit making is significant and we recognise that we must do this sustainably and responsibly. Apart from our customers, investors, employees and shareholders, we are aware of our responsibilities to preserve the environment and support the communities in which we operate.

Our citizenship approach

Our approach to citizenship includes our commitment to conducting business transparently and dependably by managing our business processes towards ensuring an inclusive, positive impact on society. This involves operating ethically and sustainably in our dealings with all stakeholders as well as empowering the communities where we operate. It is about our ability to engage with our stakeholders today in a way that allows us to competitively thrive in the future.

In order to create long-term value for our stakeholders, we ensure, as part of our responsibility, to involve our stakeholders' perspectives in decision making knowing that our business decisions affect them. This approach informs our citizenship priorities. Our four key citizenship priorities are employee diversity and inclusion, financial inclusion, environmental sustainability, and philanthropy.

Our citizenship journey

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

Our key citizenship priorities

Over
7,909
employees received training in 2012

247,000
customers now have access to financial services thanks to our First Instant account

Employee diversity and inclusion

Our employees remain a very significant stakeholder that must be truly rewarded and driven to perform. Our responsibility to our employees is to ensure that appropriate frameworks and policies are put in place to make this happen. Robust training is one of the various ways we empower our employees in driving a sustainable business. We demonstrated this commitment in 2012 by providing training for over 7,909 employees, out of a total of 9,091, which represents about 87% of the entire staff.

Our responsibilities to our employees also include enhancing workplace diversity and inclusion. FBN Holdings recognises that promoting diversity and inclusion in the workplace drives sustainability. It creates possibilities for change and innovation as unique views and ideas are aligned for a common goal. Our employees come from diverse ethnic tribes in Nigeria. This also applies to other countries in which we operate. And as part of our efforts to encourage inclusion in the workplace, we have some physically challenged employees. We also currently have nine women on the respective boards of the subsidiaries that make up FBN Holdings – which is the highest of any holding company in Nigeria. In addition, to engender healthy relationships and employee bonding, we have created platforms for our employees to actually express themselves and have truly fulfilling experiences. The Employee Volunteering Scheme is a good example of platforms dedicated to providing opportunities for staff engagement.

Financial inclusion

Financial inclusion refers to providing financial services targeted at poor people or low-income communities. It involves small and micro businesses, which are not served or are underserved by the formal financial sector. As part of our responsibilities to reducing the high financial exclusion rate in Nigeria (with 46 million/52.5% with no access to 'formal or informal financial products'), we are committed to increasing lending to small and medium enterprises (SMEs). Through active partnerships with government and other stakeholders, we have successfully provided loans and financial services for over 40,000 SMEs in Nigeria. In addition, our First Instant account, designed for the under-banked/un-banked, has provided over 247,000 customers access to financial services.

Our responsible approach to doing business has seen us design sustainable products and services tailored to suit the needs and expectations of our numerous customers. One of our key areas of focus is innovative, inclusive finance, which involves technology/ICT-based service delivery. For instance, Firstmonie is an innovative product targeted at the un-banked segments. Firstmonie has the unique advantage of allowing our customers and non-customers to withdraw money from any FirstBank ATM without a payment card.

At FBN Holdings, working responsibly is about a continued focus on satisfying our customers. This is why we have provided 714 branches in Nigeria for FirstBank customers to help channel their views of business and expectations as customers. In the same vein of consistently keeping to our promise on service delivery, we ensure payment of insurance claims within 48 hours from our insurance business.

Environmental sustainability

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

Philanthropy

Our corporate responsibility approach involves empowering the communities in which we operate. As a key stakeholder, we remain committed to improving the lives of the communities that help fuel our growth and survival. We continually engage them in finding out better ways of meeting their needs.

The views from our stakeholder engagement with communities formed the basis of our focus areas, which are education, economic empowerment and environment. In addition to these major platforms, we have a support platform, tagged special projects, through which we demonstrate our support for significant initiatives in areas of sports, arts and culture, health and welfare as well as security.

Doing business the responsible way

People

While seeking to achieve its aspiration, the Group introduced initiatives to make it become a hub for the best talent in the industry. This provides context for the various initiatives and outcomes across the Group.

Staff capacity building

Training and capability development initiatives were focused on the competency requirement of the job and also in line with industry requirements. Training programmes were developed in line with the competency framework established for the Group. Over 87% of the workforce across the Group attended courses and programmes that are required for improved job performance. These were in the form of conferences, seminars and professional workshops, and in-house and external training. The total number of staff trained across the Group during the period was over 7,909 out of 9,091 representing about 87% of the staff.

With a mandate to ensure that goals are consistently met in an effective and efficient manner, an objective performance management system was also introduced. The performance management strategy is aimed at achieving both employee and organisational goals. A key achievement was the changes made in the performance management process and framework. Scorecards and KPIs were designed and drilled down from corporate to individual objectives to measure and monitor how staff are delivering on the Group's strategic objectives. In view of this, periodic review sessions were held between employees and their superior officers to foster an understanding of their expectations/performances on the job, and areas that require improvement.

Another major initiative introduced in the Group to drive staff performance was the employee engagement framework. The framework comprises improved communication channels through periodic town hall meetings, communications from management to staff, obtaining feedback from employees and taking action in relation to the responses obtained from staff. The Group also kept employees well-informed about the happenings in the Group. Bonding and interactive sessions were encouraged with official 'hang-out' sessions on a quarterly basis.

Harnessing institutional knowledge

Knowledge management

A knowledge-sharing initiative was also introduced to drive information gathering, sharing and dissemination from staff who attended training to those who had no opportunity to attend such training. In addition, quarterly gatherings and meetings were held to review highlights of the Group's businesses and the economy in order to broaden the staff's knowledge of business opportunities and leading practices. This initiative has led to the development of a knowledge management framework aimed at building a repository for institutional knowledge.

The need to also manage both tacit and explicit knowledge in the Group has become more apparent with the entrance of younger and more productive staff and gradual reduction of experienced staff over the years. If a knowledge management strategy or framework is not put in place, it might lead to a dearth of capacity/institutional knowledge. The situation has informed the establishment of a knowledge management framework in the Group. The main benefit of the framework is to harness the Group's tacit and explicit knowledge and make it available to a larger percentage of staff to ensure business continuity.

As a corollary to building broad and deep institutional knowledge, the Group embarked on cross-posting, secondment and job-shadowing initiatives to give staff the opportunity to expand and acquire knowledge across the Group. Also FirstAcademy, the Group's Ivy League school, was positioned to serve the Group's training needs.

The Group has a well-established ethics and code of conduct framework that guides expected behaviour. Employees are periodically reminded of expected behavioural patterns through internal campaigns aimed at ensuring that they operate with high ethical standards. 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. This will not only confirm our position as a compliant organisation but also further strengthen our operational efficiency, thereby reducing or totally eliminating incidents that might lead to sanctions and in turn, impact positively on the bottom line.

With its capacity-building initiatives, the Group pays additional attention to attracting and retaining talent to continuously drive and create unique value/experiences for its numerous customers and the businesses it has chosen to operate in. This is reflected in its compensation and performance management strategy in order to promote a merit-driven system.

To promote staff development and growth, the Group also embarked on numerous projects and initiatives such as: talent management, cross-posting, secondment, mentoring and counselling, FirstAcademy Schools and succession planning.

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

Against this background, the fundamental focus of the Group in 2012 was to continue the implementation of strategies to drive the achievement of its strategic aspirations with effective talent management/development towards building sustainable leadership.

Building sustainable leadership

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

Talent management

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

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

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

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

Enhancing staff skills and expertise

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

The Academy is structured into four schools namely:

- Foundation School, Tier One and Two;
- specialised schools;
- Management School; and
- Leadership School.

The Foundation School

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

Specialised schools and Management School

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

The running of the two specialised schools established earlier had a positive influence on service delivery to our customers and also on the quality of assets acquired by the Bank.

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

Training hours

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

Staff trained (FirstBank Nigeria only)

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

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

Competency framework

In line with the CBN's competency model, we had developed a comprehensive competency framework starting with the Bank. This formed a major input in our resourcing and development strategies. The framework was also a key concept driving our talent management strategy.

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

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

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

Mentoring and coaching

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

FirstLearn

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

The Bank successfully used the FirstLearn training platform to train

2,352

Relationship Managers in products and marketing courses

Levels of staff engagement at the Bank rose from 63% in 2010 to

82%

in 2012 for 2011 year end

GREAT PLACE TO WORK®

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

Action learning

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

The Bank became a registered member of the World Institute of Action Learning (WIAL) in 2011, consequent upon which some staff were trained on the act and practice of action learning in July 2012 as a required condition for Certified Action Learning Coaches. This approach to training going forward will frequently be used in addressing challenges identified in the workforce.

Employee Engagement

The Group has consistently introduced initiatives such as Town Hall and village meetings, appointments of Change and Brand Champions, and road shows to promote a high level of staff engagement. The belief is that a high level of employee engagement will lead to staff motivation and subsequently result in high staff productivity.

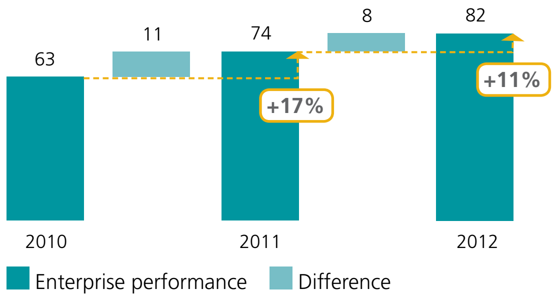
Great Place to Work Award

This achievement was corroborated by the various workplace surveys the Bank subscribed to in 2012. Such workplace climate surveys included the Great Place to Work, KPMG, CIPD international workforce climate and Gallup international employee engagement surveys. Two of the awards won from the surveys are the 'Best Indigenous Company to Work for' and '2nd Best Place to Work' among the 10 best companies that cut across various sectors.

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

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

Trend analysis of enterprise performance



Performance management

In tandem with our resolve as a specifically performance and merit-driven organisation, the Bank's performance management system (PMS) is centred on defending the Bank's strong leadership position in the industry. The system is geared towards maintaining a high performing workforce with a strong governance culture. The Bank maintains an integrated performance management system, People First Management System (PFMS), for setting, cascading, tracking and measuring performance objectives against organisational goals. This is being cascaded to the other companies within the Group.

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

81%

of the workforce were rewarded with Pay for Performance (PFP) in 2012

In specific terms, the Group succeeded in deploying assessment centres for staff eligible for promotions to higher grades. It also tweaked the behavioural section of its scorecard to reflect the competency framework developed. In particular, the Bank continued the use of the FirstBank Annual Merit Award (FAMA), Chief Executive Annual Merit Award (CAMA) and Pay for Performance (PFP) as incentive and reward schemes to encourage high performance in the system. For example, when 7,377 staff were rewarded with the PFP, being 81% of the workforce. The Group will continually drive initiatives to develop a highly performance-driven culture in the organisation.

Health and well being

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

In conclusion, the Group places greater emphasis on human capacity building with a supportive talent management framework which has informed the various initiatives in the areas of staff development and motivation. In 2013, we intend to undertake full implementation of the Group's talent management framework, roll out more schools in FirstAcademy, and deploy fully the knowledge management framework and maximum use of our e-learning (FirstLearn) solutions.

Supplies

Building supplier relationships

Across the Group, we place particular value on vendor relationships. We understand the quality of vendor relationships has a direct impact on our competitive position. We recognise the need to build bridges between our organisation and the vendors we work with by establishing strong buyer/seller relationships. Essentially, we relate to vendors as partners with clearly articulated service level agreements (SLAs). This ensures all parties carry out tasks as expected and within agreed timelines. Where necessary, we provide financial support to deserving vendors in executing supply mandates.

We do not only manage vendors for operational effectiveness and incremental cost reduction. We improve operational and strategic effectiveness by working with our vendors to create long-term strategic benefits for our business and by leveraging the latent ideas and opportunities with key vendors. We hold sessions with our vendors with the aim of extracting valuable and exciting new initiatives. An example of such initiatives is the integrated security solution system installed at head office. This 'state of the art' solution is a product of continuous dialogue and brainstorming sessions culminating in the integration of closed-circuit television (CCTV), access control and building automation at head office. Having successfully installed and maintained the integrated security solution system at head office, we have continued to hold further sessions with the vendors on how to leverage modern technology in security solutions to further enhance our business across the Group's network.

Our procurement policy and procedures

In order to achieve our set objectives in procurement, we have a detailed procurement policy and procedures for all procurements across the Group. Our procurement policy sets out a common approach for the procurement of all products, equipment and services, in addition to appropriate documentation of the process for the award of contracts across the Group. However, we adopt clearly defined methods of procurement or contract award and execution, depending on the nature of goods or services to be acquired.

The policy facilitates implementation of a centralised procurement system to leverage on economies of scale and get bulk discounts.

The department responsible for all procurement activities is centralised and customer focused with clearly defined roles and responsibilities of all units/concerns involved in the procurement process. It further seeks to ensure that the Group complies with the best practices in the industry as well as ensuring all transactions are open and transparent.

How we evaluate our suppliers

We understand it is critical that a major vendor selection process should engage all relevant stakeholders and ensure a transparent and accountable process is implemented. As such, we have in place a rigorous vendor selection process with an articulated methodology. This process ensures application of judgement and the ability to analyse quantitative and qualitative evaluation criteria towards reaching a firm and unbiased decision.

Furthermore, SLAs are executed with vendors in ensuring performance standards are met and to define and secure business/vendor relationship.

Doing business the responsible way

Customers

By its new holding company structure, the FirstBank Group is engineered to enhance performance, profitability and afford each group the opportunity to focus on its defined customer segment while also contributing to the end-to-end customer engagement model within the group.

As a Group, our customer service objective is:

- to achieve the highest service quality and levels of customer satisfaction;
- to make banking, whether domestic or transnational, easy and convenient for our customers;
- to maintain strong and mutually beneficial relationships with our customers by offering products and services best suited to their financial needs and profile; and
- to offer consistent and excellent service so whether customers interact with our people, undergo our processes or use our products we can pride ourselves on delivering an experience that is truly delightful and rewarding.

In furtherance of our objective above, we focused on improving service delivery, listening to our customers, understanding their needs and meeting expectations, for example as a result of customer feedback, the FBN Microfinance Bank has initiated changes in its loan interest charging system effective January 2013, from monthly flat rates to a reducing balance method. The bank has developed products tailored to the particular customers' needs such as 'My Daily Savings' product, which allows our customers who sell on a daily basis to save small amounts of money daily through our collection staff. We also use POS machines to serve our customers in their homes, shops and offices thus ensuring added value, thereby making a significant difference for our customers. In addition, the FBN life offers various policies to cater for the needs of its diverse customers, ranging from the individual life policies to the credit life and group life policies.

Listening to our customers

Listening to the customer is a guiding principle for us and we do this by engaging with the customer through surveys, complaints and one-on-one feedback given to staff. The voice of the customer is discussed at management level and we have instituted a service performance reporting process in FirstBank with the establishment of the service steering committee chaired by the Group Managing Director, which sits to review its service performance and service quality and define improvement initiatives. We also have the same process in our subsidiaries including FBN Bank (UK) (FBN UK), which has set up a customer service committee in recognition of the importance of continually reviewing its existing customer service structure, with the aim of finding new ways in which it can improve the quality of service delivered to the Bank's customers.

Consumer protection

With a large portfolio of diverse customers, we are required to put in place measures that protect each customer within the Group. We work very closely and comply with Central Bank's directive on consumer protection wherein we have established our complaints management framework within the Bank. We have also communicated channels through which customers can complain and have established the office of the customer ombudsman with responsibility for investigating and resolving complaints in a speedy and efficient manner.

In line with best practices and through FBN UK, we adopt the principles to the UK regulatory-driven initiative of Treating Customers Fairly (TCF), which aims to promote the fair treatment of customers and ensure an efficient and effective market.

All our employees complete information security awareness training and those employees working in particularly sensitive areas receive additional specialised training. Each of our groups has clear incident procedures for identifying and investigating any security issues that might affect the customer negatively.

Building strong relationships

With millions of customers scattered across the globe and cutting across various segments, from individuals to corporate organisations, we have diversified products tailored to meet their respective needs. To meet customer expectations we have undertaken to continually review the product range being offered to our customers and this we achieve by proactively seeking customer feedback through focused group discussions and surveys.

Our staff are trained and provided with the necessary tools to complement our customer service objectives, so whether customers want to buy a new home, start a new business, move funds around the work or simply invest in their future, our staff are empowered and understand our customer management practices.

FBN Microfinance Bank has over 70,000 customers mostly made up of small traders. We reach out to these customers by granting them facilities ranging from ₦10,000 to ₦300,000, which previously would have been impossible considering the requirements needed to access a facility. This facility assists them in managing their businesses on a daily basis and helps them grow their businesses in the long run. We also provide capacity-building information on areas such as health management and loan management.

Customer service

We continue to focus on improving the overall customer experience. Our contact centre is available 24 hours to deal with customer enquiries and offers multilingual options for customers. Across our branch network we have dedicated customer service officers as the first point of contact for enquiries. We have also embarked on a branch transformation journey to ensure that customers are able to conduct banking in a welcoming environment.

As part of our efforts to improve on service delivery, our life assurance arm established its policy servicing unit, which has embedded in it a customer service sub-unit and recruited qualified manpower to handle all customer enquiries and complaints. This has ensured prompt response to customer enquiries, complaints and lasting resolutions. In addition, the standard operating procedure (SOP) manual for its customer service unit guides the activities of its personnel. The manual details the guidelines in handling customers' enquiries/complaints, which come in through various means of communication, and the timeline required to respond to enquiries, as well as resolution timelines. It states how customers must be responded to either via emails, phone calls or direct contact with them and the need to ensure that customers are satisfied. Finally, it details the processes involved in handling different complaints and how such issues should be resolved.

Handling complaints

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

In our assurance arm, the complaints policy is contained within the policy terms and conditions booklet that customers receive at the point of sale. This policy booklet was recently enhanced with additional information to aid better understanding of our policies for various complaints and to simplify our processes to our clients. The deployment of the electronic premium collection software to ensure all direct debit issues are eradicated and seamless and the use of the Spiceworks software for registering enquiries/complaints to ensure proper tracking and follow up are some of the many measures we have put in place.

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

Customer satisfaction

Due to the size, scope and breadth of our operations we are not able to measure customer satisfaction levels in a uniform manner. However, we engage with our customers on a regular basis to receive feedback, ensuring that effective communication is maintained from an end-to-end customer engagement perspective.

Across the Group we use a variety of means to receive feedback from the customer, including customer satisfaction surveys to enable us to compare our service quality to customer perception and expectation. The feedback received helps identify service areas that require improvement and proffer solutions accordingly.

More recently, we established a service performance reporting framework in our Bank subsidiary to drive our insistent focus on our customers, which we see as the foundation of our performance and, we believe, will generate sustainable value for our shareholders. Through this framework, which includes customer surveys, mystery shopping, generating internal reports and customer engagement forums, we measure our service quality and customer satisfaction levels.

Feedback from this indicates that customers want us to focus on the following:

1. Crowds/long queues;
2. Staff attitude;
3. ATM uptime and availability;
4. Credit accessibility;
5. Transaction turnaround time; and
6. Customer industry knowledge.

These areas will be focused on and tracked for feedback to our customers.

Objectives for 2013

As part of the strategy of FBN Holdings to continually improve service delivery, the following priorities have been set for the year 2013:

- continually review our service levels to ensure they match service expectations;
- increase customer satisfaction;
- re-activation of dormant accounts in the branches;
- increase in customer acquisition across the branches;
- further expansion of our branch network to continue taking our services closer to the customers;
- increased growth for My Daily Savings product for FBN Microfinance;
- conduct training sessions for customer service staff to ensure they are abreast of best practices;
- create a more interactive website, which allows access to individual data and a section for initiating the process of claims settlement for FBN Life Assurance;
- use of the mobile money platform by clients to pay their insurance premiums and sending of SMS to customers once premiums have been received as well as policy acceptance; and
- providing a customer-friendly environment for customers.

Doing business the responsible way

Innovative banking services

Across the Group, we are focused on delighting our customers by improving the service we provide to them and innovating our processes to be able to reduce their cost of doing banking transactions with us.

Strategy and innovation

FirstBank enhanced its card and PIN issuance processes to issue and activate debit cards to customers across its branches in just 15 minutes, saving customers the cost and inconvenience of having to visit our branches multiple times to collect their cards and PINs, a strategy that was fundamental to the phenomenal growth in the group's card portfolio in 2012. Some of our businesses created 24/7 customer support teams that provide prompt support to our customers' e-transaction issues, and also set up a 24/7 dispute resolution desk that ensured that all customer transactions disputed were resolved in line with our service commitments. Our Microfinance business for example, is providing convenient banking for customers by taking point of sale (POS) devices to markets and cluster locations where customers perform their transactions and are immediately notified of their account balance change via SMS.

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

We introduced a number of innovative products and services especially in the areas of Mobile Financial Services – Firstmonie, Go Pilgrimage cards, and a 'design it yourself' card solution, eXpressions™, that allows our customers to choose the look and feel of their cards from the comfort of their homes or offices. We believe that this product will appeal to the youth and will serve as the driver for growing our market share of the youth segment.

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

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

Performance

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

The number of POS terminals deployed grew significantly from less than 2,500 terminals at the end of 2011 to over 18,500 at the end of 2012. Transactions done across the Group accounted for over 30% of completed transactions in the industry, while our issued cards constitutes about 31% of total Verve Cards, on the InterSwitch network – the dominant switching and payment processing platform controlling about 75% of the electronic payment market in Nigeria.

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

How we are driving financial inclusion

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

We will continue to develop innovative products for our Firstmonie customers to address their financial access needs.

Increasing access

Our internet banking offering is assisting to increase access to banking for our customers and to reduce our costs-to-serve. For instance, in 2012, our customer transactions on the internet banking platform amounted to over ₦91.9 billion, representing about 194% growth from about ₦31 billion in 2011. We are determined to continuously improve banking access for our customers, and as a result, FirstBank and FBN UK are upgrading the internet banking platform to a more robust system capable of improving the turn-around time of enrolling new customers while offering better and more appealing customer interface and experience.

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

Achievements in 2012

First in number of electronic transactions processed

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

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

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

First in number of active Verve cards

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

First in number of ATMs deployed

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

First in number of deployed POS

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

First in number of ATM transaction volume and value

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

Looking forward

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

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

Doing business the responsible way

Communities

At FBN Holdings, corporate citizenship involves empowering the communities in which we operate. As an important stakeholder, we continually work with the communities – listening and meeting their reasonable needs and wants.

Our key focus areas regarding our responsibility to our communities are education, economic empowerment, environment and special support.

Education – ₦392,909,615

FirstBank professorial endowments

The professorial endowment was instituted by FBN Holdings subsidiary FirstBank, as a long-term commitment to sustainable educational development in Nigeria. These professorial endowments were constituted in 15 universities and, to date, we have professorial chairs in 10 Nigerian universities, with the total endowments worth over ₦400 million. Some of the endowments have been converted to strategic infrastructural projects in universities in cases where it will make significant impact to schools. Some of the universities and endowed academic fields include: University of Lagos: business ethics; Nnamdi Azikiwe University, Awka: banking and finance; and University of Agriculture, Makurdi: agronomy.

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

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

Educational infrastructure development

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

Teaching resources

A good educational system feeds on learning. And some key factors that enhance learning are a favourable environment and educational facilities. To this end, the Bank has partnered with institutions to provide some of these resources, which include a laboratory in Egwena Girls Secondary School in Abriba; two Toyota Coaster buses to Lagos State University; as well as portable drinking water to Langbasa Primary School in Victoria Garden City.

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

Educational Infrastructure Development: refurbishment of four classroom blocks in Police College, Kaduna.

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

Economic empowerment – ₦169,353,729

Nigeria Leadership Initiative – Guest Speaker Forum

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

Second African Women Economic Summit

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

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

Students in Free Enterprise (SIFE) and Student Economic Forum

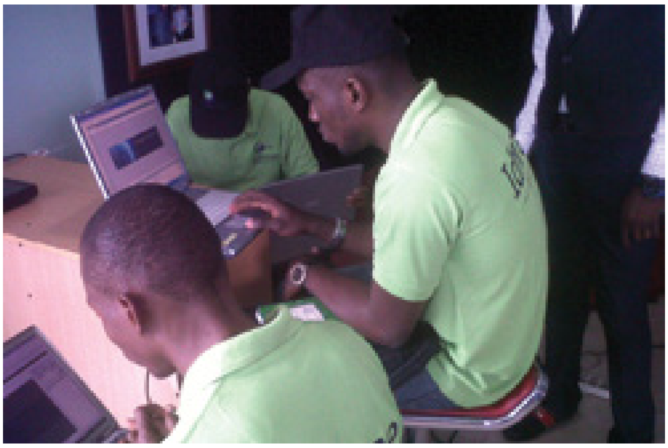
In harnessing the entrepreneurial potential of youth and to reorientate their perception to making a change in their communities, FirstBank partners with SIFE to encourage entrepreneurial skills in undergraduates across Nigeria. One of such initiatives is the Business Smart Campus and Online Competition. The Business Smart Project is a new initiative, implemented by SIFE, that seeks to support and promote entrepreneurship and economic empowerment of youth across Nigerian campuses.

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

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

IDHRAE (Integrity, Discipline, Hard Work, Responsibility, Accountability and Excellence) value-oriented initiative

IDHRAE value-oriented initiative is a non-governmental organisation in Nigeria that focuses on building entrepreneurial capacity of, and instilling values in, young people. With support from the Bank, these youths went through three months' intensive training, choosing from vocations such as mechanised farming, fishery, catering, web designing, fashion and makeover. Upon graduation, these youths also received seed funding to start a business in their chosen vocation.



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

Environmental sustainability – ₦1,000,000

Our commitment to environmental sustainability is demonstrated in a number of ways.

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

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

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

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

Special projects – ₦481,519,024

Disability support: Down Syndrome Foundation Nigeria

FirstBank disability support includes support for the visually impaired, physically challenged autistic children and children with Down Syndrome.

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

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

Disability support: Nigeria Association of the Blind

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

Sports development

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

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

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

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

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

Security

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

The Group Managing Director, First Bank of Nigeria, a subsidiary of FBN Holdings, Executive Governor, Abia State and the ED, Public Sector SBU, South, First Bank of Nigeria, during the official handover ceremony of Hilux vans to the Abia State Security Trust Fund.

Arts and culture

The Bank has created, through its support for arts and culture, a platform to speak to the family, society and encourage nation building. The support for performing arts and culture has enabled the Bank to be able to revive cultural value and strengthen family ties, while also creating employment in the creative industry.

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

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

Employee Engagement and Volunteering Scheme

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

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

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

The highpoint of the yearly EVS activity is at the CEO Annual Merit Awards, CAMA, where staff are selected through a raffle draw for a ₦5 million prize, which must be donated to a bona fide charity of the winner's choice anywhere in Nigeria. Patricia Duru, winner of the 2011 CAMA CSR grand prize, chose the 50-year-old Mercy Motherless Babies Home, Okwelle, Imo State and on 12 September 2012, visited the home to make the presentation.

Staff volunteers at the 'in the spirit of giving' **Employee Volunteering Scheme** (EVS) activity December 2012 visiting an old people's home, Yaba.

CSR project updates during the financial year

Activities	Impact in numbers
ECONOMIC EMPOWERMENT	
Support for youth economic empowerment through: • Partnerships with Nigeria Leadership Initiative (NLI), IDHRAE value-oriented initiative, SIFE Business Smart Campus Competition and FB initiative **Support for institutional economic empowerment:** • League of Abriba Professionals (LeAP) economic summit • Enterprise Development Centre social dialogue **Economic empowerment for women: capacity building for women in partnership with:** • The International Women's Society, New Faces New Voices on the second African Women Economic Summit and the Committee of Wives of Lagos State Officials (COWLSO)	**9,619 beneficiaries**
EDUCATION	
Education infrastructural development: beneficiaries include Lagos State University, Queens College, University of Lagos, Regent Secondary School, Abuja, Police College Training School, Kaduna, Ekiti State University, Olivet Baptist High School, Ajumogobia Science Foundation, Estate Senior Grammar School, Lagos and Lamgbasa Primary School **Endowment partnerships with nine universities**	**14,840 beneficiaries**
ENVIRONMENT	
• Nigeria Conservation Foundation	**500 beneficiaries**
SPECIAL SUPPORT	
Disability support through partnerships with: • Theseabilities, Nigeria Association of the Blind and the Down Syndrome Foundation Nigeria **Support for cancer awareness through partnerships with:** • Maria Sam Foundation and Mandi's Cancer Care **Donations to the following care homes:** • The Red Cross Owerri, Freedom Foundation, Light of Hope orphanages, Mother Theresa Orphanage in Abuja, Old People's Home Yaba, Centre for the Destitute Development and Motherless Babies Home, Okwelle	**7,113 supported**
Promotion of arts and culture • Umoja, Rubiewe, Five maids of Fadaka, Life House Africa 2012 Film Festival, Badagry Festival, Muson Festival, Akinola Lasekan 40th Memorial Art Exhibition & Symposium, Word up (spoken word poetry and soul music), 2012 Calabar Festival, 2012 Enugu Festival, Igwe Festival 2012, Chief Edokpolor Art collection exhibition, 2012 Lagos Heritage Week (Lagos Carnival), Mad King of Ijudiya Theatre play	**20,494,050**
Sports Development • The Learning Place Sports Day, Greensprings Sports Day, Captain's Day Golf Tournament, Alumni Golf Tournament, 26th Dala Hard Court Tennis Championship, Western Ladies Golf Association of Nig – Golf Open 2012, 2012 Kaduna Polo, 51st Lagos Amateur Open Golf Championship 2012, 2012 London Olympics	**14,015,750**

Standards and codes

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

ISO 26000 guidance standards on social responsibility

ISO 26000 is an international standard giving guidance on social responsibility. It is intended for use by organisations of all types, in both public and private sectors, in developed and developing countries, as well as in economies in transition. It is designed to help organisations in their efforts to operate in a socially responsible manner. ISO 26000 contains voluntary guidance, not requirements, and therefore is not for use as a certification standard.

FirstBank, one of the subsidiaries of FBN Holdings, is a technical partner in the Nigerian adoption process tagged 'ISO 26000: NAP', which began last year. As a technical partner, we are fully committed to the seven core subjects of ISO 26000 guidance. These are: community involvement and development; human rights; labour practices; the environment; fair operating practices; consumer issues and organisational governance. Clearly, being part of the process has allowed us to shape the thinking and outcomes in line with local understanding and relevance. Our subsequent reports will be ISO 26000 based after the adoption ceremony, scheduled to take place in the second quarter of 2013.

The Nigerian Sustainable Banking Principles (NSBP)

The NSBP programme was constituted under the auspices of the Central Bank of Nigeria and the Bankers' Committee to formulate sustainable banking standards and guidelines for Nigerian banks. This led to the birth of the Strategic Sustainability Working Group (SSWG), of which First Bank of Nigeria, a subsidiary of FBN Holdings, is a member.

With support from FMO Entrepreneurial Development Bank (FMO), International Finance Corporation (IFC) and an independent adviser, the SSWG was instituted to work under the Bankers' Sub-Committee on Economic Development and Sustainability to develop the Nigeria Sustainable Banking Principles (NSBP). The priority focus areas for the sustainability programme were: agriculture (including water resource-related issues and the Nigeria Incentive-Based Risk-Sharing System for Agricultural Lending (NIRSAL)), power (with an emphasis on renewable energy) and oil and gas.

The Bank actively participated in two of the sub-committees (agriculture and oil and gas), which made submissions that were approved by the Bankers' Committee for implementation by the sector regulators, banks and other related financial institutions. Following this, a cross-departmental Sustainable Banking Working Committee has been established in the Bank to drive the implementation process of the principles in the Bank, starting from January 2013.

As an institution and based on NSBP guide, FirstBank has begun a process of putting the necessary frameworks in place (such as environmental and social systems and procedures as part of the sustainability policy) to harmonise all the elements that will drive the sustainability embedding process in the Bank and eventually other subsidiaries of the holding company. We are working towards meeting the NSBP suggested timelines and we are on track to deliver our first progress report at the end of December 2013.

However, in line with the principles of women's economic empowerment, financial inclusion and collaborative partnerships, we have made reasonable progress in our approach. In demonstrating our commitment, we have consistently supported small and medium enterprises (SMEs) by providing easy access to loans. We have over 40,000 SMEs as customers. One of our key focus areas is agriculture. In partnership with the Federal Ministry of Agriculture in its various schemes, which involve interest rebate, interest drawback and single-digit lending, we have contributed significantly to the growth in this sector. The Bank has a market share of 26% under the Federal Government's Growth Enhancement Support Scheme.

We promote women empowerment through our support for women driving SMEs. Currently, over 3,000 SMEs run by women get support from FirstBank. In terms of business operations, our Board composition consists of four women out of 19, representing 21% of the Board. The FirstBank Board has one of the highest female compositions in the financial industry and our focus in the next year is to provide capacity for women running SMEs.

The UN Global Compact

We started the process for UN Global Compact membership in late 2012 with the goal of supporting the principles of the organisation. We became a member in the first quarter of 2013.

Stakeholder engagement

Stakeholders are those who affect or are affected by an organisation. Our key stakeholders include the Board of Directors; executive management; employees; customers; shareholders; suppliers; regulators; and media. There are different types of stakeholder engagement models and, often, each with a guide and/or principles on best ways to engage stakeholders.

While this is so, the mechanism of stakeholder consultation is not cast in stone. Currently, our major consultation approach with our stakeholders includes personal interview, workshops and surveys. And because we know that employing the appropriate consultation mechanism for each stakeholder group is significant for desired outcomes, we are, as part of the sustainability embedding process, reviewing the current approach.

Our objective is to enhance relationships with our stakeholders and provide opportunities to further align our business goals with their needs and wants, which ultimately fosters long-term sustainability.

Doing business the responsible way

Resource efficiency

As a leading financial institution, we are committed to ensuring we run our business as efficiently as possible. With 790 branches, quick service points (QSPs), agencies and subsidiaries geographically spread across Nigeria, the efficient use of resources to achieve the desired goals and objectives is a top priority and cannot be overemphasised. This is important because it reduces cost, ensures better industry rating which helps the Group remain competitive, increases profit and ensures the long-term sustainability of the holding company. In addition, this would increase the confidence level of the various stakeholders, and generate more return on investment for the shareholders and more performance incentives for staff. We have put in place several systems and initiatives to ensure the holding company's goals in the area of resource efficiency are achieved. Some of these initiatives are stated below:

Centralised Processing Centre (CPC): In furtherance of our goal to provide better services to our customers through our branch network within the Bank, we introduced the Centralised Processing Centre. Specifically, we aimed to improve on customer satisfaction and the standardisation of service-related processes. Since 2010, when we initiated this project, we have continued to identify and centralise various processes that can be handled from our back office so as to free up staff at branches to focus mainly on rendering excellent service to customers who walk into the branch. We are pleased with the progress, which has seen significant improvements in turnaround times for various transactions including account opening, loan processing, online banking set-up request and bulk salary upload. Currently, CPC supports over 400 branches and we will continue with the implementation Bank wide in 2013. The whole process is supported by a workflow application that reduces paper trail yet provides electronic copies for use and archiving/back-up purposes in line with international business continuity best practice.

Expense requisition workflow: In the year 2012, the Group launched the expense workflow application to handle all expense requisition within the Group. The objective of this automation was to eliminate paper trail thereby eliminating the need to print and dispatch documentation for sign-offs and approvals. The application further facilitates reporting that clearly identifies areas of high expense, resulting in further investigations and informed decision-making on how best to address such sources of cost. Since the implementation of the expense workflow, we have been able to track, monitor and review the day-to-day cost associated with running each location of our business (branches). This has made it easier to get approvals for expenses, ensure accountability and most importantly resources are allocated judiciously.

Print optimisation: We are focused on reducing paper consumption by tracking print expenditure on an individual basis and review of print reports on a quarterly basis. This has ensured that staff use alternative ways of sharing information with each other like the use of paperless meetings, reworking of documents via email and the use of tablet devices during meetings. Since its implementation at the head office of FirstBank in April 2011, savings from total prints is estimated at about 8% and the process of implementing this initiative across all subsidiaries in the holding company has been initiated.

Online training: Online staff training has been introduced by our training school, FirstAcademy, and employees now have online real-time access to about 17 courses they would previously not have been nominated for due to lack of resources and logistics. This has helped increase the number of staff trained regardless of the location, reduced employee travelling cost associated with training, reduced the risk attributed to travelling from one location to the other, reduced the number of staff absent from work as a result of training and improved the efficiency of our training curriculum. Also, with the new skills achieved, our workforce is better equipped to deliver excellent service to our customers. The cost saved from this initiative in 2012 was ₦362 million.

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

Fleet management: The under-utilised resources have been eliminated with the introduction of the centralised fleet management system (FMS). This has reduced the number of cars and drivers hitherto acquired by the Bank and ensured the effective allocation of resources on a need and first-come basis.

Powering down timers in the office building: Lights are powered down at 8pm to fundamentally encourage work–life balance.

Use of telepresence locations for meetings: Three telepresence locations have been set up to reduce the cost and risk associated with travelling. This has not only reduced cost but increased the speed with which quality decisions are agreed upon, without the physical gathering of the participants in the same location.

For instance, currently, the Management Committee (Manco) meets bi-weekly at the head office in Lagos to take major decisions regarding the Bank. The executives resident in Abuja need not travel to Lagos to attend these meetings but participate from the telepresence location situated in Abuja. This has reduced the cost and the risk associated with air travel. It has also reduced the time spent on commuting and ensured that quality decisions are made speedily.

Efficient resource utilisation is critical for the survival and sustainability of any business; hence it is a guiding element in policy formulation and process design. It is the drive behind continuous process improvement in our banking services group. With this in mind, the commercial paper booking process was automated within the Group to facilitate seamless document flow from initiation to consummation. The process eliminates errors that would usually result in increased turnaround time and rework, and culminate in customer dissatisfaction. The Group is currently identifying several other opportunities to improve resource efficiency within the Group.

Doing business the responsible way

Social role

Overview

At FBN Holdings, we understand how important it is for our customers to be served with the right mix of products and services that positively impact their economic standing. Be it an individual customer or a corporate or government body, we go beyond the traditional role of intermediating between savings and lending, to tailoring products that suit the individual needs of our customers, giving them enhanced value for their money. These services help individuals in their daily living, enabling them to provide for their families, build/purchase their own houses, provide comfortable living conditions for their loved ones and save towards their children's future. Through our microfinance business, we are able to assist our customers in creating jobs in the informal sector by providing access to affordable loans. In addition, we engage with our customers by educating them on basic book keeping and business analysis while encouraging and developing a savings culture.

Helping to develop and support businesses

We have also helped companies to expand by enabling them to access facilities that have grown their businesses and provided equipment and facilities for their business operations, while supporting them with a wide range of products that facilitate trade. Our Investment Banking and Asset Management business seeks to empower the community sustainably through the development of key growth sectors in the economy. This is evident in some of our work in the agriculture sector for a leading petrochemical and fertilizer plant; in power where we advise on several privatisation initiatives; and in oil and gas developmental infrastructure where we have successfully raised funding and delivered projects for three leading indigenous players. We have continued to drive conversations through our investor conferences around real estate, infrastructure and public private partnership, as well as the capital markets towards identifying catalysts for growth in the Nigerian economy, and demonstrating the investment potential of the country to attract foreign investment.

Speeding up revenue collection

For the government agencies, our robust offerings for driving government revenue collections have contributed to the growth of internally generated revenue both at the Federal and State levels, which has aided the government in project executions and infrastructural development. In addition, our e-payment offerings have made payment services a convenience to our customers in all sectors of the economy.

Giving our customers business advantage

In 2012, we continued to provide our esteemed customers with various products and services to get ahead in the current economic environment. This included support to the SMEs, individuals, corporate bodies, religious bodies and government agencies. We provided the platform for revenue and sales collections for the government agencies and corporate bodies alike, while enabling SMEs to access lending with ease. The Federal Government, through the Federal Ministry of Agriculture and Rural Development (FMARD), has implemented various ground-breaking initiatives in the form of interest rebate schemes, interest draw-back schemes, and single digit lending among others to encourage lending to the agricultural sector by deposit money banks (DMBs), thereby increasing performance in this sector. Most DMBs consider lending to the agricultural sector a sticky business but we have keyed into these agricultural intervention initiatives of the Federal Government and brought these benefits closer to home for our customers in the sector to help them grow their businesses at affordable lending rates. Our farmers were able to access agricultural loans at single digits under the FGN's intervention schemes thus reducing their operating costs and increasing their yield. Nigerians in the diaspora were not left out as we provided the diaspora banking platform for this category of Nigerians to enable them to use our products and services to help them save towards target investments and provide for their loved ones in Nigeria while they live and work abroad.

Providing the best products and services for our customers

Following the implementation of the cash-lite policy by the CBN, we provided an enabler for our customers, both corporate and individuals alike, to transact easily and conveniently, by pushing more products to various customer touch points thereby helping our customers conveniently comply with this regulation. As part of our continual effort to offer the best service to our customers, we constantly review our products' features, improving on them as customers' needs change. In 2013, we will continue to support SME-type businesses to drive economic growth and increase employment opportunities by providing financing to the agricultural sector as well as key distributors of large manufacturing concerns, while ensuring we provide the necessary support to government agencies to engender growth and development within our society.

Customer support

First Instant Account – our liability generation initiatives have provided a platform for individuals with limited or no access to financial services to enjoy banking relationships with ease. This product allows them to operate a savings account with suitable KYC (Know Your Customer) requirements and reduced opening and operating balances while also leveraging on electronic channels. Presently, over 247,000 under-banked or un-banked individuals have benefited from this initiative.

The FirstBank Hi Fi Young Savers Account

The HiFi Young Savers Account is a product for children, which helps parents to save towards their children's education while encouraging a savings culture in them. In the current financial year, the product continued to dominate the market, evidenced by its recent awards of The Product of the Year and Bank Product of the Year by *Global Excellence Magazine* and *News of the People Magazine* in 2011. Yearly, through a raffle draw, 12 HiFi young savers are rewarded with ₦1 million each as tuition fees towards their educational development.

Unizik Branch presenting a ₦1 million cheque to a HiFi winner.

Winners of the 2012 London Olympic Trip prize receiving their gift certificates.

Facilitating payment for our customers

Through our payments and collections responsibility, we develop and facilitate the delivery of third-party collections (including franchise and sales collections for target corporates) and bespoke e-payment services for maximum revenue generation for our esteemed customers. Our services delivered through cutting-edge technologies cut across both public and private enterprises. As a market leader in revenue collection, through our FirstBank subsidiary, we continually maintain this position by constantly improving the business of our customers in terms of financial growth and operational efficiency. Our various offerings enable both individual and corporate customers to seamlessly meet the challenges and requirements of the cashless policy initiative, which took effect from 1 April 2012 in Lagos State. Through our cutting-edge innovations in collections and e-payments, products and service delivery, customers and non-customers are able to carry out transactions in our bricks and mortar locations or through alternative channels, in a manner that ensures compliance with the regulatory authorities. As part of our continued drive to provide easy and convenient services for our customers, our alternative payment channels are available 24/7 to customers for their bill payments. In particular, over 65% of TV subscription payments (for DSTV, Startimes, MyTv, Infinity TV, etc.) through our FirstBank subsidiary occur via our alternative channels (ATMs, FirstMobile, FirstOnline, POS, etc.). We have also implemented a multilingual (English, Pidgin, Hausa, Yoruba and Igbo) banking services contact centre with offerings including intra- and inter-bank real-time funds transfer, balance enquiry, stop cheque, card hot-listing and statement request. This service is accessible to customers 24/7, via voice prompts and keypad selections on their phones with no interaction required from human consultants. Our robust web-based educational portal solution (FirstEduPortal), designed to enable educational institutions to manage their academic, administrative, professional, logistics and payment processes, has tremendously improved the operations of our customers. Revenue leakages have increasingly been blocked, while the efficiency of institutions, including tertiary institutions where this has been deployed, has been significantly increased.

Supporting our customers through finance schemes

As part of its resolve to support the real estate sector of the economy, in 2012, FirstBank, through our various key distributorship finance schemes, gave over ₦40 billion to distributors in the telecommunications, cement and fast-moving consumer goods industries, and in downstream petroleum subsectors, with the aim of increasing their capacity and the availability of related goods to consumers nationwide. Furthermore, with the Federal Government laws on local content development in the oil and gas industry and the awaited Petroleum Industry Bill, the Bank has positioned itself to impact the oil and gas sector by making available funds totalling about ₦60 billion in various forms, to finance the activities of indigenous contractors and companies in this sector, empowering and positioning them to benefit from the chains of activities in the industry to promote growth and foster social development. As part of our contributions to the growth of SMEs in the oil and gas industry, FirstBank, through Shell Contractors Support Fund and the Shell Kobo Fund, provided USD1 billion and ₦1 billion respectively to finance all contracts awarded by Shell Petroleum Development Company (SPDC) to support their SME contractors and other contractors from their host community as a way of giving back to society (see picture below). Through our various finance schemes, we have helped our customers grow their businesses and improve efficiency. For instance, we were able to grow the business of one of our customers after executing a product quality and management system (PQMS) contract of ₦50 million and invoice discounting facilities (IDF) contracts of ₦16.5 million and $103,000 that it had been awarded in October 2011 by a leading international oil company (IOC). Upon successful completion of the contract, the same IOC awarded another contract valued at ₦500 million to the company for their manpower supplies (MAPO contract). As at year end December 2012, the company workforce has efficiently grown from 16 to 27 excluding five expatriates.

FirstBank staff with SPDC staff at the launch of the Shell Contractors Fund in Port Harcourt.

Our role in the agricultural value chain

FBN Holdings, through FirstBank, is a signatory to the Nigerian Sustainable Banking Principles that guide financial intermediation and social and environmental impacts in the agricultural value chain. By following these principles, FirstBank recognises its role in driving long-term economic development in Nigeria in a way that is not only economically viable, but also environmentally responsible and socially relevant. To improve agricultural output, the Federal Government of Nigeria developed the Agricultural Transformation Action Plan (ATAP), which emphasises the value-chain approach to interventions in the agricultural space. A key initiative in the plan is the Growth Enhancement Support (GES) scheme. This initiative provides a platform for effective farm input administration through FirstBank's Farm Input Finance Product Programme (FIFP). The FIFP has contributed to strengthening the capacity of the organised private sector to handle agricultural input procurement and distribution, which was hitherto controlled by the Government. This is a vital link in the agricultural value chain that will drive increased access to improved agricultural inputs by farmers, output growth, efficiency and competitiveness in the agricultural sector. The Bank has a market share of 26% under the Federal Government's GES scheme. FirstBank's agricultural financing policy draws heavily on its historical antecedents, competencies and social responsibility. It guarantees a firm commitment to continually study the operating environment with a view to deploying suitable products in support of agricultural businesses. Some of our offerings are designed to enable our valued farming customers to key into government incentive schemes such as the Commercial Agriculture Credit Scheme (CACS) and the Agriculture Credit Guarantee scheme. Other product offerings include the Industrial End-User Outgrowers' scheme, Guaranteed Fund Credit and Agricultural Produce Finance, among others.

Impacting lives and societies

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

2013 priorities

Our focus in 2013 is to continually provide the best services to our esteemed customers with innovative products that give increased economic benefits. We plan to implement various reward programmes like promos and loyalty schemes that will ensure every customer is rewarded for their loyalty and patronage. In addition, in liaison with the relevant Strategic Business Units and subsidiaries, we will engage in various capacity-building activities for SME-type businesses across various industries, as our way of giving back to our customers and society at large.

A case study on the impact of the Commercial Agriculture Credit Scheme (CACS) on our customers

Nature of business: Cassava cultivation for the production of industrial starch
Location: Iseyin, Oyo State, Nigeria

This customer benefited from our Commercial Agriculture Credit Scheme (CACS). Prior to the injection of the CACS fund, the customer's total asset was about ₦500 million. This increased to over ₦764 million after the fund injection. The facility enabled the company to part-finance the establishment of a cassava starch factory and also provided working capital for the smooth operation of the company. This product has assisted the customer to cultivate 500 hectares of cassava and to import the cassava starch plant. It has also provided employment to 58 personnel.

FBN Investor Conference: Catalysts for growth: a pragmatic approach

At our maiden conference in 2011, we facilitated discussions on Nigeria's aspirations and journey to becoming a recognised emerging market country via the theme From BRICs to BRINCs: A real conversation. In 2012, the theme was Catalysts for growth: a pragmatic approach. We considered the enabling factors and practical actionable initiatives that can be taken to boost Nigeria's growth.

There were presentations from some of the key architects of the Government's reform initiatives including the Coordinating Minister for the Economy and Honourable Minister of Finance, Minister of Trade and Investment and the Governor of Lagos State. Discussions were held on balancing growth with fiscal restraint in an environment of global uncertainty, efforts made to position Nigeria as an attractive investment destination and perspectives on the ongoing transformation of Lagos State as the business capital of Nigeria.

There were also panel sessions and productive interaction on the financial markets, investment opportunities in the agriculture, real estate, infrastructure and oil services sectors as well as the power sector, given its pivotal role as a potential enabler of growth, and ongoing efforts to transform the sector.

Our performance

across the Group

In this section

With the global economy only slowly emerging from the constraints imposed on it by the financial and economic crisis, our businesses operated in very demanding circumstances. Despite this, our performance was good, with the banking group leading the way.

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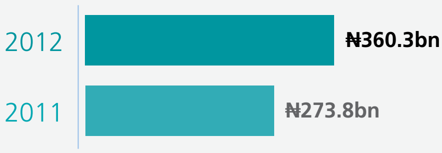
How is our Group performing?

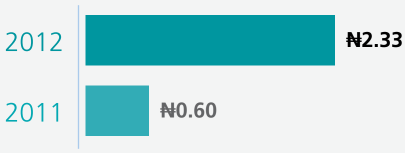
Performance Summary

Gross earnings



Gross earnings grew 31.6% primarily driven by interest income from loans and advances (+32%) as well as investment securities (+92%).

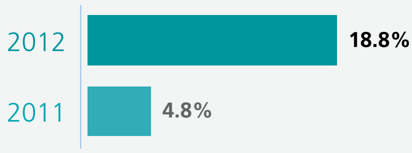
Earnings per share



Full-year earnings per share increased by 289% to ₦2.33 per share (2011: ₦0.60).

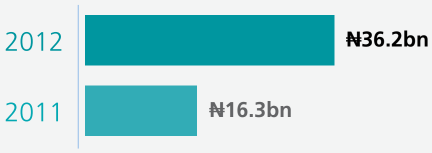
4.7 times earnings cover per unit share.

Return on equity



Strong return on equity, benefiting from revenue growth, lower impairment charges and income from discontinued operations.

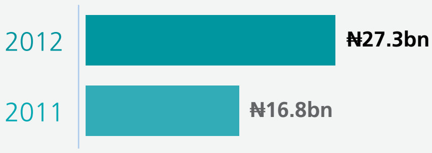
Non-banking revenue[1]



Non-banking revenue up 121.9% showing improving impact of operating structure and enhanced synergy between bank and non-banking subsidiaries.

1 This implies all subsidiaries other than First Bank of Nigeria.

Revenue outside Nigeria

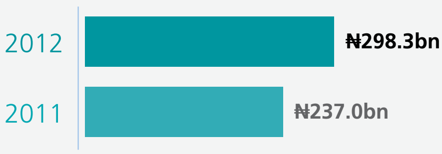


Revenue outside Nigeria increased by 62.7% signifying improving contribution from subsidiaries outside Nigeria including positive returns from our new acquisition at the DRC.

Fee and commission income

Fee and commission income grew 26%. This was driven primarily by strong growth in commission on turnover (+56.6%), electronic banking fees (+77%), account maintenance fees (+66.6%) as well as funds transfer and intermediation fees (+30.8%), which together represent 54.2% of total non-interest revenue.

Net operating income

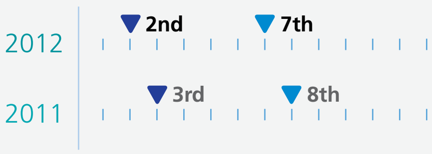


Net interest income grew by 27.8% benefiting from healthy growth in interest income given the higher interest rate environment.

Non-interest income grew 20.1%, as a result of healthy growth (+26.0%) in fee and commission income, which represents 82.1% of non-interest revenue.

Overall, net operating income was up by 25.8%.

Customer satisfaction rating



Customer satisfaction rating improved in 2012 to seventh and second position from eighth and third places in 2011 for Retail and Corporate segments respectively, signifying our commitment to achieving leadership position in the delivery of excellent customer service.

- FBN Holdings Plc
- FirstBank Group
- ▼ Corporate
- ▼ Retail

All the figures are in IFRS.

How is our Group performing?

What differentiates us?

We remain one of Africa's most diversified financial services solutions providers. Since 1894, the Group has had to respond to changes in its operating environment, while driving service and structural innovations that have in turn provided stimuli for changes in its operating environment. From traversing the challenges confronting a new industry in colonial times, to the transition to political independence and the successive reforms that governments have pursued in recent times to bolster the resilience of the domestic economy, four core themes have defined FBN Holdings Plc.

Our people sit at the heart of our value propositions. Partially, this is the nature of our business. As our respective franchises have grown, attracting new businesses and relationships, we have constantly sought, identified and adopted new ways of up-scaling the competencies of our people to drive the requisite transformation of our business models.

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

Our citizenship approach to doing business has seen us design sustainable products and services tailored to meet the needs and expectations of our numerous customers. A key current area of focus is driving new industry solutions to the challenge of inclusive finance. This has seen us leverage new technology/ICT-based service delivery infrastructure to provide Firstmonie, an innovative product targeted at the un-banked segments of the nation's adult population. Firstmonie's main selling point is that it allows customers and non-customers to withdraw money from any FirstBank ATM without a payment card. Allied to this, our First Instant account designed for the under-banked/un-banked has provided over 247,000 customers with access to formal financial services. In addition, through active partnerships with government and other stakeholders, we have successfully provided loans and financial services to over 40,000 SMEs in Nigeria.

The reach of our domestic footprint is complemented by the depth of both our products/service offerings and successful client relationships to create a financial supermarket with strong links to the economy. Not surprisingly, our bank subsidiary has remained the portal of choice for non-Nigerians interested in doing business in and with the country.

Finally, the Group's dominance of the domestic financial services space for over a century has been built on a culture of strong ethical standards and transparency. This has allowed us to lead innovations in the domestic corporate governance space; and means we are highly regarded in this area within the local financial services space.

How is our Group performing?

Operational review

During the year 2012, we transitioned the Bank into a holding company after we successfully obtained all required regulatory approvals. The holding company structure permits us to retain the investments we made over time in our non-banking financial services businesses and enables us to ring-fence the Commercial Banking business as required by the new CBN regulations.

Overview

Consequent upon the adoption of the new structure, our operations have been realigned along the business groups which reflect our holding company philosophy. FBN Holdings is the over-arching umbrella operation, with the sole responsibility for Group-wide oversight including developing long-term Group vision, growth strategy of non-banking business and ensuring that subsidiaries successfully identify and exploit revenue and cost synergies. Each of the four major business groups namely: Commercial Banking (FirstBank, FBN UK, FBN Bureau de Change, Banque Internationale de Crédit, First Pension Custodian); Investment Banking and Asset Management (FBN Capital, FBN Securities, First Funds, First Trustees); Insurance (FBN Life Assurance, FBN Insurance Brokers) and Other financial Services (FBN Microfinance) have detailed strategies in line with the Group plan. These business groups have been structured to meet the needs of different client groups, increasing specialisation and providing bespoke value propositions to sub-segments within each category.

Strategic progress against KPIs

FBN Holdings Plc | FirstBank Group (based on NGAAP figures)

Growth

Harnessing the power of the Group to drive profitable growth

	Revenue growth	Earnings per share	Return on average equity
	Percentage increase in net revenue	Naira measure of PAT per share	Percentage measure of post-tax return on average equity deployed
2012	**25.8**	**2.33**	**18.8**
2011	45.6	1.40	13.0
2010	39.1	0.95	9.6
2009	-20.3 (2009[1])	0.16	1.4
Target	Aggressively grow revenue to meet/exceed market growth rate	To lead in total returns to shareholders, profitability, capital efficiency	Exceed cost of capital and deliver market competitive returns
Outcome	Slower growth in net revenue hauled by increased interest expense	Strong growth in EPS driven by improved profitability	Growth driven by higher profit

Expansion

Enhancing yields through increased focus on high-growth segments and regions

	Non-banking revenue[2]	Revenue outside Nigeria	Fee income
	Percentage of net revenue from non-banking businesses	Percentage of total revenue from non-Nigerian businesses	Percentage of net revenue
2012	**12.1**	**7.6**	**20.1**
2011	5.6	5.7	23.8
2010	8.4	5.7	25.3
2009	6.9	3.8	21.9
Target	Leverage faster-growing NBFS (non-banking financial services) segments and bank synergies to grow subsidiary contribution to at least 25%	Strengthen Group's competitive positioning and maximise shareholder value	Outperform industry to enhance yields
Outcome	Improving contribution of other subsidiaries revenue to Group revenue	Increasing diversification as we work through international expansion strategy	Fee income retracts due to faster growth in interest income

1 2009 is nine months to December 2009.
2 This implies all subsidiaries other than First Bank of Nigeria.

How is our Group performing?

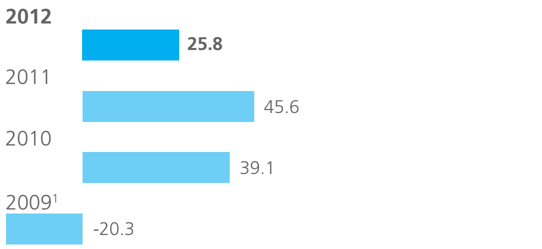
Operational review

Group synergies and cross-selling

Harnessing the power of the Group to drive superior returns

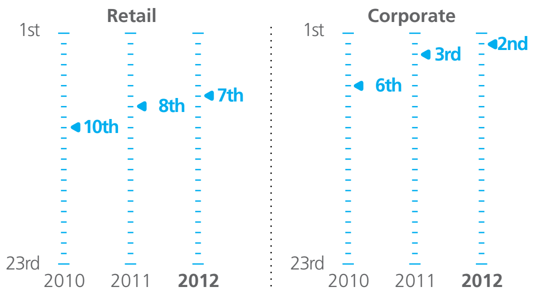
Revenue growth

Percentage increase in net operating income



Customer satisfaction ratings

Value rank in satisfaction surveys



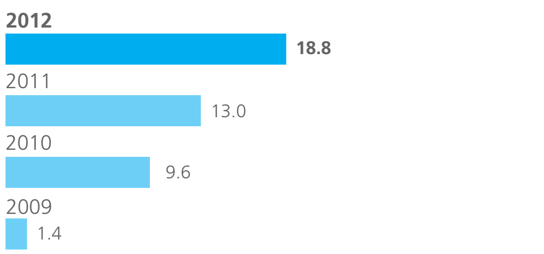
	Revenue growth	Customer satisfaction ratings
Target	Enhance contribution to Group revenue	We aim to consolidate our industry leadership by growing our customer base and broadening our appeal to wider market segments
Outcome	Slower growth in net revenue hauled by increased interest expense	We have made impressive strides in the last four years and are now aiming for a 'Top 3' position in all customer segments

Sequencing growth systematically

Proper sequencing of strategic initiatives by prioritising foundational changes

Return on average equity

Percentage return on average equity



Target

To be a leader in our chosen market(s), enhance market positioning, earnings diversification and profitability

Outcome

Systematically increasing presence internationally while enhancing profitability

1 2009 is nine months to December 2009.

Group performance highlights

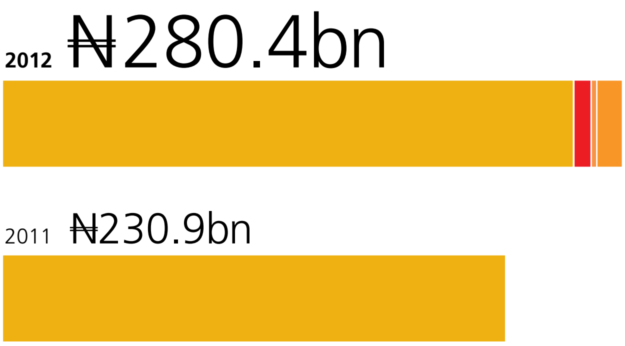
Below is an operational review of each of the business groups as well as an overview of their medium-term strategic focus.

Commercial Banking

FirstBank Limited is the commercial banking subsidiary of FBN Holdings Plc. The FirstBank banking group also includes our international operations, both the fully licensed banks – FBN Bank (UK) and Banque Internationale de Crédit (BIC), as well as our representative offices in Abu Dhabi, Beijing, Johannesburg and Paris. In addition to these two, FirstBank owns three non-bank businesses, namely First Pension Fund Custodian – a leading pension fund custodian, FBN Bureau de Change and FBN Mortgages, which is a Primary Mortgage Institution (PMI) and currently in the process of selling down its real estate assets in line with regulations.

Despite the challenging macroeconomic and market conditions in Nigeria, United Kingdom and Democratic Republic of Congo (DRC), the Commercial Banking group showed resilience to post a strong improved profitability performance in 2012. The Commercial Banking business posted a good performance in 2012 driven mainly by its Nigeria commercial banking business and reinforced by the UK commercial banking business and the pension custodian business in Nigeria which recorded significant improvement in performances. Gross revenue for the Commercial Banking group for the financial year end 2012 stood at ₦338.9 billion, a 28% increase over the 2011 position. Profit before tax (PBT) also increased by 20% on 2011, to close the year at ₦86.2 billion.

Net revenue (₦bn)



	2012
First Bank of Nigeria Ltd	**260.4**
FBN Mortgages	**1.8**
FBN Bureau de Change	**0.2**
Banque Internationale de Crédit	**7.9**
First Pension Custodian Ltd	**2.6**
FBN Bank (UK) Ltd	**11.8**

The total net revenue for the individual entities sums up to ₦284.5 billion. The difference to the Commercial Banking group net revenue is as a result of intercompany adjustments of ₦4.1 billion between the businesses.

The strong financial performance recorded in the year under review was as a result of successful implementation of the business group's strong organic growth initiatives, business diversification and better synergies among members of the group. Each of the Strategic Business Units in the core banking space contributed to the overall success recorded in the Commercial Banking subsidiary of the Group. Other initiatives that drove performance include strong and growing retail network, the launch of Firstmonie, our mobile money platform with a network of over 2,000 agents, successful channel migration and increased adoption of e-payment solution.

Also, a unified private banking platform was developed for the banking group so that clients across different climes can enjoy the same high-quality services. Group-wide, we extended our product and services offerings to new frontiers. In the UK, we made better inroads into the Corporate Banking segment especially with the Structured Trade Commodity and Project Finance businesses while in the DRC our products and services offering expanded to include e-business service offerings targeting SME, corporate and government agencies.

The Investment Banking and Asset Management (IBAM) group

The Investment Banking and Asset Management (IBAM) group comprises the following legal entities: FBN Capital Limited, FBN Securities Limited, FBN Capital Asset Management Limited, First Trustees Limited and First Funds Limited. The IBAM legal entities are operationally integrated as five core strategic business units: Investment Banking, Markets, Asset Management, Trust & Agency Services, and Alternative Investments.

The Investment Banking business unit seeks to deliver innovative solutions to institutions that require strategic and financial advice, and provide comprehensive financing solutions. Tight liquidity conditions that prevailed in the Nigerian economy curtailed capital expenditure and limited primary activities in the capital market in 2012. This resulted in a dearth of M&A and equity market deals and led to reduction in trading volumes and values of equity markets relative to 2011. These tough market conditions explain weak performance of the Investment Banking and Market businesses in 2012; both businesses contributed 3.3% to overall IBAM group gross revenue. As expected with tight liquidity conditions, a high interest rate environment prevailed during the year and this, coupled with a bullish trend in the bond market, led to an influx of foreign investors seeking to capitalise on the higher rates. The Asset Management and Trustees businesses benefited immensely from the high interest rate environment.

IBAM group gross revenue grew by 10% compared with its 2011 position. The strong year-on-year growth is driven largely by an upsurge of activities in its Asset Management and Trustees businesses during the year. Its strategic aspiration to deliver superior solutions and services across all its business necessitated building capacity across all strategic business units in 2012. Accordingly, IBAM targeted employment of key personnel, selective business promotions and technology upgrades initiatives that resulted in a 29% year-on-year increase in operating cost in 2012. Riding on the improved earnings and no extraordinary charges, there was a significant improvement in profit before tax, turning a loss of ₦2.8 billion in 2011 to a pre-tax profit of ₦4.3 billion in 2012. Despite incurring higher operating cost in the year, its revenue grew faster than expenses and this resulted in its cost income ratio dropping to 77% in 2012 relative to 122% in 2011.

On the non-financials, the division has begun implementing the recommendations on operating processes; it has worked hard to upgrade and stabilise the IT infrastructure and can now begin to look towards enhancing the tools and business applications to make us more effective and efficient. The division started its graduate training programme in August, and has made a few more important hires, specifically a Chief Operating Officer to lead the majority of the non-market facing businesses, as well as new Heads for the Finance, HR, Strategy and Corporate Planning functions. It has also developed a competency framework and appraisal tools that will capture goals and targets for each role, and ensure that these goals are aligned to our overall objectives.

The FBN Insurance group

The FBN Insurance group comprises two entities, FBN Life Assurance Limited and FBN Insurance Brokers Limited offering life assurance and brokerage services respectively to the Nigerian public. FBN Life Assurance Limited (FBN Life) is the 65%-owned life insurance subsidiary of the holding company in partnership with Sanlam Emerging Markets, a leading South African insurance company. FBN Life commenced business operations from its Lagos head office in September 2010 and opened branches in Abuja and Port Harcourt within the 2011 financial year. The group recorded significant improvement in performance in 2012 relative to 2011, with strong growth experienced in its business volumes, revenue and profitability. This improvement in performance was driven by a strong bottom line growth in the brokerage business and the life assurance business breaking even to make profit in its second year of operations.

Based on the need to establish market presence, FBN Life is developing diversified life insurance products, robust operating processes and technology platforms, and has also finalised reinsurance agreements with Africa Reinsurance Corporation and Continental Reinsurance Plc. FBN Life aspires to carve a niche in the life insurance market, establish retail distribution networks, expand our product portfolio, utilise strategic business models and create an efficient customer service model. In addition, FBN Life is working towards being a composite insurance company. A perpetual challenge in insurance markets is the severe pressure on the price of the products. In order to attract business away from competitors, insurers often reduce the rates, sometimes to very unprofitable levels. In this respect, Nigeria is no different from other markets, with premium quotations for certain lines of business, particularly group life, often being driven to unprofitable levels. FBN Life strategy is not to engage in such poor practice, preferring to build sound relationships with clients and intermediaries, develop operational efficiency and premier customer service while pursuing profitable business. Over the coming year, the Life Assurance division will conclude the installation of our world-class insurance information technology (IT) system, which will drive our internal operations and enhance customer service capabilities, and also drive efficiency and innovation.

FBN Microfinance Bank Limited

FBN Microfinance Bank Limited was incorporated in March 2008, and duly licensed by the Central Bank of Nigeria. It commenced operations in January 2009 with fully paid-up capital of one billion naira. The Bank is fully committed to providing financial access to the un-banked and under-banked active poor: very small businesses, petty traders, artisans and individuals to meet their day-to-day business aspirations and create wealth. The Bank has leveraged the FirstBank brand, unique products, well trained and experienced personnel, customer-centric approach to business and strong risk management policies to achieve its goals.

FBN Microfinance Bank's performance in the year under review was impressive despite challenges posed by instability in the socio-political and economic environment in Nigeria. With the microfinance industry impacted by regulation that encouraged stricter compliance with prudential guidelines as well as consolidation which has heightened competition, FBN Microfinance Bank showed resilience to record growth in revenue and profitability in 2012 over the 2011 position. This impressive performance was anchored on its implementation of its strategy to better harness opportunities in the informal sectors of the Nigerian economy by increasing its reach and depth of clients served through branch expansion, development of new products, aggressive marketing and mobile banking.

In line with its strategic aspiration, the bank embarked on aggressive marketing, increased its branch network and offered its customers a robust suite of products and services including electronic and mobile banking products. It equally embarked on some IT operational efficiency initiatives to ensure its service delivery system is top-notch and provides a feedback mechanism to continually delight its customers.

FBN Microfinance grew gross revenue by 15% to ₦1.2 billion (₦1.033 billion, December 2011), benefiting from increased business volumes as it continued to expand its reach to customers in the microfinance space. The bank made a full-year profit before tax of ₦317 million, up 4% from ₦304 million in 2011 despite achieving only 74% of risk assets target for the year. The Bank was unable to meet its risk asset target for the year as there was decline in trading and production activities in the Nigerian economy during the year. The increased profitability was achieved mainly as a result of efficiency in the use of funds and cost control. With improving profitability, the FBN Microfinance achieved Return on Equity of 17.6% relative to 20.2% in 2011. Deposit liabilities stood at ₦822 million, 2.6% lower than ₦844 million achieved in 2011.

Group outlook

- Our business is well configured to provide the banking, investing and wealth management requirements of government, businesses and individuals. We will continue to capitalise on the ongoing financial inclusion policy by ensuring we design the appropriate channels that will enable us to effectively serve the under and un-banked population in the region. Our mobile money services platform shall remain a strategic interface in this regard.
- As a Group, we will ensure that we play a prominent role in infrastructural related projects. The holding company structure gives us the opportunity to provide all infrastructural financing related services from lending, syndications, advisory, debt structuring etc. across the subsidiaries.
- We also intend to continue to leverage on the partnership between Sanlam and FBN life (Sanlam as the largest insurer in South Africa and FirstBank as the largest Nigerian commercial bank) to extend our footprint within the insurance space.
- We remain conscious of the changing landscape in terms of local and potentially foreign competitive pressures in our space and face the challenge by keeping our focus on the client and ensuring that our processes and people are well aligned to deliver on our unique value proposition of a one-top shop offering diversified financial services.

Priorities for 2013

Commercial Banking

- Accelerate growth in priority segments.
- Drive operational excellence to attain a top three position in service levels/customer satisfaction across the board – ensure strong linkages to corporate aspiration at all levels/functions through service level agreements.
- Enhance capabilities in infrastructure financing/banking – build required specialist capabilities required to capture growing infrastructure financing opportunity. Leverage strong investment banking platform to increase client value proposition and work closely with syndicate banks, leveraging our balance sheet size to play key roles in syndications.
- Optimise channel architecture – perform comprehensive optimisation of the branch expansion strategy and develop an investment model to objectively measure profitability and returns; deepen business intelligence on channel economics to properly influence customer behaviour.
- Enhance cost efficiency – implement tactical initiatives to further improve cost efficiency including staff productivity, review of unprofitable branches, etc.

IBAM

- Maintain a leadership position in all our investment banking activities.
- Deepen and expand our client base, and leverage the Group's clients.
- Promote 'client stickiness' by providing innovative and tailored solutions.
- Maintain 'best in class' execution capabilities.
- Maintain and strengthen relationship with regulators, to provide a strong voice in the ongoing regulatory changes.

Insurance

- Expand distribution base by opening new strategic sales outlets in the following geographical areas within Nigeria that demonstrate the highest insurance penetration potential: North East, North West, North Central, South-South, and South East.
- Renew focus on Bancassurance products, taking advantage of our relationship with FirstBank and other financial institutions.
- Expand into the composite insurance business with the planned acquisition of a general insurance licence.

Microfinance

- Consolidate structural foundations laid over the years for growth, among which are effective internal control measures, deployment of effective business strategies, branch expansion, strict adherence to regulations and improved processes for an effective customer service delivery.
- Develop bespoke products and services for each of our customer segments, with greater attention to groups (artisans and trade associations, self-help groups and professional groups).

How is our Group performing?

Financial review

FBN Holdings is the largest financial institution in Nigeria by gross earnings, deposits and loans, advances to customers and total assets. 2012 marks the first year of publishing the Group's financial statements using the IFRS reporting standard. The Group maintains a strong capital position with shareholders' equity at ₦439 billion, a 19% growth from ₦369 billion in 2011.

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

The Commercial Banking business group comprises six entities: First Bank of Nigeria Ltd – the lead entity of the business group, FBN Bank (UK) Ltd, Banque Internationale de Crédit, First Pension Custodian Nigeria Ltd, FBN Bureau de Change Ltd and FBN Mortgages Ltd.

The Investment Banking and Asset Management business group comprises four entities: FBN Capital Ltd – the lead entity of the business group, FBN Securities Ltd, First Funds Ltd and First Trustees Nigeria Ltd.

The Insurance business group comprises two entities: FBN Life Assurance Ltd and FBN Insurance Brokers Ltd.

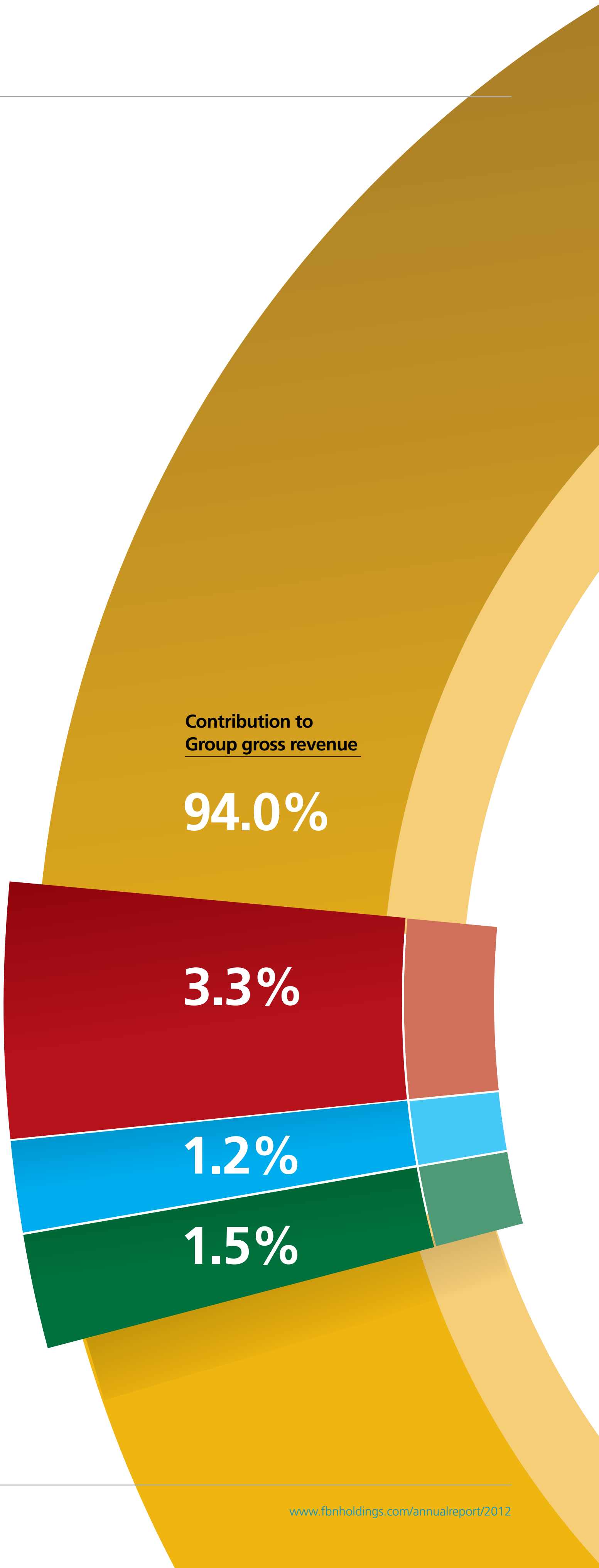
The Other Financial Services business group serves as an incubator for our smaller non-bank financial services business and is principally made up of FBN Microfinance Bank Ltd.

Commercial Banking
Offers banking services to individuals and businesses, serving over 8.5 million customers.

Investment Banking and Asset Management
Arranges finance, provides advice, manages funds and sells investment products to clients.

Insurance
Offers insurance and life assurance services to customers.

Other Financial Services
Currently serves as an incubator for our smaller non-bank financial services businesses. Our Microfinance Bank here provides microfinance services to the mass-market retail segment.



FBN Holdings' performance

FBN Holdings delivered impressive results despite the challenging environment in which it operated in 2012. The Group's gross earnings increased by 31.6% year on year to ₦360.3 billion (2011: ₦273.8 billion), with performance driven primarily by the Commercial Banking business group with a contribution of 94.8% to the Group's gross revenue. Increase in gross revenue was primarily driven by interest income from loans and advances, as well as investment securities. The net interest margin increased to 9.6% (2011: 9.3%) on the back of a higher interest rate environment which increased the average yield on interest earning assets to 12.4% (December 2011: 9.7%). In addition, net interest income grew by 27.8% to ₦225.2 billion (December 2011: ₦176.2 billion), benefiting from healthy growth in interest income given the higher interest rate environment. This growth was, however, tempered by a significant rise (+69%) in interest expenses over the period which resulted in a 25.8% growth in net revenue to ₦298.3 billion. Highlighting significant improvement in our core operations, pre-provision operating profits rose 40% to ₦105.6 billion (2011: ₦75.4 billion). Pre-tax profit increased by 158% to ₦92.7 billion (2011: ₦35.9 billion), while profit after tax grew by 306% to ₦75.7 billion (2011: ₦18.6 billion).Total assets increased by 11.4% year on year to ₦3.19 trillion (2011: ₦2.86 trillion). Balance sheet growth was driven by a 23% growth in customers' deposits to ₦2.40 trillion (2011: ₦1.95 trillion) which created a 23% growth in loans and advances to customers to ₦1.54 trillion (2011: ₦1.25 trillion). Cash and balances with the CBN (Central Bank of Nigeria) increased by 50.8% due to an increase in the cash reserve ratio from 8% to 12% in the year under review. Overall lending activities focused on the oil and gas, manufacturing, construction, and information and communication sectors, while gaining traction and increasing the penetration of our emerging corporate business within the Corporate Banking Strategic Business Unit. Asset quality improved during the year as the cost of risk fell to 0.9% from 3.0% in the prior year with the NPL (non-performing loan) ratio remaining flat at 2.6%.

Shareholders' funds increased by 19% to ₦438.8 billion (2011: ₦368.6 billion) as a result of a 76.4% improvement in retained earnings as return on average assets rose to 2.5% (2011: 0.7%), and return on average equity improved to 18.8% (2011: 5.1%). Capital adequacy closed well above the regulatory limit of 15% at 21.9%.

The Commercial Banking business group contributed 94% from 97.0% to ₦338.9 billion of the holding company's gross revenue and 93% (₦86.2 billion) of profit before tax (2011: ₦39.2 billion) for the period under review. The Investment Banking and Asset Management business group made modest progress with 3.3% (₦11.8 billion) of gross revenue and 4.7% (₦4.3 billion) of profit before tax to the Group's contribution. This was driven by increased activity in the trusteeship and asset management businesses for the period under review. The Insurance business group contributed 1.2% (₦4.2 billion) and 0.7% (₦0.6 billion) to the Group gross revenue and profit before tax respectively. Growth in the Insurance business group's revenue was driven by increased earnings by FBN Life Assurance from higher business volumes and improved market penetration of the life assurance business. Other Financial Services business group, which is principally FBN Microfinance Bank, contributed 1.5% (₦5.4 billion) and 1.7% (₦1.6 billion) of the Group's net revenue and profit before tax.

Business groups' performance at a glance

Business groups	Gross revenue (₦'bn)		% of 2012 total	Profit before tax (₦'bn)		% of 2012 total	Total assets (₦'bn)		% of 2012 total
	2012	2011		2012	2011		2012	2011	
Commercial Banking	338.9	265.6	94%	86.2	39.2	93%	3,101.2	2,751.1	97.3%
Investment Banking and Asset Management	11.8	2.1	3.3%	4.3	(2.8)	4.7%	31.3	54.4	1%
Insurance	4.2	0.9	1.2%	0.6	(0.2)	0.7%	6.7	4.5	0.2%
Other Financial Services	5.4	5.3	1.5%	1.6	(0.3)	1.7%	46.9	50.1	1.5%
Total	**360.3**	**273.8**		**92.7**	**35.9**		**3,186.1**	**2,860.2**	

Performance by business groups

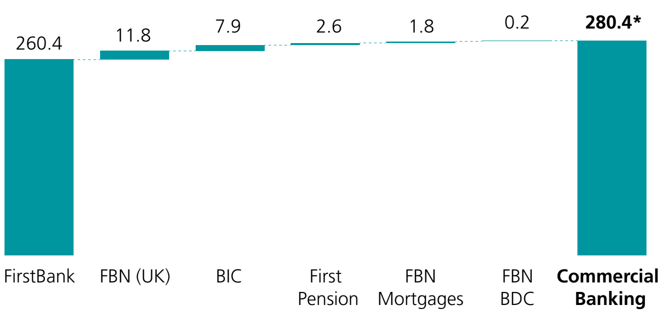
Commercial Banking

The Commercial Banking business group offers banking services to both individual and corporate clients in Nigeria and internationally.

The Commercial Banking business group[1] achieved decent revenues and profits largely driven by increased earnings from First Bank of Nigeria, underpinned by the focused implementation of corporate strategies, including but not limited to innovative product development, expanded market reach and responsive ways of meeting our customers' needs. In addition to this performance was the contribution from our international subsidiary, FBN Bank (UK), resulting from expanded customer lending activities and improved asset yield during the period under review.

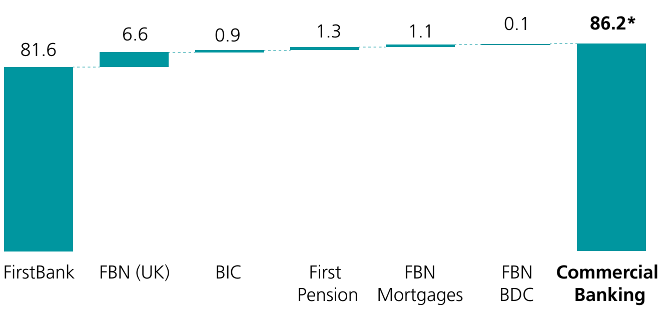
The Commercial Banking business group grew gross earnings by 27.6% to N338.9 billion in spite of various operating and socio-economic challenges such as the partial removal of petrol subsidies in January 2012, security concerns in the Northern region of the country, severe floods in the Middle belt – the food basket of the country, including the South East and South-South region, etc. all in Nigeria. In the UK, the economy did not improve particularly; activity in the euro area remained weak and regulatory pressures increased in the banking industry as the Financial Services Authority (FSA) introduced a number of measures to increase financial market regulation, including the 'Recovery and Resolution Plan' (RRP). The Democratic Republic of Congo had one of the fastest growing economies in Africa despite the conflict in the eastern part of the country. Overall, profit before tax grew by 120% to ₦86.2 billion for the Commercial Banking business group, driven mainly by Nigeria and the UK.

Net revenue



*The summation of the individual businesses in the business group adds up to ₦284.6 billion. However, there are intercompany adjustments making the aggregate sum of the Commercial Banking business group ₦280.4 billion.

Profit before tax



*The summation of the individual businesses in the business group adds up to ₦91.53 billion. However, there are intercompany adjustments including profit from associate companies making the aggregate sum of the Commercial Banking business group ₦86.2 billion.

First Bank of Nigeria Ltd

Gross earnings of the First Bank of Nigeria stood at ₦313.8 billion in 2012, the highest in the banking industry and an increase of 25% year on year. This is driven largely by an increase in net interest income growth of 23% to ₦205.5 billion, supported by the high interest rate environment as the bank's assets tended to re-price more quickly than liabilities in the period under review. Return on equity and assets improved to 19% and 2.7% respectively, while cost to income ratio stood at 62.1%. Profit before tax rose from ₦39.7 billion in 2011 to ₦83.2 billion in 2012. Deposits and net loans grew by 21.7% and 15.4% to ₦2.17 trillion and ₦1.35 trillion respectively in the year under review.

Total assets grew by ₦299.2 billion to ₦2.77 trillion (2011: ₦2.47 trillion), an increase of 12.1% year on year, benefiting largely from the strong growth in volume of loans and advances funded from increased strong liability generation. Deposit liabilities provide 79.1% of funding (2011: 74.3%); equity and long term borrowings respectively represent 13.4% and 3%, while other liabilities make up 4.5%. FirstBank maintains a very stable and relatively inexpensive funding base providing an appropriate platform for strong margins, earning assets growth as well as flexibility in operations. The cost of funds stood at 2.5% (2011: 1.8%), reflecting the response to a higher interest rate environment.

Deposit liabilities grew by 21.7% year on year to ₦2.17 trillion (2011: ₦1.78 trillion) benefiting from a 14.4% growth in CASA[2], which constitutes 84.8% of FirstBank's deposits. The balance of 14.8% of deposits is made up of tenored deposits which grew significantly during the period, reflecting the response to customer preferences given the higher interest rate environment. Across strategic business units, growth in deposits was driven by the Retail Banking Strategic Business Unit, with a growth of 12.7% to ₦1 trillion (2011: ₦901 billion), primarily due to an increased focus on innovative product development, aggressive marketing, and a series of promotional campaigns undertaken during the period. In addition, the institutional banking group deposits increased by 38.3% to ₦318.69 billion (2011: ₦230.37 billion). Retail banking is the major driver of low cost current and savings account deposits, contributing 46.8% of deposits in the bank as at 31 December 2012. FirstBank engaged in a strategic branch expansion to deepen its retail footprint, to continue to generate low cost deposits and serve as a platform to build a wide agency network for its mobile money business.

Current accounts represent the largest proportion of our deposit base (34.8%); they increased by 7.5% year on year to ₦756 billion due to existing products such as the First Current Plus account, and new product offerings such as the First Current Business account, new customer acquisition, the deepening of existing relationship with our customers and a better understanding of their needs. Savings accounts, representing 25.1% of deposit liabilities, grew by 10% year on year as a result of existing products and the introduction of new products such as the First Instant Savings account targeted at the unbanked/under-banked, as well as savings promotions held during the period under review. As a result of the sustained high interest rate environment, tenored funds grew by 93.1% year on year and represent 14.8% of our deposit base, leading to an increase in the blended average funding costs to 2.5% (2011: 1.8%).

FirstBank's gross loan book increased by 15.4% year on year to ₦1.35 trillion in 2012 (2011: ₦1.17 trillion), while the net loan book also grew by 15% year on year to ₦1.32 trillion (2011: ₦1.14 billion). Loan growth was driven by a 24.9% growth in retail banking loans followed by 17.7%

1 Comprises First Bank of Nigeria, FBN Bank (UK), Banque Internationale de Crédit, First Pension Custodian Nigeria, FBN Mortgages and FBN Bureau de Change.
2 CASA – Current Account, Savings Account.

growth in institutional banking and 17.1% in public sector loans. While institutional banking makes up 50% of the FirstBank's loan book, retail banking constitutes 19.7%, and corporate banking 21.2%. Public sector and private banking make up the balance. Increases in the gross loan book was primarily driven by FirstBank's increased exposure to the oil and gas sector, retail loans on consumer credit, and loans for construction as well as loans to the manufacturing sector.

FirstBank closed with NPLs of ₦37 billion (2011: ₦27.9 billion) while the NPL ratio as at year end closed at 2.8% with a 99.1% coverage.

To read more on the FirstBank performance please go to the First Bank of Nigeria Ltd Annual Report.

FBN Bank (UK) Ltd

FBN Bank (UK) operated in an economy which contracted for most of the year while the inflation rate declined to 2.7% in 2012 (4.2%: 2011). The regulatory environment remained very challenging with the main thrust centred around banks holding more capital and liquidity to support their operations, thereby putting pressure on profitability. Notwithstanding, FBN Bank (UK) grew gross earnings by 21.4% year on year to ₦18.7 billion The increase in gross earnings compared to the prior year resulted from the expansion of customer lending activities. Net interest income grew 50.3% to ₦8.8 billion resulting from the increased interest income driven by a combination of increased customer lending activities and improved asset yield, while fee income rose by 14.2% to ₦1.96 billion. Appropriate levels of operational framework and systems were put in place to support increased business and safeguard assets. This led to a rise in staff costs, business travel, communication and premises costs. However, these additional expenses generated stronger growth in operating income, thus resulting in an improved cost-to-income ratio ensuing in a pre-tax profit of ₦6.4 billion, an increase of 48.4% over ₦4.3 billion in 2011.

Total assets grew by 11.2% to ₦514 billion (2011: ₦462.4 billion) driven by additional customer deposits generated to support increased lending activities. Loans to customers increased by 59.4% to ₦232.1 billion (2011: ₦145.6 billion), while loans to banks decreased by 25.7% to ₦210.6 billion (2011: ₦283.4 billion) as FBN Bank (UK) reduced its exposure to Eastern European banks. The NPL ratio remained low at 0.17% and all impaired assets were fully provisioned net of collateral. Deposit liabilities grew by 6.7% to ₦426.1 billion (2011: ₦399.2 billion) and this was strategically driven through wholesale and retail deposit liabilities to achieve an optimal funding mix.

Shareholders' equity increased by 68.5% to ₦48.2 billion (2011: ₦28.6 billion), primarily as a result of the injection of ₦12.6 billion of tier 1 capital from the parent company, full retention of 2012 profit after tax, and the revaluation gains on available for sale securities. The return on shareholders' equity improved to 17.4% (2011: 15.7%), while the return on assets recorded a significant improvement to 1.3% (2011: 1.1%). The bank recorded a capital adequacy ratio of 18% (2011: 16.9%) with core tier 1 capital of 13.9% (2011: 11.8%).These were in excess of regulatory requirements as at year end, demonstrating the strong capital position of FBN Bank (UK).

Banque Internationale de Crédit

Banque Internationale de Crédit (BIC) in the Democratic Republic of Congo (DRC) was positively impacted by the latter's economy as one of the fastest-growing economies in Sub-Saharan Africa, in spite of the ongoing conflict in the eastern region; growth was mainly driven by the mining, transportation and communication sectors. The country's GDP grew by 6.9% in 2011 and is projected to grow by over an average of 7.4% in the next four years. BIC's gross earnings increased by 32.8% to ₦8.2 billion (2011: ₦6.2 billion); net operating income rose by 34% to ₦7.9 billion; interest income rose to ₦2.7 billion (2011: ₦2.38 billion); and net interest income stood at ₦2.4 billion. Profit before tax increased to ₦901 million (2011: ₦637 million). Total assets of ₦46.3 billion (2011: ₦36.2 billion) impacted by a +29% increase in deposits, resulting in 90%, 24% and 23% increases in loans and advances to banks, loans and advances to customers, and cash and balances with central banks respectively.

First Pension Custodian Nigeria Ltd

First Pension Custodian Nigeria Ltd (FPCNL), the pension fund custody business, grew its total income by 50% year on year to ₦2.56 billion (2011: ₦1.70 billion); profit before tax rose by 64% to ₦1.32 billion (2011: ₦0.80 billion). This performance benefited from growth in custody fees and interest income. Increased custody fees were a result of new relationships that commenced and existing relationships with clients that were deepened to extend our market leadership in the pension fund custody business. Interest income grew by 83% year on year to ₦514 million (2011: ₦281 million) as a result of increased income from placements and treasury bills. The operating expenses for the year increased by 38% to ₦1.24 billion (2011: ₦903 million) as a result of higher staff costs as staff strength increased, and depreciation expenses and professional fees which were incurred for the execution of various projects undertaken during the year aimed at ensuring improved operational effectiveness and efficiency.

FPCNL was impacted by several regulatory actions, interventions and initiatives which had and will have future impact on the industry's operations. Among other initiatives, the share capital of licensed Pension Fund Administrators was increased from ₦150 million to ₦1 billion, unimpaired by losses effective 30 June 2012. The increase in share capital drove consolidation of the players in the PFA (Pension Fund Administrator) industry, and improved the financial condition as well as business processes of the PFAs.

Total assets of FPCNL grew by 39% to ₦4.88 billion principally due to an increase in earning assets with total assets under custody increasing by 31% to ₦1.09 trillion.

FBN Bureau de Change

FBN Bureau de Change's earnings were negatively impacted by the CBN policy on withdrawal of class A bureau de change licences nationwide and replacement with class B licences, in addition to a significant reduction on foreign exchange supply from the CBN.

Operating income closed at ₦202 million (2011: ₦227 million), while profit before tax reduced by 26% year on year to ₦65.9 million (2011: ₦89.5 million). Total assets reduced to ₦307 million (2011: ₦771 million), while shareholders' funds reduced by 68% to ₦198.8 million (2011: ₦630.3 million) in the period under review.

FBN Mortgages Ltd

FBN Mortgages, in compliance with the guidelines of the CBN for primary mortgage banks released in November 2011, is concluding procedures to wind down its real estate investments. Operating income reduced by 10.2% year on year to ₦1.79 billion (2011: ₦1.99 billion); profit before tax rose by 23% year on year due to better cost management. Operating expenses reduced by 20.5% to ₦678 million (2011: ₦853 million) as a result of the effective management of expenses.

Income from sale of property recorded a slight dip of 4.7% to ₦1.49 billion (2011: ₦1.56 billion). Net interest income grew by 4.5%, resulting from a faster reduction in interest expenses at 26.1% to ₦527 million, while interest income reduced by 19.4% to ₦735 million.

Investment Banking and Asset Management

Investment Banking and Asset Management (IBAM) grew gross revenues to ₦11.8 billion (2011: ₦2.1 billion) driven largely by the asset management and trusteeship businesses. Investments in additional resources in origination and client coverage as well as project and structured finance enabled a strong pipeline of mandates to be built, in addition to successfully executing some landmark transactions in the investment banking business. This translated to a growth in the number and scale of transactions particularly in the energy and natural resources sectors. The trust business benefited from growth in trust related assets i.e., AuM and sinking fund accounts, as well as investing its own capital (proprietary income). The rebound of the secondary equity market in the latter part of the year and key investments in institutional sales and trading resources improved the performance of the brokerage business. The launch of two new funds and the prevailing high interest rate environment led to a boost in the performance of the asset management business. In general, the business also invested in several business development activities which increased the visibility which positively impacted earnings.

While capacity was built across the businesses in 2012 in line with the growth plans by investing in key talent, process upgrades and new systems, the operating expenses (including interest expenses) were 31% lower due to impairment write-backs. Excluding impairment reversals, operating expenses (including interest expenses) grew by 11%.

Profit before tax grew significantly by 253% to ₦4.3 billion (2011: ₦2.8 billion), while assets under management stood at ₦90. 2 billion as at year end 2012 (2011: ₦95.4 billion).

FBN Capital Ltd

FBN Capital, the arrowhead for the Investment Banking and Asset Management business group, recorded a 37.4% year on year increase in total revenue to ₦4.0 billion relative to 2011. This performance was driven largely by the Asset Management division as the Investment Banking division faced significant headwinds. The Investment Banking business performance is reflective of the low level of activity in the primary debt and equity capital markets, itself a by-product of an uncertain macro environment, high interest rates, and delays in the implementation of government reforms.

In contrast, the Asset Management business successfully launched two new open-ended mutual funds during the year. Both funds were oversubscribed by more than 13%. Overall fees and commission income grew by 48.7% to ₦3.1 billion. This was due to higher income from structured finance fees (+55.3%), management fees (+125.3%) and financial advisory fees (+255.3%) to ₦775 million, ₦1.73 billion and ₦184 million respectively. Total assets increased by 108.8% year on year to ₦41.3 billion (2011: ₦19.8 billion); this was impacted on majorly by a 321.9% increase in financial assets which increased to ₦34.5 billion (2011: ₦8.2 billion), financed largely from additional capital reserve arising from group restructuring of ₦30.1 billion.

First Trustees Nigeria Ltd

First Trustees, our trusteeship business, recorded a 33.1% year on year increase in its total revenue to ₦6.7 billion (2011: ₦5 billion) in the year under review. The increase in total revenue was driven majorly by an 18.6%, 96.3% and 48.7% increase in interest income, other income and fee and commission income respectively. Interest income growth benefited from increased income from treasury bills as a result of higher interest rates; other income increase was aided by growth in income on available-for-sale securities, while fee and commission income benefited from increase in management fee income and higher business volumes from trusteeship and syndication and commission fee income.

Profit before tax for the period under review was impacted by a significant reduction in total expenses in the period under review; this was driven by running operational activities optimally, a reduction in depreciation, and professional fees.

First Funds Ltd

First Funds, the private equity business, recorded a 10% year on year decline in its total revenue, driven by a decline in management fees, interest income and investment income. Other operating expenses reduced by 15.9% to ₦173.1 million, with general overheads and administrative expenses reducing by 29% to ₦117.9 million.

The business recorded a loss before tax of ₦214 million (2011: ₦77 million) as interest expenses on borrowings increased by 37.5% to ₦377 million in addition to a reduction in revenue. Total assets increased by 16.3% to ₦5.6 billion (2011: ₦4.8 billion), driven principally by an 80% growth in available-for-sale securities to ₦4.6 billion. This growth in assets was financed by additional borrowings, bringing total borrowings to ₦3.1 billion. Shareholders' funds reduced by 5% as a result of the loss made, thus further reducing the retained earnings.

FBN Securities Ltd

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

Revenues decreased by 77% relative to ₦326 million (2011: ₦1.4 billion). This was primarily as a result of restructuring the business to focus on its core activities of sales, equity trading and corporate broking. Furthermore, there was a reduction in interest income as business volume from corporate customer deposits reduced, thus impacting revenue. The sales team has made significant progress in securing offshore institutional clients, and the company is gradually climbing the league table of NSE (Nigerian Stock Exchange) brokers.

Operating expenses declined by 27% to ₦207 million (2011: ₦282 million) as a result of a 70.5%, 26.3% , 20.3% and 38.5% reduction in maintenance, personnel, depreciation and amortization and other operating expenses. FBN Securities recorded a profit before tax of ₦272 million (2011: ₦629 million) and profit after tax of ₦131 million (2011: ₦451 million) which was a 56.7% and 71.0% decline respectively.

Total assets closed at ₦2.8 billion from ₦10.2 billion, impacted largely by a reduction in customer deposits from client operative accounts. Notwithstanding, shareholders' funds increased by 45.7% owing to a reduction in the negative retained earnings and an injection of additional capital.

Insurance

The Insurance business group comprises two entities: FBN Life Assurance and FBN Insurance Brokers, offering life assurance and brokerage services respectively.

FBN Life Assurance (FBN Life) is the 65%-owned life insurance subsidiary of FBN Holdings in partnership with Sanlam Emerging Markets, a leading South African insurance company. The Sanlam Group is the second largest non-banking financial services group in South Africa. FBN Life 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.

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

The gross revenue base of the Insurance business group witnessed a significant surge in the review period, growing by 371% from ₦0.9 billion to ₦4.2 billion, riding on improved market penetration of the life assurance arm of the business. Profit before tax experienced a very sharp growth from a loss of ₦210 million the previous year to ₦642 million in 2012. This impressive profit before tax performance was driven by a strong bottom line growth experienced by the brokerage business, coupled with the life assurance business making a profit in its second year of operations as a result of strong business volumes, improvement in interest income on investment, and better cost management.

The Insurance business group's total assets closed the year at ₦6.7 billion, a 46.8% growth on the previous year's position of ₦4.5 billion.

FBN Life Assurance

FBN Life's gross premium income grew by 127% year on year to ₦2.90 billion (2011: ₦1.28 billion) as claims expenses increased by 657% to ₦621 million (2011: ₦82 million), while it made a pre-tax profit of ₦426 million (2011: ₦204 million loss). Loan loss ratio remains relatively low at 21.5%, indicating the good quality risk undertaking. This improved performance was mainly from increased business volumes, improved market penetration and an innovative product offering to suit the needs of clients. To further enhance performance, FBN Life uses cost-effective distribution channels which include a direct sales force, direct and focused marketing, independent intermediaries and Bancassurance multi-channel distribution, making use of FirstBank's extensive branch network.

Total assets increased by 67.2% to ₦5.7 billion from a 66.8% growth in investment securities on the back on a 153.4% increase in insurance contracts. Shareholders' funds closed at ₦3.1 billion from ₦2.3 billion representing an increase of 39.5%.

FBN Insurance Brokers

FBN Insurance Brokers, the insurance brokerage business, recorded a gross revenue ₦795.4 million in 2012 from ₦776.7 million in 2011, an increase of 2.4%. This marginal growth in gross revenue was supported by a 58.9% appreciation in investment income amid a 4.3% reduction in fee and commission income.

Expenses for the year increased by 13.3% which is largely in line with average inflation in 2012 at 12.2%. Operating expenses closed at ₦448.9 million from ₦396.1 million. The increase in operating expenses was largely from a 29% increase in personnel costs as a new salary scale was implemented in addition to the ₦23.5 million payment to staff gratuity managers. Profit before tax closed at ₦337 million, a 22.1% improvement over 2011.

Total assets increased by 22.6% to ₦1.39 billion (2011: ₦1.13 billion) through a 60.9% growth in short-term investments on the back of increased volume of placement. Shareholders' funds improved by 13.1% to ₦775.5 million from improved performance and retained earnings.

Other Financial Services

FBN Microfinance Bank

Other Financial Services business group currently serves as a quasi-incubator for our smaller non-commercial bank financial services businesses with the principal entity being FBN Microfinance. FBN Microfinance grew gross earnings by 15.2% to ₦1.19 billion (2011: ₦1.03 billion), resulting from a 16.5% growth in interest income from loans and advances to customers. Interest expenses reduced by 62% to ₦11.4 million as the volume of tenored funds reduced to cheaper current and savings account deposits. This resulted in an increase of 19.5% in net interest income. Other income also improved by 10% to ₦247 million, making operating income to close at ₦1.18 from ₦1 billion in 2011, representing a growth of 17.5%. Operating expenses (not including provision for doubtful loans) increased from ₦660 million to ₦801 million, a growth of 21.3% largely from staff costs and related expenses including operating costs. This culminated in profit before tax of ₦317 million, an increase of 4.2% from ₦304 million in 2011.

Total deposits declined by 2.6% as term deposits reduced by 72% to ₦24.4 million (2011: ₦86.4 million) but with an increase in current account by 1.4% to ₦240 million and savings accounts by 7% to ₦557 million (2011: ₦521 million). Gross loans and advances increased by 17.7% to ₦1.62 billion (2011: ₦1.37 billion). Total assets declined by 29.4% to ₦5.67 billion (2011: ₦8.03 billion) as a result of a 42% reduction in placements to ₦3.6 billion (2011: ₦6.1 billion). Shareholders' funds increased by 10.4% to ₦1.24 billion (2011: ₦1.12 billion) resulting from increased appropriations to reserves.

How are our business groups performing?

While the Commercial Banking business group remains the flagship of the FirstBank Group with aggregate earnings increasing by 28% in 2012, our non-banking subsidiaries are beginning to exploit their potential through the operational independence that the Group restructure has created.

FBN Holdings Plc

Commercial Banking business group

- First Bank of Nigeria Ltd
  - FBN Bank (UK) Ltd
  - Banque Internationale de Crédit
  - First Pension Custodian Nigeria Ltd
  - FBN Bureau de Change Ltd
  - FBN Mortgages Ltd[1]

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Investment Banking and Asset Management business group

- FBN Capital Ltd
  - First Trustees Nigeria Ltd
  - FBN Securities Ltd
  - First Funds Ltd

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Insurance business group

- FBN Life Assurance Ltd
- FBN Insurance Brokers Ltd

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Other Financial Services business group

- FBN Microfinance Bank Ltd

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1 FBN Mortgages will now be retained as a subsidiary of First Bank of Nigeria.

Commercial Banking business group performance

Despite the challenging macroeconomic and market conditions in Nigeria, United Kingdom and Democratic Republic of Congo (DRC), the Commercial Banking group showed resilience to post a strong improved profitability performance in 2012.

Commercial Banking business group

First Bank of Nigeria Ltd

- FBN Bank (UK) Ltd
- Banque Internationale de Crédit
- First Pension Custodian Nigeria Ltd
- FBN Bureau de Change Ltd
- FBN Mortgages Ltd[1]

Business group overview

FirstBank Limited is the commercial banking subsidiary of FBN Holdings Plc. The bank currently contributes about 93% to the holding company's profits, making it the highest contributor to the Group. This is the result of disciplined execution of its medium-term strategy designed to achieve profitable growth and industry leadership.

The Commercial Banking group also includes our international operations, both the fully licensed banks – FBN Bank (UK) and Banque Internationale de Crédit (BIC), as well as our representative offices in Abu Dhabi, Beijing, Johannesburg and Paris. In addition to this, FirstBank owns three non-bank businesses, namely First Pension Fund Custodian – a leading pension fund custodian, FBN Bureau de Change and FBN Mortgages, which is a Primary Mortgage Institution (PMI) and currently in the process of selling down its real estate assets in line with regulations.

Total revenue in 2012

₦338.9bn

(₦265.6bn in 2011)

Profit before tax in 2012

₦86.2bn

(₦39.2bn in 2011)

1 FBN Mortgages will now be retained as a subsidiary of First Bank of Nigeria.

How are our business groups performing?

Commercial Banking business group performance

Commercial Banking business group performance summary

	2012 ₦ billion	2011 ₦ billion	Year-on-year (%)
Gross earnings	**338.90**	265.60	28
Net interest income	**218.30**	172.29	27
Non-interest income	**62.13**	58.56	46
Staff costs	**(65.81)**	(53.07)	24
Other costs	**(116.52)**	(83.60)	39
Total costs	**(182.33)**	136.69	33
Operating profit	**85.17**	40.67	109
Loan impairment	**(12.91)**	(38.01)	(66)
Profit before tax	**86.18**	39.17	120
Net loans and advances	**1,563.00**	1,252.46	25
Total assets	**3,127.21**	2,860.17	9
Total deposits	**2,405.86**	1,951.32	23

The Commercial Banking operations in Nigeria have a client base of over 8.5 million customers cutting across high net worth individuals, SMEs, conglomerate companies, multinational companies and public institutions. The group operations witnessed strong performance in 2012, riding on the deepening relationship between the various subsidiaries of the banking group and increased business volumes in the commercial bank in Nigeria.

Similarly, commercial banking operations in the United Kingdom experienced improved profit performance in 2012, driven largely by increased customer lending activities, improved asset yields, growth in fee and commission income and better cost to income.

The positive improvement in the Nigerian stock market during the year, which was largely due to increased in-flow of funds from foreign investors and renewed interest from domestic institutional investors, impacted on the value of pension assets under custody. Pension custodian operations recorded an improved profitability performance in 2012, largely driven by increased business volume and the firming up of the values of underlying assets.

The Commercial Banking business posted a good performance in 2012, driven mainly by its Nigeria commercial banking business and reinforced by its UK commercial banking business and the pension custodian business in Nigeria, both of which recorded significant improvement in performance. Group revenue for the financial year end 2012 stood at ₦338.9 billion, a 27.6% increase over the 2011 position. Profit before tax also increased by 120% on 2011, to close the year at ₦86.2 billion.

Net revenue[1] (₦bn)

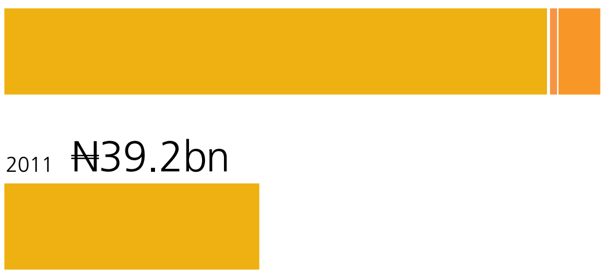
2012 ₦280.4bn

2011 ₦230.9bn

	2012
First Bank of Nigeria Ltd	**260.4**
FBN Mortgages	**1.8**
FBN Bureau de Change	**0.2**
Banque Internationale de Crédit	**7.9**
First Pension Custodian Ltd	**2.6**
FBN Bank (UK) Ltd	**11.8**

Profit before tax[1] (₦bn)

2012 ₦86.2bn



2011 ₦39.2bn

	2012
First Bank of Nigeria Ltd	**81.6**
FBN Mortgages	**1.1**
FBN Bureau de Change	**0.1**
Banque Internationale de Crédit	**0.9**
First Pension Custodian Ltd	**1.3**
FBN Bank (UK) Ltd	**6.6**

1 The total turnover and profit before tax for the individual entities sums up to ₦284.5 billion and ₦91.53 billion. The difference in the Commercial Banking group total revenue and profit before tax is as a result of intercompany adjustments of ₦4.1 billion and ₦5.4 billion for net revenue and profit before tax respectively.

Non-financial highlights

The strong financial performance recorded in the year under review was as a result of successful implementation of the group's strong organic growth initiatives, business diversification and better synergies among members of the group. Some of the initiatives that drove improved performance for the group are highlighted below:

Strong and growing retail network

With disciplined approach to branch expansion in the commercial banking space in Nigeria (64 new branches were added in 2012) in the year under review, we have been able to grow our retail network significantly. This extensive footprint continues to give us access to low-cost deposits. With the launch of Firstmonie, our mobile money platform with an agent network of over 2,000, the expectation is that this advantage would be further enhanced.

Successful channel migration and increased adoption of e-payment solutions

The percentage of active retail accounts with electronic cards increased to 89% from 75% in the previous year. With over 5.3 million debit cards now in issue, FirstBank has the highest number of cards in the Nigerian banking market. There has also been improved adoption of e-payment solutions by corporate and public sector institutions which helped in driving up transaction volumes.

Better synergies between members of the Commercial Banking group

During the year, members of the group coordinated better to jointly exploit trade, structured trade commodity finance, and project and structured finance business opportunities. Also a unified private banking platform was developed for the banking group so that clients across different climes can enjoy the same high-quality services.

Business expansion

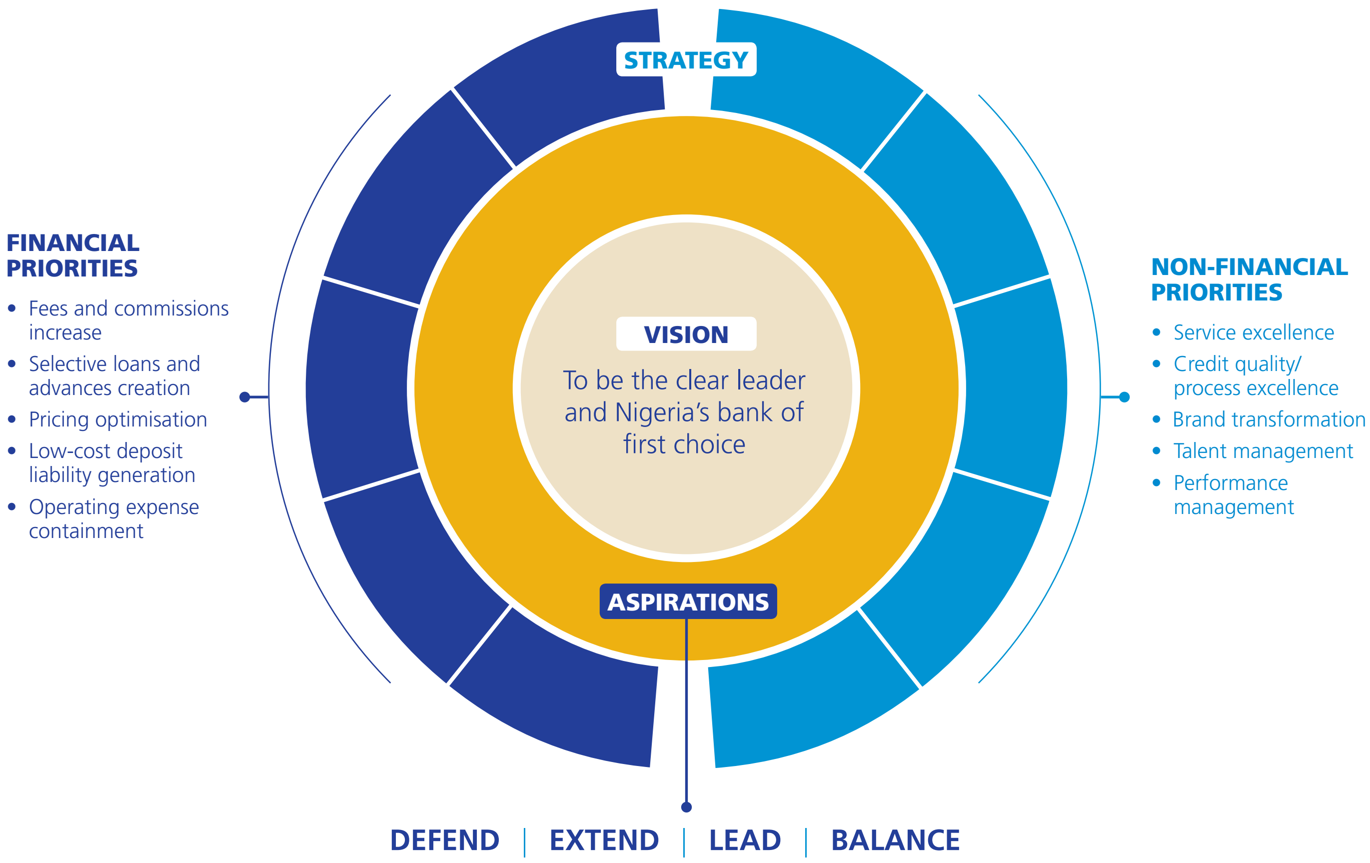
Group-wide, we extended our product and services offerings to new frontiers. In the UK, we made better inroads into the corporate banking segment especially with the structured trade commodity and project finance businesses. In Nigeria there was significant deepening of relationships and business volume expansion in the corporate banking and institutional banking segments, with particular focus on the newly established emerging corporates sub-segment of the Corporate Banking SBU. In the Democratic Republic of Congo (DRC) the products and services offering was expanded to include e-business service offerings targeting SMEs, corporate and government agencies.

First Bank of Nigeria Ltd

FirstBank aspires to be the 'clear leader and Nigeria's bank of first choice'. Premised on this aspiration, the Bank embarked on a focused transformation programme designed to deliver on its aspirations.

Consequently, the thrust of our strategy at the Bank level over the medium term is to defend our leadership position, while extending it across key dimensions (i.e., customers, brand, service, etc.) to achieve superior/sustainable financial results and plant seeds for the long term. Our value proposition is anchored on the provision of integrated product/service suites and deep insights into key buyer-needs of our customers. Hence, at the corporate level, we concentrated our talents on a narrow list of high-value strategic levers (both financial and non-financial) aimed primarily at optimising shareholders' returns.

FirstBank vision and strategy

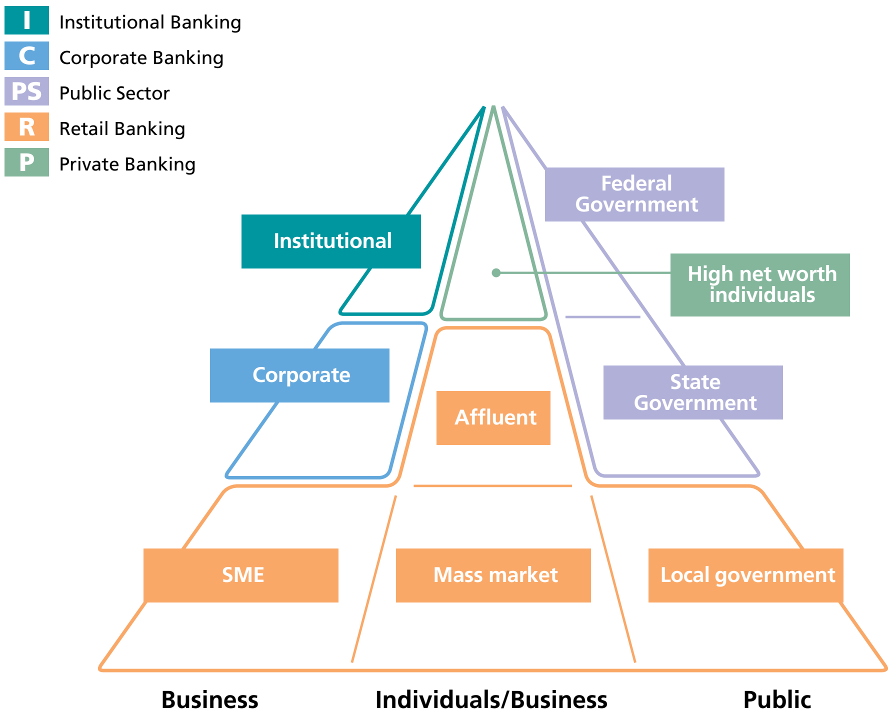


Business model

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

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

FirstBank customer segments served by each Strategic Business Unit



FirstBank's Strategic Business Units (SBUs) are focused on developing deep insights into their respective customer segments and developing superior value propositions for each one.

Affluent customers are defined as Individual customers with annual debit turnover from ₦5mn–< ₦50mn

Upper affluent	≤ ₦50mn–₦36mn ≥
Mid affluent	< ₦36mn–₦16mn ≥
Lower affluent	< ₦16mn–₦5mn ≥

SME customers are defined as Corporate customers with annual debit turnover from > N5m–< N500m

Medium SME	< ₦500mn–₦101mn ≥
Standard SME	< ₦101mn–₦24mn >
Small SME	≤ ₦24mn–₦5mn ≥

Strategy framework

FirstBank's business model remains dedicated to optimising the growth potential in all our core businesses. The Bank realises that its market leadership can only be achieved through an integrated and sustainable business model; hence, we have worked relentlessly to preserve our leadership position, while consolidating current achievements.

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

1 Strengthen our foundation

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

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

2 Exploit pockets of profitable growth

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

3 Harness synergies within the Bank and across the Group

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

FirstBank has five Strategic Business Units (SBUs): Corporate Banking, Institutional Banking, Private Banking, Public Sector and Retail Banking (including SMEs). Their business is focused on developing deep insights into their respective customer segments and developing superior value propositions for each one. **See diagram on page 95**

Medium-term strategy

FirstBank strategy

The Bank has set out a strategy designed to deliver clear industry leadership and restore operational excellence. We have pursued this strategy with purpose since 2011 and laid out a 10-point plan of how we intend to build a more dominant banking group. Our strategy is designed to make FirstBank a more competitive bank, playing to its strengths – wide distribution network and resulting funding advantage, rich legacy, and deep customer relationships.

The Bank gives emphasis to both financial and non-financial priorities and has defined a number of important drivers for each SBU that will be integral to attaining the aspirations articulated in our 2011–2013 strategy cycle. As is the practice and with renewed vigour in 2012, the Bank continued to focus on a limited number of initiatives aligned with each priority.

FINANCIAL PRIORITIES

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

STRATEGIC BUSINESS UNITS AND ROLES

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

NON-FINANCIAL PRIORITIES

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

FirstBank 2013 aspirations

ASPIRATIONS

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

Strategic progress

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

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

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

Financial priorities

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

The Corporate Banking SBU set out to be the leading provider of integrated banking products/services for mid-cap corporates in Nigeria by expanding customer base in the corporate segment; deepening penetration in trade finance transactions; and growing medium-sized ticket lending to a large number of corporate customers. The setting up of the Emerging Corporates division within the Corporate Banking SBU has provided the necessary platform to achieve the penetration required to succeed in the mid-tier corporate market in Nigeria. During the year ended 31 December 2012, the Emerging Corporates group grew its customer base by 852% and recorded net revenue of ₦1.5 billion in the first six months of operations. This represents 4% of total Corporate Banking SBU net revenue in the period under review.

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

The Retail Banking SBU franchise remains key to the Bank with respect to the provision of low-cost stable deposits. As part of the initiative to drive the required growth in this segment, the Bank has instituted a new relationship manager/customer model. This model allows for closer account management and a more structured approach to engaging the affluent sub-segment of the retail space. Dedicated outlets have been created to provide unique value proposition and deepen that segment of the market for the affluent. **See diagram on page 95**

Non-financial priorities

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

Transformation update

Initiative	Description	Update
Enterprise process management	BPMS deployment: business user-led automation enables visual management, process measurement, etc.	Governing policy for BPM programme management developed.
	Process repository created to warehouse all process and policy documentation.	All pre-existing process-related documents collapsed and harmonised for relevancy.
	SLA and measurements to lay foundation for process-based performance management.	SLAs defined; focus is on improving the performance of the monitoring tool.
	Process change management for tactical coordination of process improvement initiatives.	Process change management launched.
Online banking/cashless	Corporate module for online banking.	Design of user interface ongoing.
Cost efficiency	Branch manning review project.	Branch transaction review (types, volumes, complexity, branch size, etc.) undertaken and branch manning requirements determined by job function and grade mix.
	Procurement process review.	Historical data reviewed; priority areas highlighted and work approach agreed.
	Branch print optimisation project.	Print optimisation review conducted in 12 branches with four vendors; independent cost benefit analysis carried out.
	Rationalise unprofitable branches.	Turned around 15 branches to profitability; implementation of revised mothballing/closure of 14 branches.
Priority segments	Redefine commercial sales model for retail business.	Sub-segmentation of retail customers, new sales model and scorecard developed, business development managers and regional managers trained.
	Increase market share of customers in affluent, youth and SME segments.	The affluent project underway, with premium desks and access cards launched. Youth project ongoing; products and cards to be launched at the end of Q1 2013.
	Boost cross-selling using customer analytics.	Phase 2 of CRM/FirstCustomer ongoing; training of RMS of RBG, IBG and CBG ongoing. Completion of this project is dependent on the deployment and suitability of the FirstCustomer solution to be deployed by the IT project team.
Service excellence	Branch experience improvement project.	12 branches (South and North) have been selected for a pilot study, which has commenced with Mobil, Apapa branch. Study in data gathering and analysis stage.
	Service contingency plan, complaints-handling policy as well as other consumer protection mechanisms are being implemented.	Other service improvement drives including mystery shopping and customer engagement forums have been undertaken.

Review of business units

C Corporate Banking SBU

The Corporate Banking SBU group serves the middle segment of the Nigerian corporate landscape; predominantly unrated and non-investment grade companies. The CBG market generally has higher risk profile due to limited availability of company information and less-reliable financial statements. This segment typically feeds off the larger multinationals in the value chain and also constitutes the unstructured part of the corporate banking market space. The Corporate Banking SBU in FirstBank is delineated along two broad lines, i.e., emerging corporates (catering to small corporates with turnover in the range of ₦500 million to ₦2 billion) and large corporate team (managing relationships of the larger clients with annual turnover of ₦2 billion to ₦5 billion). Given the unique demands of the customers of the Corporate Banking SBU, it offers a broad spectrum of products required to serve the unique needs of this market segment and also provides the opportunity to:

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

Update on business opportunities

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

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

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

Strategies and objectives

- Assume market leadership in emerging corporates (mid-level infrastructural financing, distribution sub-segments in power industry, agriculture, etc.) through superior competence and market know-how, buoyed by institutional capacity to consummate transactions. This is imperative given the vast opportunities in the market space and the high-yield potential in emerging corporate sub-segments.
- Consolidate our achievements in the lower markets of corporate banking space (emerging markets) through aggressive new account sign-ons, trade finance and channel migration. In the first six months of the creation of the emerging corporate unit, it has grown deposits by 110% to close to ₦10.2 billion; net revenue by 95% closing with ₦1.5 billion and 852% growth in customer base – highlighting aggressive account acquisition drive. Clearly, there is market to harness.
- Robust cash management platform leveraging our coverage and IT solutions in addition to traditional e-banking offerings, i.e., POS, internet banking, etc.
- Enhanced data mining exercise to capture the full benefits of value chain tracking and management.

Financial performance

The Corporate Banking SBU contributed 12.9% of total net revenue for the Bank. This translated into a net revenue growth of 7.5% for the financial year ending December 2012 to ₦33.8 billion (FYE2011: ₦31.4 billion). The increase in the Corporate Banking SBU's loans and advances in 2012 was a result of a renewed focus on the emerging corporates segment.

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

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

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

I Institutional Banking SBU

Institutional customers represent the top-end of the business banking value chain and are essentially made up of companies that are well structured, i.e., good and visible corporate governance, with a minimum annual turnover of ₦5 billion, requiring wide breadth of sophisticated products/product specialisation and such companies are usually listed. These customers comprise the largest organisations across our target industries, i.e., oil and gas, conglomerates and services, manufacturing, telecommunications, transport, financial institutions/multilaterals, construction and infrastructure. They traditionally provide the anchor for our value chain value proposition and also:

- ensure linkage of lending to transaction banking/fee sources (e.g., cash management, trade finance, other risk products); and
- remain industry specialist and provide thought leadership and capabilities in growth sectors (e.g., infrastructure).

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

Update on business opportunities

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

Our manufacturing group participated in notable transactions in the FMCG sector, including the nearly completed Golden Sugar Refinery project (estimated to cost $227 million upon completion), which we partly financed. The financial institutions and multilaterals group serves local and foreign banks as well as non-bank financial institutions across the world. During the year, the pioneer non-interest bank in the country, Jaiz Bank Plc, signed us on to provide clearing and correspondent banking services. New relationships with development finance institutions and export credit agencies such as AFD-Proparco, United States Agency for International Development (USAID), the Export-Import Bank of the Republic of China as well as sustained discussions with already existing client institutions, provides added impetus to our actualising an expanding list of pipeline transactions. The conglomerates and services group closed several deals during the year, with FirstBank committing to ₦30 billion of the ₦150 billion club lending facility for the purpose of cement expansion projects and being selected from a consortium of banks as the facility coordinator. Several pipeline projects set out for FY2013 include Dangote Cement's expansion project in Congo, Dangote Industries Limited's agricultural-based project worth $1.5 billion and petrochemical project at Edo State with projected production capacity of 2,200MT per day.

Strategies and objectives

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

Financial performance

The Institutional Banking SBU remains one of the major contributors of net revenue for the Bank with a contribution of 16.9% of total net revenue. The group recorded a net revenue growth of 12.5% to ₦44.2 billion for the financial year ending December 2012 (FYE2011: ₦39.3 billion). The increase in the Institutional Banking SBU's assets in 2012 was as a result of its strategy of increasing capabilities in growth sectors such as telecommunications, oil and gas and fast-moving consumer goods companies.

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

Going forward, we remain committed to continuous improvement in the provision of excellent customer service, optimal pricing and driving specific initiatives to grow business volume:

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

PS Public Sector SBU

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

- target revenue/expenditure accounts (e.g., FAAC) in wealthiest states and business in key MDAs;
- drive value-added services (e.g., collections, payment services); and
- facilitate cross-selling synergies with FBN Capital as recorded in the issuance mandate from three states for bond in the period under review.

Update on business opportunities

The Federal Government of Nigeria remains the largest provider of liquidity in the economy and presents significant business opportunities for the Bank. Please see the operating environment section on page 35.

Strategy and objectives

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

Financial performance

The Public Sector SBU contributed 16.4% of the total net revenue for the Bank and recorded a net revenue growth of 42.8% to ₦43.0 billion for the financial year ending December 2012 (FYE2011: ₦30.4 billion). The increase in the Public Sector SBU's assets in 2012 is attributable to the Bank's focus on capturing the value chain of key state government relationships, particularly on lending opportunities arising from infrastructural development needs, and cash management opportunities arising from the Bank's control of such clients' collection accounts. The SBU will continue to provide superior value proposition (covering revenue collections, cash management, loans and financial advisory services) to customers.

Public Sector SBU accounts for 8.8% or ₦119.4 billion of FirstBank outstanding loans and 28.3% or ₦614.2 billion of the Bank's deposits.

P Private Banking SBU

The private banking market is the premium bracket of individual customers. FirstBank's Private Banking SBU serves HNIs, providing them with wealth management services. Data shows an upward trend in wealth and savings in Nigeria, which supports the idea of creating the Bank's private banking unit specifically for high-value customers. There are opportunities for the Private Banking SBU to sell higher margin investment products, thereby increasing the margin per customer and adjusting the value proposition to its unique customers' needs.

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

Update on business opportunities

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

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

Strategies and objectives

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

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

Financial performance

The Private Banking SBU contributed about 1% of the total net revenue for the Bank. The group is just entering the second year of operation and recorded a revenue growth of 12.5% to ₦1.82 billion for the financial year ending December 2012 (FYE2011: ₦1.6 billion). This growth was achieved primarily due to improved earnings from increased asset under management.

R Retail Banking SBU

The Retail Banking SBU franchise of FirstBank predominantly constitutes mass market customer segment contributing most of the retail banking customer base. However, it also covers SMEs, local governments and affluents. Each customer segment is offered a differentiated value proposition, services and products in line with segment characteristics. The Retail Banking SBU provides the outlet to reach out to a customer base of over 8.5 million through a network of over 700 branches/other delivery platforms. The Retail Banking SBU also serves as the bedrock for stable and low-cost deposit mobilisation with about 50% of total deposits in the Bank. The Retail Banking SBU also plays some other strategic roles for the Group. i.e.:

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

Update on business opportunities

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

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

Strategies and objectives

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

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

Financial performance

The Retail Banking SBU is the highest contributor to the total net revenue for the Bank, contributing 54.5% of the total net revenue of the Bank. The group recorded net revenue growth of 31% to ₦142.8 billion in 2012 (FYE2011: ₦109.2 billion) primarily due to improved market penetration through the Group's strategy to expand its retail business resulting in an increase in the number of new retail customers and in the fees and income generated by the Retail Banking SBU.

2013 focus

Summarised below are the strategic objectives/focus of the final year of our current strategic planning period.

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

FBN Bank (UK) Ltd

Overview

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

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

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

Business model

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

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

Strategy

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

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

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

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

The Bank is a responsible financial institution, has fully identified risks associated with its business model and has put in place appropriate measures to mitigate these risks.

Operating environment

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

Regulation

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

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

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

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

Performance

FBN Bank (UK) Limited delivered a remarkable profit performance with real growth in balance sheet footing in 2012, despite a continued difficult trading environment in the year.

Gross earnings increased by 21.4% to ₦18.7 billion. The increase in gross earnings compared to prior year resulted from the expansion of customer lending activities. Net interest income grew by 50.3% to ₦8.8 billion (2011: ₦5.8 billion) resulting from increased interest income driven by a combination of increased customer lending activities and improved asset yield.

Total commissions and fee income generated in 2012 increased by 14.21% to ₦1.9 billion (2011: ₦1.7 billion). Despite the growth in commission and fee income recorded, the capacity to exceed this performance was curtailed by the continued global economic downturn and the oil and gas subsidy saga in Nigeria.

Operating costs rose by 22.99% to ₦5 billion (2011: ₦4.1 billion). Appropriate levels of operational framework and systems were put in place by the Bank to support increased business and safeguard assets. This led to a rise in staff costs, business travel, communication and premises costs. However, these additional expenses generated stronger growth in operating income, thus resulting in an improved cost-to-income ratio of 43.3% (2011: 47.1%).

Consequently, FBN Bank (UK) Ltd posted a profit before tax (PBT) of ₦6.4 billion for the year ended December 2012. The profit amount exceeded the prior year's PBT by ₦4.3 billion (48.4%).

The balance sheet expanded by ₦51.6 billion to ₦514 billion (2011: ₦462 billion) representing 11.17% annual growth, driven by additional customer deposits generated to support increased lending activities. Deposit liabilities grew by 6.73% (₦26.9 billion) to ₦426 billion (2011: ₦399 billion) in 2012. The growth in deposits recorded was strategically driven through both wholesale and retail deposit liabilities to achieve an optimal funding mix and interest cost reduction. Loans to customers increased by ₦86.5 billion (59.39%) to ₦232 billion. The non-performing loan ratio remained low at 0.5% of total earning assets and all impaired assets were fully provisioned net of collateral.

Total shareholders' equity increased by 68.51% to ₦48.2 billion (2011: ₦28.6 billion), principally from the full retention of 2012 profit after tax of ₦6.4 billion, the revaluation gain on available-for-sale securities of about ₦2 billion and the injection of an additional ₦26 billion (£50 million) in equity capital from the parent. The Bank continued to operate a sustainable business model based on its diversified stable funding base and high-quality assets portfolio held.

Outlook

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

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

Banque Internationale de Crédit (BIC)

Overview

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

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

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

Business model

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

Strategy

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

Market segmentation:

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

Product development

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

Synergies/cross-selling with other members of the Group

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

Internal process re-engineering

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

Organisational structure redesigned

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

Operating environment

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

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

Performance

BIC's gross earnings increased by 32.8% to ₦8.2 billion (2011: ₦6.2 billion). Interest income grew to ₦2.7 billion from ₦2.3 billion with interest expense growing to ₦337 million (+14%) resulting in net interest income of ₦2.4 billion, an improvement by 21% over ₦2 billion of 2011. Non-interest income during the period improved by 40% to ₦5.5 billion. This resulted in an improvement of 33.7% to ₦7.9 billion (2011: ₦5.9 billion) in net revenue culminating in an increase in profit before tax by 42% to ₦907 million (2011: ₦637 million).

Total assets grew by 28% to ₦46.1 billion (2011: ₦36.2 billion) as at year end driven by improvement in all assets including a 42% growth in total risk assets (loans to customers increased by 24% to ₦18.7 billion) with the exception of held-to-maturity securities and property, plant and equipment. Deposit from customers increased by 29% to ₦36.1 billion from ₦27.9 billion. Overall shareholders' funds improved to ₦5.5 billion from ₦5.1 billion representing an increase of 8%.

Outlook

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

First Pension Custodian Ltd

Overview

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

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

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

Business model

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

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

Strategy

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

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

For the redesigned processes, performance measures were designed to align with business processes.

Operating environment

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

Domestic industry

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

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

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

The call for investment of the huge pension asset to build requisite infrastructure for development continues. The stakeholders are, however, working on the appropriate framework and structure on which the pension assets can be channelled in order to finance the nation’s infrastructure.

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

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

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

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

Regulation

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

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

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

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

Modalities are in place to open the transfer window. A transfer window is an opportunity for contributors to switch between pension fund administrators at will. This could be a two-edged sword, in terms of the effect on our business. However, with improved operational efficiency and leveraging on the Group brand, we expect a positive impact on our business.

Competition

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

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

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

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

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

Performance

First Pension Custodian recorded an impressive performance in 2012; gross earnings grew by 50% to ₦2.56 billion (2011: ₦1.70 billion). Safe custody fee income increased by 44% to ₦2.04 billion (2011: ₦1.42 billion), attributable to an increase in assets under custody. Interest income from short-term funds and others was ₦513.96 million, 83% higher than in (2011: ₦281 million). This reflected increased investible funds together with a higher interest rate relative to the previous year. Profit before tax grew year-on-year by 64%. This impressive performance was driven by increased business volume of the custody business, with income from custody operations accounting for 81% of its total revenue. Leveraging on implementation of operational and service delivery initiatives, First Pension Custodian Nigeria Ltd was able to drive cost income ratio down to 49% in 2012, an improvement over the 55% average of the last five years.

The balance sheet grew by 39% to ₦4.88 billion (2011: ₦3.52 billion). This was principally due to an increase in earning assets with total assets under custody increasing by 31% to ₦1.09 trillion. The total assets of ₦1.09 trillion comprise pension assets of ₦1.04 trillion and AMCON assets of ₦43.15 billion. This resulted from improvement in the capital and money market and inflow of new contributions.

Outlook

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

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

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

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

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

FBN Bureau de Change

Overview

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

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

Strategy

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

Business model

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

Operating environment

Over the last two years, the CBN, in its bid to ensure naira foreign exchange stability, embarked upon many administrative measures to curtail the demand side of the foreign exchange market.

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

This restrictive policy position of the regulator continued in 2012, with downward review of the maximum amount of foreign exchange cash sales to each licensed BDC operator from US$1 million per week to US$50,000 per week. This regulatory posture has affected BDC businesses significantly in term of loss of patronage and revenue in 2012.

Performance

With the massive reduction on foreign exchange supply from the CBN, FBN BDC's business fortune dipped in 2012.

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

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

FBN BDC's gross revenue stood at ₦202 million (2011: ₦227 million), a reduction by 10.8% while profit before tax reduced by 26% year on year to ₦65.9 million (2011: ₦89.5 million) from muted growth in operating expenses.

Total assets reduced to ₦307 million (₦771 million) while shareholders' funds reduced by 68% to ₦198.8 million (2011: ₦630.3 million) owing to the reduction in share capital following the CBN withdrawal of all existing class A licences and downgrading operators in this category to a class B BDC.

Outlook

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

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

FBN Mortgages Ltd

Overview

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

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

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

Business model

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

Operating environment

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

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

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

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

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

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

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

Performance

The glut in the high-end real estate market as well as the high-interest environment which is a deterrent to creation of mortgages' negatively impacted FBN Mortgages in 2012. FBN Mortgages' gross revenue dipped by 14% to ₦2.3 billion (2011: ₦2.7 billion). Net interest income grew by 4.5% resulting from a faster reduction in interest expense at 26% to ₦526 million, while interest income reduced by 20% to ₦735 million. In spite of the reduction in net revenue by 10.2% to ₦1.79 billion (2011: ₦1.99 billion), profit before tax improved by 23% due to reduction in credit impairment and better cost management although profit margin reduced from income on properties due to an early sale of these properties before total completion. Operating expenses reduced by 20.5% to ₦678 million (2011: ₦853 million) owing to effective management of expenses.

The total assets reduced by 34% from ₦24.8 billion in 2011 to ₦16.4 billion in 2012, due to reduction in placements as deposit liabilities fell as customers' shifted preferences to money market instruments which offered higher rates on the back of the higher interest rate environment. Deposit liabilities dropped by 31% to close at ₦9.5 billion compared to ₦13.9 billion in the previous year. This was as a result of decline in current and savings accounts (CASA) by 26% and demand deposit by 32% year-on-year.

Shareholders' funds, however, increased by 45% to ₦3.5 billion from ₦2.4 billion significantly driven by additional appropriations to general and other reserves.

Outlook

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

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

Investment Banking and Asset Management business group performance

Riding on the prevailing high-interest-rate environment and bullish trend in the bond market of Nigeria, the Investment Banking and Asset Management group posted strong growth in revenue, profitability and efficiency in 2012 compared with 2011, driven mainly by its Asset Management, Trust and Agency Services divisions.

Investment Banking and Asset Management business group

- **FBN Capital Ltd**
  - **First Trustees Nigeria Ltd**
  - **FBN Securities Ltd**
  - **First Funds Ltd**

Gross revenues

₦11.8bn

(2011: ₦2.1bn)

Profit before tax

₦4.3bn

(2011: (₦2.8bn))

Business group overview

The Investment Banking and Asset Management (IBAM) group comprises the following legal entities: FBN Capital Limited, First Trustees Nigeria Limited, FBN Securities Limited, and First Funds Limited. The IBAM legal entities are operationally integrated as five core divisions: Investment Banking, Markets, Asset Management, Trust and Agency Services, and Alternative Investments.

The Investment Banking division seeks to deliver innovative solutions to institutions that require strategic and financial advice, and to provide comprehensive financing solutions. The activities that fall under this business unit include origination and client coverage, providing financial advisory services, assisting clients with raising debt and equity from the capital markets, and restructuring complex transactions and project financing.

FBN Capital Limited is the legal entity through which investment banking and asset management solutions and services are offered to customers. FBN Securities Limited is the legal entity through which activity in the Markets division takes place. It is host to our distribution platform, comprising sales, trading, structuring and research activities, across various asset classes (equity, fixed income and FX). Its clients include investment units in financial institutions, corporates, governments and individuals.

The Asset Management division provides investment solutions and services to individuals (HNI and retail), corporates and institutional investors. Its products and services 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 Trust and Agency Services division has been formed from a combination of our Trustees business (First Trustees) and the agency function that was formerly within the Investment Banking division. The company, First Trustees, acts as a custodian of assets, and manages and transfers assets on behalf of beneficiaries.

The Alternative Investments division comprises FBN Capital Partners and First Funds. The division makes significant minority equity and quasi-equity investments in companies backed by strong and experienced management teams, with scalable business models, and products that enjoy a large accessible market.

Operating environment

The tight liquidity conditions that prevailed in the Nigerian economy curtailed capital expenditures and limited primary activities in the capital market in 2012. This resulted in a dearth of mergers and acquisitions and equity-market deals and led to a reduction in trading volumes and values of equity markets relative to 2011. These tough market conditions explain the weak performance of the Investment Banking and Markets divisions in 2012.

As expected with tight liquidity conditions, a high-interest-rate environment prevailed during the year and this, coupled with a bullish trend in the bond market, led to an influx of foreign investors that sought to capitalise on the higher rates. The Asset Management and Trust and Agency Services divisions benefited immensely from the high-interest-rate environment.

Performance summary

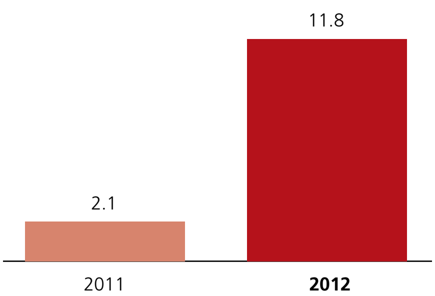
Financial highlights

The Investment Banking and Asset Management group revenue grew to ₦11.8 billion from a loss of ₦2.1 billion in 2011. Investments in additional resources in Origination & client coverage, and Project & structured finance in particular enabled us to build a strong pipeline of mandates and successfully execute some landmark transactions, in the investment banking business. This has translated to a growth in the number and scale of transactions, particularly in the energy and natural resource sectors. The Trust business benefited from growth in trust-related assets i.e., AUM and sinking fund accounts, as well as investing its own capital (proprietary income). The rebound of the secondary equity market in the latter part of the year and key investments in institutional sales and trading resources improved the performance of the brokerage business. The launch of two new funds and the prevailing high-interest-rate environment led to a growth in AUM boosting the performance of the Asset Management business. In general, the business also invested in several business development activities that increased the visibility, which positively impacted earnings.

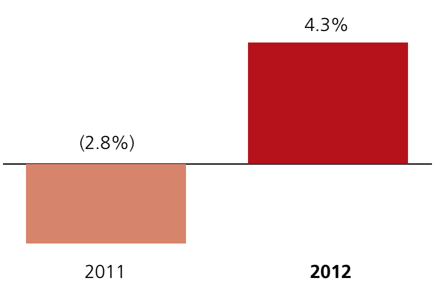
While capacity was built across the businesses in 2012 in line with the growth plans by investing in key talent, process upgrades and new systems, the operating expenses (including interest expenses) were 31% lower due to impairment write-backs. Excluding impairment reversals, operating expenses (including interest expense) grew by 11%.

Riding on the improved earnings and no extraordinary charges, there was a significant improvement in profit before tax, turning a loss of ₦2.8 billion in 2011 to a pre-tax profit of ₦4.3 billion in 2012.

Gross revenue (₦bn)



Profit before tax (₦bn)



Non-financial highlights

Improvements made to operating processes

The Group has begun implementing the recommendations on operating processes. It made a few more important hires, specifically a Chief Operating Officer, to lead the majority of the non-market-facing businesses, and new heads for the finance, HR, strategy and corporate planning functions.

IBAM is at the tail end of the risk process optimisation project to enable it to more readily identify and process risks faced across the business and establish rigorous enterprise-wide risk-management architecture. It is also at the tail end of upgrading compliance and anti-money laundering policies to ensure it mitigates legal, regulatory and reputational risks.

These initiatives are progressing in parallel with the integration of the businesses, specifically First Funds and First Trustees, into IBAM. It has significantly advanced the operational integration of First Funds and made steady progress with the engagement of all the key stakeholders in the First Trustees business, ensuring the legal integration of both businesses is seamless and the operational integration is equally smooth and swift. A fully integrated IBAM allows for full harmonisation of job grades and salary structures and increases efficiency in managing resources across the organisation.

IT infrastructure upgrade

The Group has worked hard to upgrade and stabilise the IT infrastructure and can now begin to look towards enhancing the tools and business applications to make us more effective and efficient.

New graduate trainee programme implemented

The Group started its graduate trainee programme in August 2012. It has also developed a competency framework and appraisal tools that will capture goals and targets for each role, and ensure that these goals are aligned to our overall objectives.

FBN Capital Ltd – Investment Banking and Asset Management division

Introduction

FBN Capital, a wholly owned subsidiary of FBN Holdings, is the parent company for our Investment Banking and Asset Management (IBAM) business group. Its vision is to be a world-class investment bank and asset manager, and our mission is to create value and wealth for all our stakeholders.

Business model

FBN Capital is the legal entity through which investment banking and asset management solutions and services are offered to customers.

Value-added services and income in the form of fees and commission are derived from the following divisions:

The Markets division engages in the sale, trading, structuring and research of equities, fixed-income and foreign exchange products. The Trust and Agency Services division acts as custodian of assets for public, corporate and private entities, and administers, manages and transfers assets on behalf of beneficiaries, and acts as financial agent on transactions. The Alternative Investments division provides growth capital to medium-sized companies by making minority equity/quasi-equity investments in companies, and managing these investments for value.

The Investment Banking division provides financial advisory services, assisting clients with raising debt and equity from the capital markets, and restructuring complex transactions and project financing. The Asset Management division offers investment solutions to individual, high-net-worth, corporate and institutional investors. It manages and provides access to both local and international markets through simple, yet innovative, products, such as mutual funds, structured products, exchange-traded funds, discretionary and non-discretionary portfolio management.

Investment Banking

Overview

The Investment Banking division seeks to deliver innovative solutions to institutions that require strategic and financial advice, and to provide comprehensive financing solutions. The division provides strategic advice and arranges finance for clients. It leverages deep industry knowledge and product expertise to create and deliver innovative financial solutions for our clients, comprising corporates, financial institutions and the public sector.

There are five units within the Investment Banking division, namely origination and client coverage, financial advisory, equity capital markets, debt capital markets, and project and structured finance.

Operating environment

The Investment Banking division faced strong headwinds through most of the year, particularly in the traditional mainstay, the Capital Markets business: liquidity was tight, banks were scrambling for deposits and being very cautious in building up risk assets, and the real economy faced challenges in accessing capital and therefore put capital-expenditure programmes on hold.

The low primary activity in the debt and equity capital markets, the delays in closing transactions related to the power sector privatisation, and the divestment of oil and gas assets by the international oil companies to domestic companies all contributed to the low momentum in the

Investment Banking division in 2012. Although investor interest in the equity markets was reignited towards the end of the third quarter (the All Share Index (ASI) crossed the 25,000 mark projected by analysts), particularly by the pension fund administrators, this resurgence is yet to be transmitted to the primary market.

The Federal Government of Nigeria (FGN) continued its borrowing activity in the domestic bond market, via the monthly issuance of the FGN bonds at very attractive rates. The coupon range on FGN bonds is aligned to the monetary policy rate, which remained at 12.75% throughout 2012. Attractive coupons on Treasury Bills and money-market instruments made these the preferred investment for investors. The inclusion of selected FGN bonds in the JP Morgan Bond Index in August and the announcement by Barclays Plc to add the bonds to its emerging markets local currency government bond index from March 2013, also created significant offshore demand for FGN bonds. This affected the pricing and issuance of sub-national and corporate bonds, making them less attractive to investors.

These factors contributed to the market slowdown in investment banking activity, except for the higher volumes in project and structured financing activity.

Business update

The tight liquidity conditions, curtailed capital expenditures and limited primary activities in the capital market impacted investment banking business negatively in 2012. These market conditions led to a dearth of mergers and acquisitions and equity market deals, and a reduction in trading volumes and values of equity markets relative to 2011. With these market conditions, 2012 was a slow year for investment banking activity in Nigeria.

However, despite the slowdown, which was accompanied by intense competition as banks vied for lower market activity, FBN Capital maintained its leadership position in debt capital markets and project/structured finance. In recognition, the EMEA Finance African Banking Awards 2012 awarded FBN Capital the Best Debt House in Nigeria, for the third year running.

Opportunities

There are a number of ongoing private and public sector initiatives driving market fundamentals and creating deal execution opportunities for 2013 across a few specific industries, as listed below.

- Oil and gas: the passage of the Petroleum Industry Bill and the resulting deregulation of the industry, combined with the local content initiative, will increase the participation of indigenous companies across the industry value chain. We see significant corporate activity in the industry including mergers among the small to medium-sized companies, corporate restructuring and partnerships among foreign and local operators, and a significant funding need from local companies looking to improve their asset-based competitiveness, which may lead to the listing of some oil companies on the Nigerian Stock Exchange.
- Power: the ongoing privatisation of the power sector will present attractive opportunities for us to arrange acquisition and capital-expenditure financing for the successful bidders, in addition to the independent power projects and other players in the value chain.
- Financial services: we expect there will be opportunities to assist with bank recapitalisations to meet regulatory capital ratios, the divestment of government investment in banks and banking assets via the Asset Management Corporation of Nigeria (AMCON), and consolidation and recapitalisation opportunities in the insurance sector.
- Agriculture sector: the FGN continues to pursue the diversification of the Nigerian economy by strengthening the non-oil sector, principally through initiatives in agriculture. The various policies and resulting private-sector activities provide opportunities for capital raising.
- Fast-moving consumer goods (FMCG): interest from multinational companies, based on Nigeria's population size and GDP growth, is driving momentum in this sector. We see advisory and capital-raising opportunities as global FMCG companies look to expand their geographical footprint and market share in high-growth markets.

FBN Capital is well positioned to win mandates in these areas and maintain its leadership through the Investment Banking division.

Strategy and 2013 priorities

FBN Capital's priority remains maintaining a leadership position in all our investment banking activities.

Our strategy to achieve this is based on the following four pillars:

- deepen and expand our client base, and leverage the group's clients;
- promote 'client stickiness' by providing innovative and tailored solutions;
- maintain 'best in class' execution capabilities; and
- maintain and strengthen our relationship with regulators, to provide a strong voice in the ongoing regulatory changes.

Asset Management

Overview

FBN Capital's Asset Management division offers investment solutions to individual, high net worth, corporate and institutional investors. It provides access to both local and international markets through simple, yet innovative, products.

The Asset Management division's products include mutual funds, structured products, exchange-traded funds, as well as discretionary and non-discretionary portfolio management across various asset classes including fixed income, equities and real estate. The company has expertise spread across the various asset classes of fixed income, equities, real estate and other financial instruments.

Products and services

Asset Management's products and services offerings have been broadly divided into two major areas, in order to ensure delivery of the highest quality to our customers.

Portfolio management

Asset Management provides discretionary and non-discretionary portfolio management to high net worth, corporate and institutional investors. In collaboration with FirstBank's Private Banking division, it provides 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 and diversification to various asset classes and investment strategies, to meet investment objectives within their risk parameters. These products also act as investment vehicles to which they can indirectly acquire holdings in investments they may not ordinarily have access to and for the retail investor, at a fraction of its cost.

Operating environment

The non-pension fund industry in Nigeria is still at a formative stage. A significant proportion of the Nigerian population still remains un-banked with low levels of financial intermediation and literacy. As at December 2012, total assets under management of all registered collective investment schemes stood at ₦101 billion (Securities and Exchange Commission) compared to the total broad money supply of ₦15.1 trillion as at December 2012 (Central Bank of Nigeria).

During the year, the Securities and Exchange Commission (SEC) began working closely with the asset management industry via the Fund Managers Association of Nigeria (FMAN) to strategise, promote and develop collective investment schemes (CIS) in the country. This collaboration aims to create awareness of the importance of professional help and diversification of investments to retail investors, and to deepen investor education and confidence following the experiences of the 2008 collapse in the Nigerian equity market.

The high-interest-rate environment and the improvement in the bond markets in 2012 led to an influx of foreign investors looking to capitalise on higher rates, as well as heightened domestic investor appetite for short-term investments in fixed-income assets. The Asset Management business was well positioned to take advantage of the trend and its business volumes went up significantly during the year, adding to the revenue of the Group.

Business update

In 2012, the Asset Management division successfully launched two new open-ended mutual funds – the FBN Money Market Fund and the FBN Fixed Income Fund, giving investors access to both the money and bond markets in the country. Both funds witnessed oversubscription rates of greater than 13%, supporting the view that such schemes can be popular with investors.

The FBN Money Market Fund invests in very liquid short-term money-market instruments, such as Treasury Bills, term and certificates of deposits, banker's acceptances and commercial papers, with an investment objective targeted at achieving a level of income obtainable from investments in these short-term securities, whilst ensuring the preservation of capital and maintenance of liquidity.

The FBN Fixed Income Fund aims to achieve attractive long-term returns by investing in a diversified portfolio of Federal Government, state government and corporate bonds, as well as money-market instruments.

Business opportunities

The non-pension fund industry is still in its formative years. The banked population in Nigeria, estimated at 28.6 million[1], presents significant opportunities for financial inclusion and the provision of investment products. In addition, as at the end of 2012, First Bank of Nigeria Ltd had 8.5 million customers – 27% of the estimated banked population and a network of 714 branches in Nigeria. The Bank's customer relationships will be deepened as the Bank positions itself as the provider of a menu of alternative financial products to its customers. The Asset Management division is focused on creating innovative and attractive investment products to meet the investment objectives of these customers.

1 Source: EFINA, Access to Financial Services in Nigeria 2012 Survey

Strategy and 2013 priorities

In 2013, our objective is to become one of the top three asset management companies in Nigeria, based on assets under management. Our target is to substantially grow the number of investors in our funds as well as deepen our product offering.

The Asset Management division's strategy in achieving this objective is to build scale by driving volume through the FirstBank Group's distribution channels, by providing product breath, and by leveraging the FirstBank and FBN brand. In addition, we have commenced key initiatives (increased product awareness, technology upgrades) aimed at attracting new customers from within and outside the FirstBank Group.

FBN Securities Ltd – Markets division

Overview

FBN Securities is the legal entity through which activity in the Markets division takes place. It is host to the distribution platform, comprising sales, trading, structuring and research activities, across various asset classes (equity, fixed income and foreign exchange). Its clients include investment units in financial institutions, corporates, governments and individuals.

Business model

The sales businesses comprise the institutional sales team, which provides investors with access to multiple products across the Asset Management, Trust and Agency Services and Securities businesses, and the channels management team, which acts as the interface with the Private Banking and Retail Banking groups in the Bank, providing targeted marketing to high net worth individuals (HNIs) and retail customers.

The trading business comprises agency execution services for investors looking for opportunities in both the primary and secondary markets; and the market-making business, which provides liquidity in selected listed securities, as we seek to foster the development and liquidity of the Nigerian equities market.

The product-structuring team designs products to meet our clients' risk/return objectives.

Finally, the research team provides our clients with comprehensive and timely research, and actionable ideas on companies, markets and economic indicators across asset classes.

Operating environment

The tight liquidity market conditions and the high-interest-rate environment adversely affected market business for the most part of the year. Although investor interest in the equity markets was reignited towards the end of the third quarter (the All Share Index (ASI) crossed the 25,000 mark projected by analysts), particularly by the pension fund administrators, this resurgence is yet to be transmitted to the primary market.

The FGN continued its borrowing activities via the monthly issuance of the FGN bonds at very attractive rates. Attractive coupons on Treasury Bills and money-market instruments made these the preferred investment for domestic investors. The inclusion of selected FGN bonds in the JP Morgan Bond Index in August, and the announcement by Barclays Plc that it would add the bonds to its emerging markets local currency government bond index from March 2013, also created significant offshore demand for FGN bonds. This affected the pricing and issuance of sub-national and corporate bonds, making them less attractive to investors.

Trading volumes and values in the equity markets were lower relative to 2011, when the Markets division executed significantly more trades for the banks as a result of AMCON's decision on margin loans in 2011.

Business update

Starting in the third quarter, there was a gradual recovery in equity market activity, as foreign investors maintained their presence and domestic investors cautiously returned to the market. The equity market rebounded as the Nigerian Stock Exchange (NSE) ASI crossed the 25,000 mark projected by analysts, achieving a 35% return.

The FBN Securities research platform continues to create visibility in the marketplace, and along with the sales team ensures effective coverage of institutional accounts. In the bond markets, it brokered primary deals for pension fund administrators (PFAs), insurance companies and asset managers, while in the secondary bond markets it provided institutional buy-side clients with efficient access to FGN bonds. It also focused on providing our clients with comprehensive solutions, including acting as FX broker for equity and fixed-income transactions.

FBN Securities has seen growth in institutional sales businesses as it has taken on several new international and domestic institutional investor accounts. Many of these investors have benefited from the positive return in the equity markets.

Business opportunities, strategy and 2013 priorities

FBN Securities has made good progress in establishing a solid and scalable operating platform across its sales and trading units to ensure added value and best execution for key onshore and offshore clients. The momentum created is being leveraged as the company broadens its franchise to build new client relationships.

The company's equities market-making activity, which commenced in the second half of this year, is being ramped up in readiness for securities lending.

The company remains well positioned to provide 'best-in-class' execution as primary issuance activity grows in the equity and debt capital markets. It is building relationships with offshore pension funds, and also working very closely with the Bank to leverage public sector and endowments/trusts relationships to increase funds inflow to our Asset Management division.

FBN Securities will continue to develop strategic relationships with global and local institutional investors to drive our agency trading business. In addition, we will strengthen our equity and bond trading businesses and position for securities lending, as well as expand our market-making activity into bonds.

We are optimistic that the ongoing capital market reforms and rising momentum in the equity and debt capital markets will be sustained in 2013, and look forward to building on our achievements in 2012.

First Funds Ltd – Alternative Investments division

Overview

The Alternative Investments division supports companies with a strong and experienced management team with a good track record of seeking funds for expansion of their businesses with minority equity and quasi- equity investments.

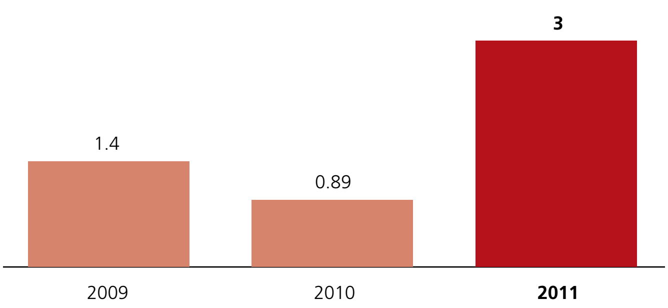
Business model

The division provides growth capital to medium-sized companies. It currently manages a portfolio of investments spanning a broad spectrum of sectors in Nigeria including telecoms, leasing, oil and gas, travels and tours, and information and communications technology. It made significant minority equity and quasi-equity investments in companies backed by strong and experienced management teams, with scalable business models, and products that enjoy a large accessible market.

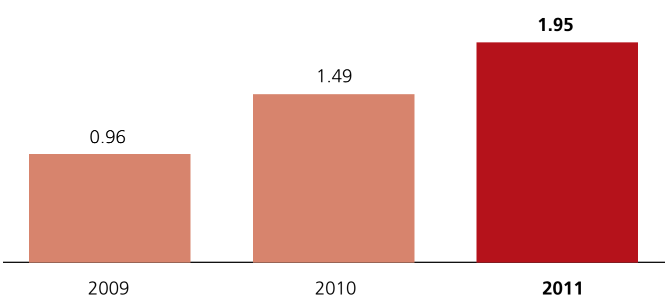
Operating environment

Strong growth (average GDP growth forecast of 5% across Sub-Saharan Africa), a rising middle class, and reducing levels of political risk have combined to increase the attractiveness of Africa to private equity investors (see graphs below for reference).

Funds raised in Africa[1] ($bn)



Transaction value in Africa[1] ($bn)



An ongoing shift from a commodity to a consumer market focus, across a number of African countries, has the potential to unlock significant value to investors across a broad spectrum of sectors.

1 Source: Emerging Markets Private Equity Association (EMPEA).

Pension funds have traditionally been the backbone of the private equity (PE) investor base throughout the developed markets, providing approximately 25% to 30% of the total capital invested in the asset class. In the emerging markets, however, local pensions have been less active in PE, but this is changing. Regulators in Latin America, emerging Asia and Africa are becoming more comfortable with PE, and are enacting reforms that will allow local funds to invest in PE, providing an additional crucial pillar of support for regional funds.

Reflecting this trend, the recent changes in the pension investment laws in Nigeria permit pension funds to invest a maximum of 5% of their portfolio values in private equity assets. This development could potentially unlock ₦150 billion in investible funds to the local private equity industry in Nigeria.

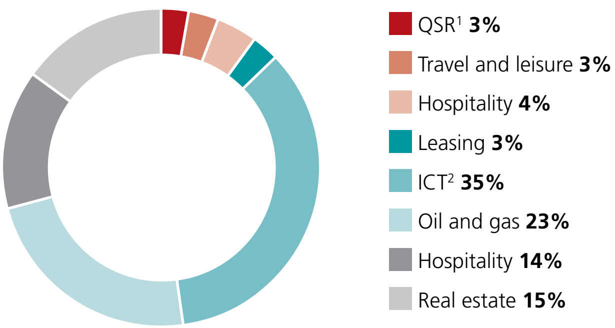
Business update

New investments

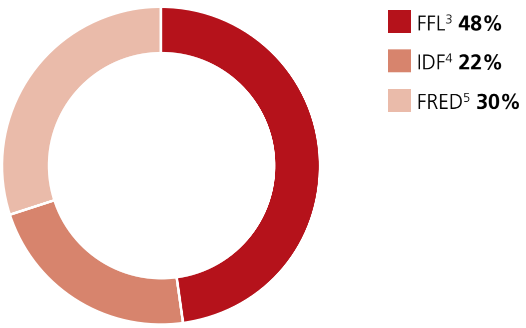
In the year under review, the division made an investment in a leading independent oil and gas exploration, development and production company based in Nigeria. The company combines an experienced board and management team, indigenous ownership and strong financial backing to pursue a rapid growth strategy in the Nigerian oil and gas sector.

The division's team of investment professionals continues to work closely with its management to provide operational and strategic support where required in order to ensure investment goals are met.

Sectorial distribution of investments



Distribution of investments by fund



1 Quick Service Restaurants
2 Information and Communications Technology
3 First Funds Limited
4 Industrial Development Fund
5 First Real Estate Development Fund

Portfolio management

The company currently manages three portfolios of investments comprising 10 investments, spanning a broad spectrum of sectors in Nigeria including telecoms, leasing, oil and gas, travels and tours, and information and communications technology (see charts for reference).

This provides best-in-class investment support to our portfolio companies, from building market-entry strategies to conducting in-house process flow reviews. We recognise that value is generated by improving the operational efficiency of our investee companies and ensuring they proceed with the optimal competitive strategy.

The division's funds make a combination of straight equity and quasi-equity financing into projects. The funds are structured to combine current return features and significant upside potential, and we will only make investments that we believe are capable of achieving our minimum acceptable return.

Opportunities

With Nigeria's GDP growing at an average of 7% between 2007 and 2011, and continuing growth in 2012 (6.6%), and the government's policy initiatives targeted towards an improved investment climate, the private-equity space remains very attractive.

The division anticipates opportunities across the entire value chain in a number of sectors.

1. Power: the recent privatisation of state-owned power assets presents opportunities to finance asset acquisitions and operating requirements of the newly formed companies and associated service providers.
2. Oil and gas: the proposed Petroleum Industry Bill and local content initiatives should continue to provide platforms for increased participation by marginal players, who would require financing.
3. E-commerce: the CBN's cashless policy provides potential opportunities within the e-payments space.
4. FMCG: being the largest consumer market in Africa, Nigeria remains very attractive for consumer-based products, and well positioned for continued growth in this sector.
5. Real estate, retail and construction sectors: with an estimated supply gap of 15–20 million housing units, we expect significant opportunities for innovative and affordable housing solutions.

Risks and mitigants

With a thorough understanding of the risks inherent in a principal investment and private equity business, the division has implemented important and effective risk mitigants. Our principal risks and mitigating activities are as follows.

1. **Concentration risk**

   Mitigation: ensure that investments are adequately diversified in view of the dangers of portfolio concentration.

2. **Performance risk**

   Mitigation: in order to ensure that portfolio companies perform as projected, adopt a hands-on approach to investment monitoring. We ensure partnership with management teams that have the capacity to effectively manage, as well as to react adequately to material changes in their operating environment.

3. **Liquidity risk**

   Mitigation: the division provides financial support to investee companies over the life of investments via follow-on investments where required. It also provides a platform for our investees to access bank debt and other sources of financing where required.

4. **Exit risk**

   Mitigation: the division ensures that every investment is made with an exit plan and works towards its attainment over the life of the investment. It also utilises self-liquidating investments, where required, in order to minimise this risk.

Strategy

The division aims to provide high returns to its shareholders. With every investment going through its comprehensive and thorough investment process, we also aim to maximise our chances of successful exits.

Its strategy is based on:

- utilising the expansive reach of the FirstBank Group to source the most suitable potential investments in Nigeria;
- leveraging our considerable expertise and experience in providing strategic and management support to investee companies;
- providing strong financial support to our investee companies over the course of our investments; and
- actively engaging all relevant stakeholders over the life of the investment with a view to securing investment exits that meet the financial and strategic objectives of all parties.

2013 priorities

- Focus on co-investments: the division has commenced a restructuring of our operating platform, in a bid to attract third-party capital. Going forward, our investments will be modelled as partnerships with other private equity investors or other industry counterparts. The partnerships will aim to leverage our expertise in the local market, and the partner's expertise in accessing global/multi-market private equity investors.
- Focus on investment exits: current market dynamics point to a favourable outlook for private equity investor activity in Africa. Leveraging this interest, the company is positioning to exit a number of its mature investments starting in 2014.
- Provide market-leading returns to our shareholders; with every investment going through our comprehensive investment process, we also aim to maximise our chances of successful exits.

First Trustees Nigeria Ltd – Trust and Agency Services division

Overview

The Trust and Agency Services division has been formed from a combination of our trustees business (First Trustees) and the agency function that was formerly within the Investment Banking division. First Trustees acts as a custodian of assets, and manages and transfers assets on behalf of beneficiaries.

First Trustees remains the foremost trust company in Nigeria. The combination of product innovation and client-tailored solutions that meet current and future requirements, as well as brand strength, make the company the preferred trust company in Nigeria. Working closely with individuals, families, foundations and governments, the company offers solutions that help in the preservation, management and transfer of wealth within and across generations.

Business model

The Trust and Agency Services division is organised into public trusts, corporate trusts and private trusts. The company acts as a custodian of assets, and manages and transfers assets on behalf of beneficiaries. The corporate trust business provides trust services to mutual funds, asset and fund managers and large corporates involved in syndications and debt capital raising. The public trust business is focused on providing trust services to all tiers of government and government agencies. The private trust business focuses on individuals, families and foundations.

The trust business is typically a fee-generating business, driven predominantly by securities servicing and asset management products. Consequently, growth in assets under management is a key business driver.

The agency function works very closely with the public and corporate trust team acting as a facility agent in major bank syndications.

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.

Operating environment

The Nigerian trusteeship industry is driven primarily by a combination of regulatory activities and the debt capital market. The corporate bond market is yet to match the growth in the government bond market, primarily because of the paucity of investment-grade corporate borrowers and relatively higher borrowing costs for corporates. However, many corporate entities are beginning to see the long-term benefits associated with bond issuance. In respect of public trusts, state government bond issuance is rising. Thirteen state governments issued bonds in 2010. More states are either considering or are in the process of issuing bonds, as they look towards a source of cheaper, longer-term financing for infrastructure projects. Growth in private trusts also remains steady.

Opportunities and risks

Although some slowdown in the public trust market is expected, primarily due to the number of state governments that have already accessed the market, the company does not anticipate a decline in existing revenue streams, due to the annuity nature of trust income and our long-standing relationships with the states.

In the corporate trust business, the expectation is to see increased activity following renewed interest from banks in lending to the private sector. In addition, First Trustees expects to see continued growth in syndicated loan activity, which will provide opportunities for the agency business.

Finally, the private trust market represents a key growth market and opportunity. However, this is subject to cultural and religious biases and sensitivities about discussing mortality. In addition, although there is increased demand for professional wealth management, trust services still represent only a small percentage of wealth management activity, which is dominated by asset management companies.

Strategy and 2013 priorities

Overall, we are optimistic about the Trust and Agency Services division in 2013. The key priority is to continue to position and maintain First Trustees as the preferred trust company in Nigeria, for private, public and corporate trust transactions. We plan to achieve this objective by:

- growing the private trust business, particularly in the areas of executorships, estate planning and trust services, by progressing initiatives which provide high-quality and personalised trust and investment services to individuals and families;
- enhancing the Trust and Agency Services division advisory services (the company is exploring opportunities for administration of business interest in estates and trusts); and
- building alliances and partnerships. In addition to leveraging internal partnerships across the FirstBank Group to broaden and deepen client access, First Trustees is also focused on leveraging alliances and partnerships to expand our database of new clients. These alliances will allow clients greater access to comprehensive trust solutions for their unique situations, and benefit both existing and future private trust clients.

Insurance business group performance

The FBN Insurance group continued its giant stride in promoting an insurance culture in Nigeria, with strong growth achieved in its business volumes, revenue and profitability in the year under review. This superlative performance was driven by aggressive marketing and offering world-class products to suit the variant needs of its clientele.

Insurance business group

- FBN Life Assurance Ltd
- FBN Insurance Brokers Ltd

Gross revenues

₦4.2bn

(2011: ₦0.9bn)

Profit before tax

₦0.6bn

(2011: (₦0.2bn))

Business group overview

This improvement in performance was driven by a strong bottom line growth experienced by the Brokerage business, and the Life Assurance business breaking even and making profit in its second year of operations.

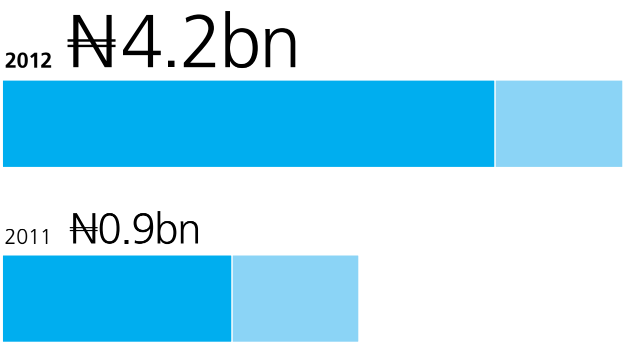
This superlative performance was achieved through a marketing campaign embarked upon by the business group to sell its products and services, with more outlets opened to reach out to more customers. In the review period, the Life Assurance division, in its drive to ensure its products and services are more readily accessible to customers, opened five new outlets in 2012, in Ikeja, Ibadan, Enugu, Benin and Warri. The division also made significant inroads into improving insurance penetration in Nigeria by selling more of its innovative products and services to customers in the review period. The Company's products include group policies such as key man assurance, a mortgage protection plan, term assurance and group life assurance, well received by the corporate end of its market, with Life Assurance participating either as lead or co-insurer in a number of large corporate group life schemes in 2012. In addition, there is a suite of insurance benefits to protect against death, permanent disability and, under certain circumstances, loss of earnings, as a complementary offering to FirstBank loan customers, providing financial protection in an hour of need. The Life arm also has a suite of retail products such as a Flexible savings plan, Flexi cash flow, Flexi education planning, Extended family support plan and Family income protection plan, which focus on separate risk management needs of the individual.

The Insurance Brokerage division recorded significant growth in business volumes. The division also achieved very strong profitability growth in the review period. This improved profit performance was driven by its ability to manage operating cost growth, which compensated for the small growth in revenue.

Performance summary

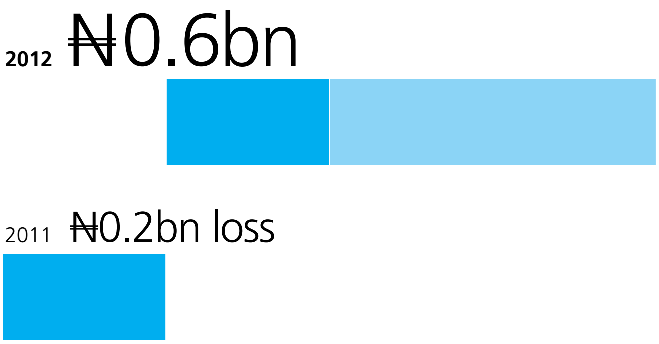
The net revenue base of the Insurance group witnessed a significant surge in the review period, growing by 371% from ₦0.9 billion to ₦4.2 billion, riding on improved market penetration of the Life Assurance arm of the business. The pre-tax profit experienced very sharp growth from a loss of ₦210 million the previous year to ₦642 million in 2012. This impressive profit before tax was driven by a strong bottom line growth experienced by the Brokerage business, coupled with the Life Assurance business breaking even and making profit in its second year of operations. The Insurance group's total assets closed the year at ₦6.7 billion, a 46.8% growth on the previous year's position of ₦4.5 billion.

Gross revenue (₦bn)



	2012
FBN Life Assurance Ltd	**3.4bn**
FBN Insurance Brokers Ltd	**0.8bn**

Profit before tax (₦bn)



	2012
FBN Life Assurance Ltd	**0.2bn**
FBN Insurance Brokers Ltd	**0.4bn**

Introduction

The FBN Insurance group comprises of two entities: FBN Life Assurance Limited and FBN Insurance Brokers Limited, offering life assurance and brokerage services respectively to Nigerians.

FBN Life Assurance Limited (FBN Life) is the 65%-owned life insurance subsidiary of the FirstBank holding company in partnership with Sanlam Emerging Markets, a leading South African insurance company. The Sanlam Group is the second largest non-banking financial services group in South Africa. In its 92 years, the Sanlam Group has grown from a small life insurance company to a diversified financial services group focusing mainly, but not exclusively, on wealth creation, investment management and protection, and offering solutions to clients across the broad financial services spectrum. The Group comprises a number of mutually interdependent and complementary business entities, and currently functions via three main clusters of business – life insurance, general insurance and asset management. FBN Life Assurance 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.

FBN Life commenced business operations from its Lagos head office in September 2010 and opened branches in Abuja and Port Harcourt within the 2011 financial year. 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 life assurance market.

FBN Insurance Brokers Limited is a fully owned subsidiary of FBN Holdings Plc. FBN Insurance Brokers combines expert brokering knowledge and capabilities for risk assessment, analysis, structuring and overall servicing that has resulted in increased insurance portfolios since the commencement of the Insurance Brokerage business in 2000. Its core mandates include providing insurance advisory services, risk management and placement of risks for FBN Holdings Plc and the general public (individuals, private and public sectors).

Business model

Based on the need to establish market presence, FBN Life is developing diversified life insurance products, robust operating processes and technology platforms, and has also finalised reinsurance agreements with Africa Re and Continental Re. The FBN Life product offering covers the full spectrum of life products – from those targeted at the entry-level market through to products tailored for the high net worth individual. It has actuarial and financial resources available to ensure the development of products and to ensure the Nigerian market is reached as quickly as possible.

FBN Life provides credit life assurance to the personal loan, vehicle and asset finance loan and home loan clients of FirstBank. Insured events underwritten include death and permanent disability. It also offers large corporates in Nigeria various group life schemes. The benefits include death and permanent disability cover, as well as more innovative products such as critical illness cover.

In addition to the above, FBN Life offers the more traditional life insurance products, including both risk and investment business to individual policyholders.

To fully tap into the potential of the retail market as emphasised by the size of the informal sector (65% of the entire economy) and take advantage of the low levels of coverage by existing players in the industry, FBN Life uses cost-effective distribution channels that include a direct sales force, direct and focused marketing, independent intermediaries (brokers and agents) and bancassurance multi-channel distribution, making use of FirstBank's extensive branch network.

FBN Insurance Brokers provides insurance advisory services, risk management and placement of risks for FBN Holdings Plc and the general public (individuals, private and public sectors). It renders specialist services as an intermediary in all classes of insurance. It works on a range of value-added risk management services through international specialist foreign re-insurance broker companies like United Insurance Brokers (UIB) and Marsh, both in London, to handle some of our off-shore and high-valued on-shore risks. These international re-insurance brokers have the reputation, expertise and unrivalled experience in energy insurance, oil and gas, sophisticated/complex risk management and re-insurance services. These operational and corporate alliances with the international brokers are geared towards building infrastructure for the industry in terms of capabilities, skills, knowledge update, improved professionalism and the best business practice possible.

Its operations are IT-driven; thus enabling the company to generate underwriters' premium requisition and customers' receipts online, thereby facilitating the prompt remittance of premiums to the various underwriters as well as promoting efficient customer service delivery.

Strategy

To achieve its strategic aspiration of being a top five life assurance company in Nigeria, FBN Life Assurance's approach is to carve a niche in the life insurance market, establish retail distribution networks, expand its product portfolio, utilise strategic business models and create an efficient customer service model. In addition, FBN Life is working towards being a composite insurance company.

A perpetual challenge in insurance markets is the severe pressure on the price of the products. In order to attract business away from competitors, insurers often reduce the rates, sometimes to very unprofitable levels. In this respect, Nigeria is no different from other markets, with premium quotations for certain lines of business, particularly group life, often being driven to unprofitable levels. FBN Life's strategy is not to engage in such poor practice, preferring to build sound relationships with clients and intermediaries, develop operational efficiency and premier customer service while pursuing profitable business. Over the coming year, the company will conclude the installation of its world-class insurance IT system, which will drive internal operations, enhance customer service capabilities and improve efficiency and innovation.

The Brokerage division aspires to be the leading insurance brokering company in Nigeria in terms of excellent customer service delivery, income generation, profitability and reward to the shareholders. To achieve these goals the Brokerage business strategies have been:

- continuous penetration of the public sector;
- increasing marketing and business development drive on special risks policies such as Political Violence, Terrorism, Kidnap & Ransom and Medical insurances;
- capacity building and knowledge update, both locally and internationally;
- leveraging on FBN Holdings Plc to increase revenue growth and obtain maximum synergy on the spread of offices across Nigeria and beyond; and
- restructuring internal operations for effective marketing, claims management and programme administration.

Operating environment

The insurance industry is commonly seen as an economic barometer, as insuring activities are inevitably tied to the health of the economy, whether in terms of financial protection for other industries or for person or economic support, by the provision of long-term funds for development activities. While political unrest engenders the need for appropriate risk management and creates the need for certain types of special risks insurance, the limit of insurability for key industries was further pressured by the unavailability of such insurance in the domestic market or, where available, through international risk syndication, the financial cost of meeting the insurance requirements or the pure cost of purchase.

With the closure of industries, the erosion of the medium-scale enterprise, including rising unemployment which puts pressure on disposable income, the purchase of discretional insurance products becomes very low. Thus, in the last decade, the growth that has been experienced within the Nigerian insurance sector has been largely reform driven, with emphasis on local risk retention, non-discretionary (compulsory) insurances and more importantly by the constructive engagement of the National Insurance Commission under its Market Development and Restructuring Initiatives (MDRI), which are aimed at deepening market penetration. Despite this, insurance market opportunities remained limited and the industry continues to witness negative competition. Poor implementation of insurance regulations and policies by the Government, such as insurance of public buildings, motor vehicle policy, and local content law, remains a huge concern in the industry.

The Nigerian market is still experiencing very limited market penetration in both long-term and short-term insurances. The industry remains quite fragmented, in spite of initiatives over the last few years to rationalise the number of companies holding licences to carry out insurance business. In addition, the high number of intermediaries through which most insurance business from corporate customers passes to insurers further reduces the net premium earned by insurance companies. This has resulted in the insurance sector being fragmented, with further consolidation required.

The long-term insurance industry faces the challenge of ensuring that the consumer market is adequately aware of the benefits, terms and conditions of the products available to them, thus contributing to the extremely low market penetration in Nigeria. A number of failed insurers in recent years, resulting from poor risk selection and management, have further eroded public confidence in the sector. A concerted effort by the industry to create public awareness, develop products aligned with customers' needs, improve the image of the industry in the market by settling claims promptly and efficiently, and developing well-informed and adequately qualified sales personnel are requisite components of achieving this objective.

As part of its efforts to revamp operations within the industry, the National Insurance Commission (NAICOM) in the year under review increased emphasis on strict compliance with the various insurance guidelines and submissions of returns in line with regulatory requirements. In addition, the regulatory agencies are pushing for enforcement of relevant/applicable laws to promote professionalism. As part of the reform process, industry players have been mandated to adopt the International Financial Reporting Standards (IFRS), effective from 1 January 2012. The Pension Reform Act 2004 (the Act) made it compulsory for employers of labour (with a minimum of five employees) to put in place, in addition to the contributory pension scheme, a group life scheme to cater for payment of death benefits in favour of deceased staff dependants. The policy has, however, been more successful largely at the Federal Government level, with the private sector lagging behind significantly with respect to compliance.

The awareness and need for terrorism insurance is gaining more ground as more risk management bodies are teaming up to proffer solutions to the menace. The level of insecurity in some parts of the country affected economic activities in the affected areas. Sales of motor vehicle insurance and insurance on imports (marine) are expected to increase in the near term with the combined efforts of the Nigerian Insurers Association and NAICOM in checking the activities of fake insurance policies and operators.

Business update

Product development

The business plans to diversify its range of products to meet the different needs of its customers. The Insurance group life offering encompasses six retail products, each of which were designed to specifically address separate risk management needs of the individual, and group life assurance and key man assurance for corporates and small and medium enterprises respectively. In addition to these, various innovative insurance products are currently in the design stages to address individual and group needs, both at the macro and micro level, with particular focus on retail products and bancassurance products, taking advantage of relationships with FirstBank and other institutions. With the planned acquisition of a general insurance licence, the Company hopes to develop a full portfolio of insurance products for every family in Nigeria.

Extended branch network

As part of a strategic branch network plan to capture more of the insurance market, the Life Assurance arm of the Group opened sales outlets in Ikeja, Ibadan, Enugu, Benin and Warri in 2012. In furtherance of this plan, the Company plans to expand its distribution base by opening strategic sales outlets in Kano and Kaduna in the coming year. The Insurance Brokerage arm also plans to open a branch at Ilorin in 2013 to have effective coverage of all geo-political zones.

Improved information technology (IT) infrastructure

The Insurance group continued to increase the capabilities of its world-class insurance IT system in 2012; tremendous enhancement in customer service capabilities and increased efficiency and innovation are expected market deliverables.

In line with the drive to provide clients with world-class services leveraging the best-in-class delivery system, FBN Insurance Brokers was the first insurance brokerage firm to automate the notification of premium collection and credit note generation to underwriters in the country, and this has projected the image of the Company positively during 2012.

FBN Life in the coming year will conclude the installation of its world-class insurance IT system, which will drive its internal operations and enhance customer service capabilities, and also drive efficiency and innovation.

Early compliance with NAICOM regulations

In pursuit of the corporate governance policy of complying with all rules governing the insurance brokerage business in Nigeria, the Insurance Brokerage arm of the Group was the first insurance broker to commence the notification of premium collection to insurers within 48 hours of collection, as directed by NAICOM.

Business priorities in 2013

In 2013, FBN Life Assurance plans to expand its distribution base by opening new strategic sales outlets in the following geographical areas within Nigeria that demonstrate the highest insurance penetration potential: North East, North West, North Central, South-South and South East. While each of these locations will be equipped to sell all the Company's products, they will focus more on the retail products. The Company will also focus on bancassurance products, taking advantage of our relationship with FirstBank and other financial institutions. With the planned acquisition of a general insurance licence, the Company hopes to develop a full portfolio of insurance products for every family in Nigeria.

FBN Insurance Brokers' primary focus for 2013 is structuring and laying the foundations for profitability, driving accelerated growth across its various strategic business units/areas. As part of the business' expansionary drive to deepen service delivery and increase customer reach, it is committed to:

- further invest in the deployment of information technology as drivers to drive growth; and
- increase investment in its most prized assets, human capital.

Business outlook

The Nigerian macro-economy overview is a compelling story of progression and advancement, attributable to a relatively stable political environment and successful implementation of socio-economic and financial reforms. Domestic economic growth rates are expected to remain stable over the next few years as the structural imbalance of the economy is addressed by the Government. The non-oil sector has remained a key driver of this growth in the recent past. The increase in earnings, alongside the emergence of the middle-income cadre and by extension the increase in vehicle financing schemes, credits to SMEs and investment in the agricultural sector, are the main drivers for the growth anticipated in the industry, all of which should drive higher insurance penetration in the country.

The most significant opportunity for growth in the industry is represented by the over 60 million low-to-middle-income portion of the population between the ages of 27 and 50 years, who are the main customers of our goods and services. As this demographic shifts their consumption patterns due to the expected changes in the economy, they will seek predictable low-cost, income-producing financial products from trusted institutions. The FBN Insurance group is well positioned to take advantage of the projected changes in demographics, with its cutting-edge products and services offering and using its cost-effective distribution channels that include a direct sales force, direct and focused marketing, independent intermediaries (brokers and agents) and FirstBank's extensive branch network.

Although Nigeria has previously been extremely dependent on oil and gas revenue, recent statistics show a change in this trend, as the increasing focus on developing the non-oil sector, combined with growth in key sectors such as agriculture, insurance, telecoms and building construction have boosted the non-oil sector. According to NAICOM, the value of the insurance contract should rise to about ₦1 trillion ($6.4 billion) in 2017, which will be about 3% of GDP, from ₦300 billion, which is currently 1% of GDP. Market penetration should increase to about 22.5% of the insurable population in four years, from 10% in 2012.

The FBN Insurance group is well positioned to recognise the ever-changing dynamics, and has the capacity to affect the competitive landscape in a very significant way; and it intends to fully maximise the bancassurance advantage as one of its strengths in 2013. Amidst a fragmented industry, under-penetrated market and a large population, the insurance market holds significant potential for the FBN Insurance group. As such, the FBN Insurance group plans to expand its distribution base and is striving towards enlarging its current market share.

Financial review

The revenue base of the Insurance group witnessed a significant surge in the review period, growing by 371% from ₦0.9 billion to ₦4.2 billion, riding on improved market penetration of the life assurance arm of the business. The pre-tax profit experienced astronomical growth from a loss of ₦210 million in the previous year to ₦642 million in 2012. This impressive profit before tax was driven by a strong bottom-line growth experienced by the brokerage business, and the life assurance business breaking even and making profit in its second full year of operations. The Insurance group total assets closed the year at ₦6.7 billion, a 46.8% growth over the previous year position of ₦4.5 billion.

FBN Life Assurance

	2012 ₦ million	2011 ₦ million	Year-on-year (%)
Gross premium income	**2,897**	1,275	127
Transfer to life fund	**(1,233)**	(816)	51
Reinsurance premium expenses	**(120)**	(30)	300
Net premium	**1,544**	429	260
Fees and commission income	**22**	6	244
Investment income	**513**	153	235
Underwriting expenses	**(497)**	(81)	513
Underwriting profit/loss	**1,582**	507	212
Operating and administrative expenses	**(1,155)**	(711)	62
Profit/loss before tax	**427**	(204)	309
Total assets	**5,680**	3,397	67

FBN Life Assurance recorded a 127% increase in gross premium written from ₦1.28 billion in 2011 to ₦2.9 billion in 2012, largely driven by renewed marketing drive and partnership with Sanlam of South Africa. FBN Life recorded a significant increase in claims incurred (513%), but this did not affect its underwriting profit because it grew its revenue base substantially to absorb these claims. Underwriting profit was also largely supported by an impressive 235% growth in investment incomes to ₦513 million (2011: ₦153 million). This underscores the success of the investment strategy put in place by management and the slightly favourable investment climate existing during the period. Its experienced investment team working with a firm risk-reward perspective achieved this unique feat that has enabled FBN Life Assurance to double investment income in less than 12 months, amid a tough operational and economic environment in Nigeria, further amplified by the global financial crisis.

FBN Life Assurance in its second full year of operations posted profit before tax of ₦427 million, from its loss before tax of ₦204 million in 2011.

FBN Insurance Brokers

	2012 ₦ million	2011 ₦ million	Year-on-year (%)
Gross revenue	**795**	777	2
Fees and commission	**664**	694	(4)
Investment and other income	**131**	83	51
Impairment charge for losses	**(22)**	(30)	(27)
Reversal of previously recognised diminution charge	**13**	(74)	118
Operating expenses	**(449)**	(396)	13
Profit before tax	**337**	276	22
Total assets	**1,385**	1,130	23

FBN Insurance Brokers' gross revenue increased by 2.4% to ₦795.4 million from ₦776.7 million. This marginal growth in gross revenue was supported by a 58.9% appreciation in investment income amid a 4% reduction in fee and commission income.

Expenses for the year increased by 13%, which is largely in line with average inflation in 2012 at 12.2%. Operating expenses closed at ₦448.9 million from ₦396.1 million.

Staff costs increased by 29% to ₦279 million in 2012, due to implementation of a new salary scale and payment of ₦23.5 million to staff gratuity managers.

Riding on this controlled growth of operating expenses and appreciation of investment income, FBN Insurance profitability performance improved in 2012. Profit before tax grew by 22% to ₦337 million from ₦276 million in 2011.

Other Financial Services business group performance

Despite operating in a challenging and instable political, economic and security environment with heightened competition from competitor entrants with international affiliation, FBN Microfinance showed resilience with impressive growth in revenue and profitability in 2012 compared with 2011.

Other Financial Services business group

FBN Microfinance Bank Ltd

Gross revenues

₦5.4bn

(2011: ₦5.3bn)

Profit before tax

₦1.6bn

(2011: (₦0.3bn))

Business group overview

FBN Microfinance Bank's performance in the current year has been impressive despite challenges posed by the political, economic and security instability in the country. It predominantly makes up the other financial services business group with the microfinance industry impacted by regulatory authorities encouraging stricter compliance with the Prudential Guidelines and consolidation, which has also heightened competition. The Bank showed sufficient resilience to record growth in its revenue and profitability in 2012 over its 2011 position.

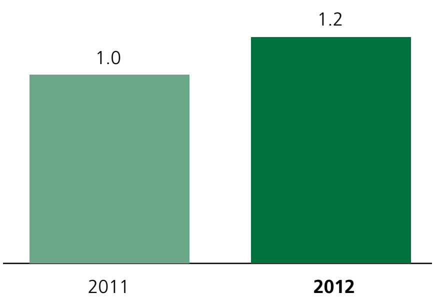
This impressive performance was anchored on implementing a strategy to better harness opportunities in the informal sectors of the Nigerian economy by increasing the reach and number of clients served through branch expansion, developing new products, aggressive marketing and mobile banking.

The Bank also implemented operational improvements including customer feedback mechanisms to ensure its service delivery system is top-notch and its customers are continually delighted.

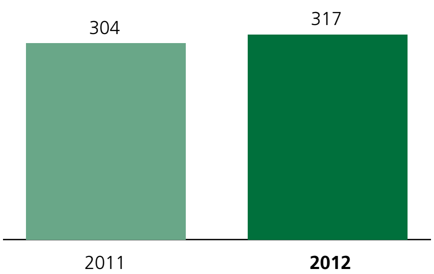
Performance summary

FBN Microfinance Bank

Net revenue (₦bn)



Profit before tax (₦mn)



FBN Microfinance Bank grew revenue by 16% to ₦1.2 billion (December 2011: ₦1.03 billion), benefiting from increased business volumes as it continued to expand its reach to customers in the microfinance space. The Bank made a full-year profit before tax of ₦317 million, up 4% from ₦304 million in 2011, despite achieving only 74% of its risk assets target for the year. The Bank was not able to meet its risk assets target for the year as there was a decline in trading and production activities in the Nigerian economy during the year. Its deposit liabilities stood at ₦822 million, 2.6% lower than its previous year position of ₦844 million. The increased profitability was achieved through efficient use of funds and cost control. The Bank achieved return on equity of 17.6% relative to 20.2% in 2011.

Non-financial highlights

Credit quality and process excellence

We comprehensively reviewed our credit policy and process efficiency towards meeting the Bank's growth imperative, and established a new recovery structure to focus on the prompt workout of delinquent accounts.

Customers' forum

We commenced customer forum sessions during the year to be able to understand quickly what the customers want and to meet those expectations appropriately. We are able to improve service delivery, and provide suitable product offerings through these sessions. We expect this initiative to help us retain and expand our customer base towards increasing our market share.

FBN Microfinance Bank Limited

Introduction

FBN Microfinance Bank Limited was incorporated in March 2008, and duly licensed by the Central Bank of Nigeria. It commenced operations in January 2009 with fully paid-up capital of ₦1 billion. The Bank is fully committed to providing financial access to the un-banked and under-banked active poor, very small businesses, petty traders, artisans and individuals, to meet their day-to-day business aspirations and create wealth. The microfinance banking space is estimated to be a potential market of 34 million customers. However, according to the 'EFiNA Access to Financial Services in Nigeria 2011 Survey', it was estimated that only 3.5 million of this market is exploited to date, and FBN Microfinance Bank controls only 2% of the market.

The Bank has leveraged on the FirstBank brand, and has unique products, well-trained and experienced personnel, a customer-centric approach to business and strong risk management policies to achieve its goals.

Its vision is to be Nigeria's microfinance services provider of first choice and its mission is 'To consistently develop a new generation of micro entrepreneurs by providing market-driven products and services in a profitable and sustainable manner thereby boosting economic development'.

Business model

To better reach and serve the micro enterprises and other low-income economic agents in the informal sector of Nigeria, FBN Microfinance Bank deploys robust IT infrastructure for the provision of efficient service delivery and mobilises deposits from the un-banked and the under-banked as well as providing loans and other financial services to the economically active poor through functional, friendly and cost-effective service outlets.

The Bank operates from 22 locations in Lagos State and is involved in the provision of microfinance products and services (loan and deposit products) to the economically active poor, small and micro entrepreneurs (SMEs), and salary earners. Its service offerings to the micro enterprises include banking services such as Deposit Mobilisation, Risk Assets/Credit Creation, Electronic Banking, Business Advisory Services and numerous other specialised products and services peculiar to the financial needs of the micro enterprises.

Strategy

Given the low-income nature of the country, as well as its largely informal structure, the market for microfinance services is huge. To tap into the huge opportunities in the microfinance space, FBN Microfinance Bank strategy is to increase its reach and the number of clients served through branch expansion, development of new products, aggressive marketing and mobile banking.

In line with this strategy, FBN Microfinance Bank opened two new branches in the year to bring its total branch network to 22. It plans to open more branches in the coming year.

The Bank also launched its new deposit mobilisation product, My Daily Savings Account (MDSA), in March 2012. This has been a success to date.

Firstmonie®, a FirstBank mobile money product, was successfully introduced. Staff and customers have started registration. The Bank aims to use this product to increase its reach and generate more deposits, as well as fee income.

Operating environment

The fuel subsidy protests witnessed in January 2012, 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. However, with sustained efforts by the Bank, the situation is being brought under control.

Supervision of microfinance banks by the Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC) has also been enhanced. The supervisory authorities, CBN, Non-Financial Institutions Unit (NFIU) of EFCC and NDIC, also commenced enforcement of strict compliance with report rendition. This implies stricter adherence to the Prudential Guidelines and reporting as well as improved corporate governance.

During the year, a number of regulations made a notable impact on Bank operations, among them, the Revised Microfinance Regulatory and Supervisory Framework which requires a National Microfinance bank to have a minimum paid-up capital of ₦2 billion. The CBN also insists on a fixed assets to shareholders' funds ratio of not more than 20% and raised the paid-up capital of National Microfinance Bank from ₦1 billion to ₦2 billion.

The attraction of investors in the microfinance sector is a result of the huge potential for profitability while contributing to alleviating poverty. Competition has therefore increased as new microfinance banks and non-governmental organisations (NGOs) with international affiliations have been licensed. The sector has also witnessed the entrance of international microfinance organisations with a good track record and experience in the sector. In addition, new entrants with international affiliations such as ASA Microfinance Bank and AB Microfinance bank have been licensed, thereby increasing competition.

While there is increased competition among the 'state-licensed banks', there has been a reduction in 'unit-licensed' microfinance banks due to their capital requirements and high-cost structure. Consequently, we expect to see more consolidation in the sector over coming periods.

Business update

To minimise the default rate and ensure better-quality risk assets, stricter lending conditions were introduced by FBN Microfinance Bank to address delinquency and a recovery/legal unit was established to hasten the recovery of past due loans. The Bank in response has developed enhanced risk management requirements for loans, and strengthened the control function with the appointment of a substantive Head of Internal Audit and the recruitment of additional Internal Control Officers. It has also focused more on group lending. The Bank has two types of lending methodology – individual lending and group lending (where loans are given to individuals who group themselves together with co-guarantee. A new unit, Loan Recovery, was created to support the recovery activities of Legal Services.

The Bank introduced a number of measures to retain and expand its customer base and increase its market share. These included improved service delivery, robust product offerings, funds transfers across the country using the FirstBank distribution platform and on-line real-time banking services across the 22 branches. Through customers' forums, FBN Microfinance Bank hears directly from its customers and responds to their challenges. It 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, point of sale (POS) transactions and the FirstBank mobile money – Firstmonie. Our customers are being encouraged to own mobile phones and utilise alternative payment channels such as cheques, ATM cards, POS, transfers, internet payments and mobile money. The Bank has taken advantage of this opportunity to increase its non-cash activities, especially in the sales of cheque books, ATM cards and bank transfers. The introduction of Firstmonie, First Bank of Nigeria Limited's mobile money solution, is also expected to increase revenue and efficiency in mobilising savings.

During the year under review, we expanded our fee and commission income by introducing insurance products such as risk premium on loan facility and commission on sales of life insurance policies, while enhancing sales of the existing products.

2013 priorities

In 2013, FBN Microfinance Bank will continue to improve on the structural foundations laid over the years for growth, among which are effective internal control measures, deployment of effective business strategies, branch expansion, strict adherence to regulations and improved processes for an effective customer service delivery.

In the coming year, FBN Mortgages intends to increase its focus on the lower-end micro customers. Having stratified its customers into individuals, groups, micro, small- and medium-scale entrepreneurs, it aims to develop bespoke products and services for each of these segments, with greater attention to groups (artisans and trade associations, self-help groups and professional groups).

To improve customer retention and add value overall, in addition to financing business growth, the Bank will also provide other support schemes, including scholarship awards to children of poor but loyal customers. The Bank has extended its strategic partnerships to Lagos State Microfinance Institution (LASMI) and Rural Finance Institution (RUFFIN), and is partnering LASMI to support rural farmers in Epe with a ₦500 million credit facility. The benefits are an increased spread in terms of outreach, more income, visibility and goodwill.

FBN Microfinance Bank will continue to explore new business opportunities for profitability as it has established contacts at the Ministry of Niger Delta and commenced discussions on the prospects of the Bank being listed among the selected microfinance banks to disburse the following funds:

- ₦1 billion set aside for the empowerment of the Niger Delta people through micro credit by the Ministry of Niger Delta; and
- ₦2 billion to small-scale farmers and rural dwellers through the Rural Finance Institution (RUFFIN) building programme by the Bank of Agriculture.

In exploring business opportunities, the Bank will place premium on building the capabilities of its human capital. It will invest in the continuous training of management and members of staff, which will help them better understand the nature and mode of operation of microfinance enterprises. This will ensure that the objectives of the Bank (to provide diversified microfinance services on a long-term sustainable basis for the poor and low-income groups) are met.

Business outlook

With most players in the industry unable to meet the December 2012 deadline set for the new regulatory capital requirement to operate as a microfinance bank in Nigeria, the coming year is expected to spark a round of consolidation in the industry. The number of players in the industry is expected to be smaller. Competition is expected to become more intense as newly licensed microfinance banks with international affiliations and existing well-capitalised players strive to improve banking penetration into the informal sector.

The policies stance of the regulatory authorities is not expected to be different from that of 2012, which promoted strict adherence to the Prudential Guidelines and corporate governance practices in the industry. These policies are expected to improve the access of micro entrepreneurs as well as of the poor and low-income population to financial services, and to help contribute to rural transformation and increase service delivery by microfinance institutions to micro, small and medium-size entrepreneurs.

FBN Microfinance Bank is well positioned to take advantage of the favourable regulatory environment to tap into the huge opportunities in the microfinance space; it intends to create more business volume through aggressive marketing of its products and services. Its reach will be expanded by additional outlets that will come on board. The Bank also intends to enhance customer satisfaction by improving on its service delivery, especially the turnaround time for repeat loans, and the speed of its operational services. The Bank is optimistic that the aggressive marketing of additional product offerings and excellent service delivery across the enlarged outlets will lead to higher revenue in 2013.

Financial review

	2012 ₦ million	**2011 ₦ million**	**Year-on-year (%)**
Gross earnings	**1,190.5**	1,033.0	15
Net interest income	**932.6**	780.1	20
Non-interest income	**246.5**	223.2	10
Net revenue	**1,179.1**	1,003.3	18
Staff costs	**(385.5)**	(328.7)	17
Other costs	**(415.5)**	(331.5)	25
Total costs	**(801.0)**	(660.2)	21
Profit before loan impairment	**378.2**	343.1	10
Loan impairment	**(61.5)**	(39.1)	57
Profit before tax	**316.7**	303.9	4
Total deposits	**821.5**	843.7	(3)
Loans and advances (gross)	**1,616.2**	1,373.3	18
Total assets	**5,670.0**	8,027.0	(29)

FBN Microfinance grew gross revenue by 16% to ₦1.19 billion (December 2011: ₦1.03 billion), benefiting from increased business volumes as it continued to expand its reach to customers in the microfinance space. This revenue growth was driven by an increase in interest income due to the high volume of loans booked in the year and a 61.9% year-on-year reduction in interest expenses incurred during the year.

The Bank made a profit before tax of ₦317 million up 4% from ₦304 million in 2011, despite achieving only 74% of the risk assets target for the year. The Bank was not able to meet its risk asset target for the year, as there was a decline in trading and production activities in the Nigerian economy during the year. But in spite of these environment challenges, its risk asset grew by 18% year-on-year to ₦1.6 billion. This growth was driven by its short-term lending and repeat loans, as customers were able to repay initial loans on time and collect higher amounts thereafter. Its deposit liabilities stood at ₦822 million, 3% lower than the previous year's position of ₦844 million.

The increased profitability was achieved mainly as a result of efficiency in the use of funds and cost control. The Bank achieved a return on equity (pre-tax) of 18% relative to 20% in 2011.

Governance

In this section

Good governance drives good performance and lays the foundation for the way in which we operate. Our Board remains strong in its oversight responsibilities and we shall continue to ensure we do business in the right way, continually putting in place the right checks and controls to enable us to build long-term shareholder value. The Group operates in a highly regulated industry and our compliance with legislation, regulations, standards and codes is entrenched within our culture, helping us to reduce our risk to regulatory sanctions and so protecting our stakeholders.

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Governance

Chairman's introduction

Oba Otudeko, CFR
Group Chairman

How do we govern for long-term sustainability?

Lessons learnt from corporate governance failures such as Enron, WorldCom, Sunbeam and Cadbury emphasise the importance of strict adherence to the principles of good corporate governance for the achievement of long-term sustainability. Failures of the Boards of the aforementioned companies exemplify what may result when leaders fail to instil a principled approach from the top. For us this highlights, more than ever, that the entire structure for good corporate governance is best initiated and monitored in the boardroom. Compliance with corporate governance practices by the Board is guaranteed to be cascaded down to the lower echelons of the business.

We recognise that the task of embedding high standards of corporate governance is never complete; yet, we remain committed to embedding the same high standards across the Group. This, we believe, will help us perform well in our chosen markets, ultimately resulting in a higher return on capital relative to cost.

Across the Group, we remain committed to our oversight function and long-term monitoring of good corporate governance practices. These practices not only keep us ahead of the competition, they also ensure the sustainability of our business.

The creation of FBN Holdings Plc ('Group' or 'FBN Holdings') is the culmination of a long journey. As far back as 2009, ahead of the repeal of universal banking by the Central Bank of Nigeria (CBN), the FirstBank Group recognised the need to reappraise and strengthen its Group operating model to enable stronger coordination and alignment across subsidiaries, through a holding company structure. The directive by the CBN ensured that the process was fast-tracked, resulting in the creation of FBN Holdings Plc.

The implementation of this holding company structure is geared towards driving operational efficiency, supporting growth strategies and increasing shareholder value in the long run, while also ensuring compliance with the guidelines issued by the CBN for the separation of banking and non-banking financial services businesses.

The new structure streamlines the Group's operating model, permitting the Group to better serve key market segments, provide clarity on the conduct of banking business, deliver superior and increasingly personalised services to customers and drive value for shareholders. The new holding company will ensure strategic, operational and brand synergies are maintained, whilst underlining renewed management focus on all customer segments.

Our governance framework

All the companies within the Group have distinct Boards and comply with the statutory and regulatory requirements of the industries in which they operate. They are also required to align their respective governance frameworks to that of the Group. We will monitor compliance with this by means of regular management reports, which are expected to include information on the outcome of any significant interaction with key stakeholders.

As the holding company structure of the Group has only recently been established, we shall spend considerable time and effort in the coming year putting in place structures to ensure strict observance of global best practices in corporate governance, including making key appointments from within and outside the Group to aid coordination within the Group.

We will be regulated by the Securities and Exchange Commission (SEC)'s Code of Corporate Governance and any other regulations stipulated by the CBN.

Establishment of a Statutory Audit Committee

As part of the overall oversight of the Group and in order to ensure that we achieve accountability to our shareholders, we shall establish the Statutory Audit Committee (Audit Committee). The provisions of the Companies and Allied Matters Act (CAMA) make it mandatory for all public companies to have in place an Audit Committee to be chosen at the Company's Annual General Meeting (AGM). The first AGM of the Group post-conversion to a holding company has been scheduled for later in the year and we expect to actualise the formation of the Audit Committee at that meeting.

Reporting standards and quality of financial disclosure

We attach a high level of importance to the quality of disclosure in our annual report and accounts. We have provided information not just on the financial, but also on the non-financial aspects of our business. This diligence, going beyond the requirements of CAMA, is aptly exemplified by one of the Group's subsidiary companies, FirstBank, which is widely recognised as having the most comprehensive disclosures in its annual report.

As part of enhancing transparency and disclosure in our financial reports, the Group has adopted the International Financial Reporting Standards (IFRS) (in line with the adoption of the Nigerian Accounting Standards Board (NASB) Roadmap on the IFRS by the Federal Executive Council that stated that companies and other corporate bodies in the country would prepare their accounts in accordance with the IFRS from January 2012), thus aligning with the strongest global standards of transparency in financial reporting. The adoption of the IFRS will enhance shareholder value and bring added benefits to our business relationships with our overseas correspondent banks, multilateral organisations and international investors that require financial statements to make informed decisions about the Group.

Gender diversity

The current composition of the Group's Board is wholly male. Consideration will be given to future appointments to ensure the Board achieves gender balance.

Succession planning

Due to the recent formation of the Group, a clear framework for the Group Board's succession planning is yet to be developed. It should be noted, however, that the boards of all subsidiary companies across the Group are comprised of individuals with board experience and knowledge and skills that make them capable of filling vacancies that may arise on the Board of the holding company. The Board will develop a formal policy in this regard.

Corporate social responsibility (CSR)

For us as a Group, our approach to CSR is concerned with how we conduct our business with regard to all our activities, and this includes operating ethically and fairly in our dealings with all stakeholders as well as sustainably impacting the communities in which we operate. We intend to impact our society by providing socially responsible products and services; enabling sustainable growth through our projects in the areas of leadership, education, youth empowerment, and health; and building connections with our stakeholders through active engagement. The Group's CSR initiatives will be implemented principally through each subsidiary company which has a framework in place.

2013 Board focus

The priorities of the Board for the coming year shall be influenced and determined by the role of the Group in supervising its subsidiaries. The primary focus of the Board, therefore, shall be to ensure maximisation of shareholder value through optimal allocation of financial, capital and human resources effectively across companies within the Group, and efficient coordination to enhance Group synergy.

We plan, where necessary, to restructure some of our subsidiary companies to ensure they provide adequate contribution 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.

It shall also be our priority to establish a policy framework for the Group, and to monitor the policies of all subsidiaries to ensure alignment. Our policies' procedures are entrenched and controls are in place to avoid concentration of risks on a consolidated basis.

We have begun the process of operationalising the holding company structure by appointing a Group Chief Executive Officer (CEO), Bello Maccido. We shall continue this process by setting risk-based and absolute limits related to exposure to industries and, where applicable, market and foreign currency risk as well as exposure to risk concentrations for the Group.

2013 Board priorities:

The priorities of the Board for 2013 shall be as follows:

- to facilitate the actualisation of identified Group synergies across the business groups;
- to maximise revenue through the monitoring of the implementation of the Group strategy;
- to implement the Group-wide risk management framework;
- to recruit key staff for the holding company;
- to appoint an independent director;
- to ensure effective capital allocation between the subsidiaries as well as efficient capital investment; and
- to encourage interlocking directorship on the Boards of subsidiaries in the Group, in particular by the Group CEO.

Statement of compliance

HoldCo is a public limited liability company and therefore subject to the jurisdiction of the SEC Code of Corporate Governance. Save for the breach of the Code stated below, we are compliant with the relevant provisions of the SEC Code except that in the case of any conflict between the provisions of the SEC Code and any other code regarding any matter, the HoldCo will defer to the provisions of the SEC Code.

Breach of the Code

We are not in compliance with the SEC Code at the moment with respect to the minimum number of independent directors. There is presently no independent director on the Board, while the SEC Code requires at least one independent director on the Board. This is explained by our start-up status and is being addressed to comply with the Code.

Concluding remarks

I, on behalf of the Board, confirm that we shall adopt a rigorous approach towards ensuring compliance with the best corporate governance practices as we realise this is crucial to ensuring the Group's long-term sustainability. We understand that good governance drives good performance, lays the foundation for the way in which we operate and ensures that our stakeholders receive maximum yield for their investments. We shall strive to achieve the objective of a rigorous approach to comply with best practices.

Oba Otudeko, CFR
Group Chairman

Effectiveness

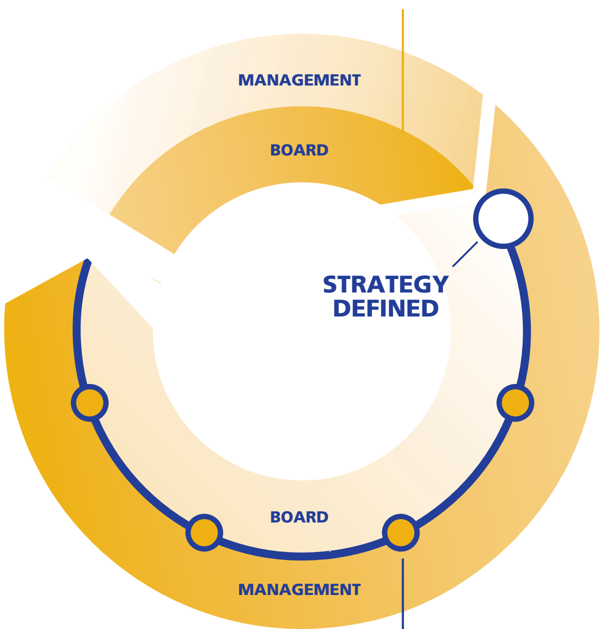
How do we make sure our Board is effective?

Today's boards have to contend with a host of new pressures, challenges and risks. Held ever more accountable for an organisation's performance and vitality, a Board must set its strategic direction, often across diverse product markets and geographies, and monitor the firm's risk profile. It also must evaluate the performance of the CEO and other senior executives.

We recognise the fact that an effective board is a board that observes good corporate governance principles. The Board is no doubt the most important body in ensuring an organisation's implementation of good corporate governance practices. The right attitude and approach towards good corporate governance practices are most appropriately cascaded through the organisation from the top – the Board of Directors.

An effective board is one that observes good corporate governance principles. The right attitude and approach towards good practices are most appropriately cascaded through the organisation from the top – the Board of Directors. Our broad approach to ensuring our Board's effectiveness is principally threefold – composition, training and board appraisal.

Process for monitoring performance



How do we ensure the Board performs effectively?

Our broad approach to ensuring our Board's effectiveness is enacted principally through composition, training, monitoring, and board appraisal.

Composition

The first step towards having an effective board is to ensure that the right people, who have demonstrated excellent business knowledge and board experience, are appointed to the Board. We believe there is a close alignment between the effectiveness of the Board and the disposition of individual members of the Board towards the observance of sound corporate governance principles.

Effective observance of codes of corporate governance is possible only if complemented by an ethical board. It is essential that members of the Board are persons of integrity, who are willing to comply not just with the letter of the codes, but also with their spirit.

With an understanding of the above, we have ensured that the composition of the present Board is an optimal mix of the competencies and experiences required for a company primarily designed for the enhancement of shareholder value.

What is our appointment philosophy and induction process?

Our appointment philosophy is guided by relevant regulatory guidelines and laws. Our directors were selected for the skills, knowledge and experience the Group requires of the Board and the process of selection and appointment was, and will continue to remain, transparent.

The initial directors, appointed by the subscribers to the Memorandum and Articles of Association of the Company, were selected based on their skills, competencies and experience over the years on the Board of Directors of First Bank of Nigeria Plc and other blue chip companies. A formal induction programme for the directors was therefore not necessary, as they were already well acquainted with the Group's corporate governance standards. There is, however, a plan to constantly rejuvenate the skills and competencies of the Board through continuous training and development programmes.

Performance monitoring

As part of its oversight role, the Board continuously engages with management and contributes ideas to the Group's strategy from the planning phase to the execution phase. The Board usually holds an annual Board retreat wherein the strategy for the coming year is rigorously debated and agreed between management and the Board. Once a strategy is defined, updates on specific strategic objectives become part of the ongoing board agenda, providing the Board with access to sufficient detail to critique the implementation of the strategy.

During this process, the Board will be continuously updated on significant issues, risks or challenges encountered in the course of strategy implementation across the Group, and steps being taken to alleviate those risks. On a quarterly basis, management will review the Group's financial and performance indicators with the Board, and the Board will assess progress and confirm alignment or otherwise with the strategic goals and objectives of the Group on a continuous basis.

The Group's actual performance is compared relative to planned/budgeted performance, to provide the Board with ongoing insight into the level of achievement. In addition, peer comparison forms a continuous part of our Board meetings in order to benchmark the Group against the performance of our competitors.

Board appraisal

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, and in recognition of the provisions of the SEC's Code of Corporate Governance for Public Companies in Nigeria, the Board shall engage the services of an independent consultant to conduct an appraisal of the Board of Directors for the year ending 31 December 2013, as no meaningful appraisal can be conducted for the year ended 31 December 2012 due to the short period of existence of the holding company in 2012. The Board appraisal is expected to cover the Board's structure and composition, processes, relationships, competencies, roles and responsibilities.

The evaluation criteria will be focused on the following five key areas of Board responsibility:

- Operations
- Strategy
- Corporate culture
- Monitoring and evaluation against defined goals
- Stewardship towards shareholders and other stakeholders

What do we expect to learn from this process?

The appraisal process provides a mechanism whereby the directors' performance will be measured against expected performance. The appraisal report and recommendations on areas of improvement will be presented to the Board for deliberations. The outcome of the Board evaluation will feed back, as appropriate, into reviews of the Board's composition, the design of induction and development programmes, and other relevant areas of the Board's operations.

In addition to the general Board evaluation, individual directors will also be 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.

Share prices

The Board's effectiveness may be partly measured by our ability to successfully manage and coordinate the subsidiary companies to achieve optimum yield to shareholders. The price of the Group's shares are a reflection of the Board's effectiveness and shareholders may use them as a yardstick to measure the Board's performance.

How long do our directors serve?

Non-executive directors

Non-executive directors are appointed for an initial term of three years and can be re-elected for a maximum of two subsequent terms of three years each, subject to satisfactory performance and approval of the members.

Executive Directors

Executive Directors are appointed for an initial term of three years and their tenure can be renewed for another three years subject to her/his performance as indicated in the result of his/her annual performance evaluation. Hence, the maximum tenure of an Executive Director is six years. The Board may grant a waiver of the tenure limit in the case of an Executive Director whose performance is deemed exceptional. This will, however, require formal justification and unanimous approval of the Board. Executive Directors are discouraged from holding other directorships outside the Group.

Training

Regardless of the expected depth of knowledge and experience of persons who are appointed to the Board, we also ensure that 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 undergo 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, subject to the prior approval of the Chairman, such independent or outside professional advisers and experts as it deems necessary or appropriate to aid the Board's effectiveness. This option was exercised within the 2012 financial year, particularly during the 2012 Board retreat, which was held on 3–4 December 2012 in the United Arab Emirates.

Engagement

The Board is committed to engaging in constructive and meaningful communications with its owners: the Group's shareholders. We believe that shareholder engagement, consistent with the Group's disclosure controls, is a fundamental and long-term aspect of the Board's oversight responsibility.

Shareholders, both large and small, are exerting their influence to demand greater roles in corporate decision making. This is a growing international trend with many proponents and much momentum.

Our policy as a Board is that, as shareholder stewards, we should venture beyond conveying factual information and projecting a positive image of the Company, and should strive to build a long-term, trust-based relationship with our investors.

Not only do these engagements prove beneficial to shareholders, but also they serve to enable members of the Board to benefit from a better understanding of shareholders' views on the Company, its management, and the Company's performance. They could also be an avenue to receive shareholder criticism and where such criticism is unfounded we are provided with the opportunity to respond constructively.

Similarly, engagement aids us in understanding external perspectives on the Group's performance and can provide us with an external measure of our Company's performance. Shareholders' views assist us in fine tuning strategies and can provide validation of existing company initiatives. Valuable insights may also be received from the Group's institutional shareholders, given their exposure to a broad spectrum of companies and business strategies in different sectors.

Our focus on building long-term, trust-based relationships means that 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;
- our Investor Relations Unit;
- our website;
- press releases;
- publications in the newspapers;
- meetings with shareholder institutions;
- results conference calls;
- investor conferences;
- one-on-one meetings;
- social media; and
- annual General Meetings or any extraordinary general meetings.

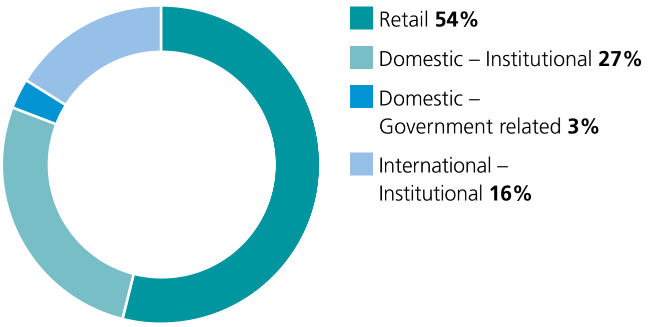
Who are our shareholders?

On 24 September 2012, the Extraordinary General Meeting (EGM) of FirstBank sanctioned the Group's assimilation of its shareholdings.

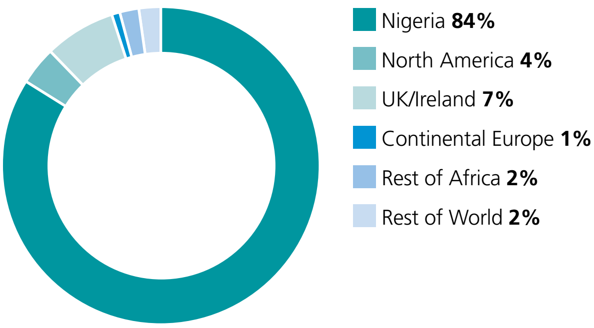
With the delisting of FirstBank on the Stock Exchange and the subsequent listing of FBN Holdings, the former shareholders of FirstBank, with a base in excess of 1.3 million, were migrated to FBN Holdings on a one-for-one share exchange basis.

This shareholder assimilation, by implication, converted the Group into a publicly quoted company with a diverse shareholder profile and owned by nearly 1.3 million shareholders. FBN Holdings Plc now has the largest shareholder base of any company listed on the Nigerian Stock Exchange. With no shareholder owning up to 5% of the issued ordinary shares, this makes the ownership structure one of the most diversified. As at year end, the shareholding structure was 43.37% institutional, 53.46% retail and 3.17% in government-related entities.

Breakdown of shareholders by type



Geographical breakdown of shareholding structure



What are our shareholders' responsibilities?

The Statutory Audit Committee of the Group will be constituted at the Group's Annual General Meeting (AGM). The Committee is expected to act on behalf of the shareholders in overseeing the operations of the Group.

In an age of increasing transparency, our shareholders' perceptions of the Group, expectations, and understanding of the Group's operations matter to our business value. Hence, it is important for our shareholders to understand some of their expected roles, which among other things, through representatives in the Statutory Audit Committee, include:

1. to ascertain that the accounting and reporting policies of the Group are in compliance with legal requirements and agreed ethical practices;
2. to review the scope and planning of audit requirements;
3. to review the findings on management matters in conjunction with the external auditor;
4. to keep under review the effectiveness of the Company's system of accounting and internal controls;
5. to make recommendations to the Board in regard to the appointment, removal and remuneration of external auditors to the Company; and
6. to authorise the internal auditor to carry out investigations into any activities of the Company which may be of interest or concern to the Committee.

In addition, our shareholders' role extends to holding the Board accountable for the observance of effective corporate governance practices. They also have the responsibility of approving the appointment of the Board of Directors and the external auditors as well as granting approval for certain corporate actions that are by legislation or the Company's articles of association specifically reserved for shareholders, such as approval of dividend payment. Decision making is not restricted to the Board, but extends to shareholders who ultimately own the Group.

To improve the confidence of our shareholders/investors, we consider it a strategic objective for us to engage shareholders and investors in continuous dialogue. We will consider the feedback from these engagements with our investors and these shall influence our strategic thinking and feed into our decision making.

Engagement

What does our Investor Relations function do?

The Group has an Investor Relations (IR) function, which was within First Bank of Nigeria when it was a listed entity. Following the migration to the holding company structure in October 2012, the Investor Relations function for the Group now sits within FBN Holdings, maintaining close contact with all subsidiary companies. IR, in addition to the Company Secretary, manages relationships between FBN Holdings and its shareholders and investors, ensuring that shareholders' views are escalated to both the management and the Board. In addition, quarterly, half-yearly and annual financial results will, starting from the 2013 financial year, be published in widely read national newspapers. Essentially, the Investor Relations function aims to:

- expand access to the Group's potential pool of capital, which it requires to finance its growth objectives;
- reduce the cost of capital;
- increase the confidence of the market in the management team;
- promote fair value of the Company's shares; and
- increase the liquidity of the shares.

At FBN Holdings, there is a clear, well-thought-out programme of events designed to ensure effective engagement with shareholders, investors and analysts. These activities are outlined in a well-documented investor relations programme, which includes detailed information of planned investor engagements for the year. The financial reporting calendar is published on the investor relations website, as is the annual report.

The various activities hosted by representatives of executive/senior management, descriptions of the activities, and frequency, channel and target audience of these engagements are listed below:

Activity[1]	Description	Frequency	Channel	Target audience
Results press release	Press release describing the performance of the Group for the period under review. This document is released to a broad mailing list of investors and analysts immediately after the results are announced on the floor of the Nigerian Stock Exchange (NSE). Once the results are made public, the results release is uploaded onto the website.	Quarterly	Website Email Newspapers	Shareholders Investors Analysts Rating agencies Others
Quarterly conference call	This activity occurs after the publishing of the quarterly results. A results presentation is prepared and uploaded to the IR website providing details of the performance of the business during the quarter. A question and answer session is held after the presentation of the material by members of the executive management. An assessment of the call is reviewed including the extent of representation of respondents, along with comments and recommendations. This engagement is hosted by the Group Managing Director (GMD)/CEO of FirstBank and his executive/senior management team, including but not limited to the Chief Financial Officer, other Executive Directors, Chief Risk Officer, and Chief Strategy Officer. In 2013, the quarterly presentation is planned to be hosted by the CEO, FBN Holdings; from FirstBank: the Group Managing Director, Chief Financial Officer, Chief Risk Officer, Chief Strategy Officer, Executive Director Public Sector South, Executive Director, Corporate Banking, other members of senior management; others are: the CEO, FBN Capital for the Investment Banking and Asset Management business group and the CEO, FBN Life Assurance for the Insurance business group.	Quarterly	Telephone The transcript and audio recording of the call is usually available on the IR website 48 hours after the call	Shareholders Investors Analysts Rating agencies Others

1 First Bank of Nigeria transited to FBN Holdings Plc after the third quarter of 2012. No results presentations or investor engagements were held after the commencement of FBN Holdings in 2012 other than the Nigerian Stock Exchange (NSE) facts behind the figures event.

Engagement
What does our Investor Relations function do?

Activity[1]	Description	Frequency	Channel	Target audience
International non-deal roadshows	There are two teams on the road. Enables engagement with and updates key international institutional investors and shareholders on overall performance, outlook and key strategic objectives. Helps to continually expand the available pool of capital leading to diversification of shareholder base as well as a ready source of financing for strategic initiatives. Enhances international visibility. Key locations visited reflect where the majority of our international investors sit – largely the United States and Europe. Participants at the roadshow during the year include: the GMD/CEO, Chief Financial Officer, Chief Risk Officer, Chief Strategy Officer, Executive Director Public Sector South, Head of Credit Risk Management and Head of Investor Relations.	Semi-annually	One-on-one meetings Group meetings	International investors
Key domestic institutional investor meetings	This is a forum in which the Group's senior management interacts with and answers questions on the performance of the Group from shareholders/investors/analysts based in Nigeria. It provides access to senior management. Participants at the last key institutional investor meeting were: GMD/CEO, Chief Financial Officer, Executive Director, Retail Banking North (now CEO, FBN Holdings), Executive Director Public Sector South and some other members of senior management.	Semi-annually	One-on-one meetings Group meetings	Shareholders Investors Analysts
Pension fund administrators (PFA) day	This engagement is held with top pension fund administrators in the country to ensure further understanding of the Group's strategy, performance and outlook. Helps build confidence in the management team within this segment. The meeting is hosted by the Group's executive management team, comprising the CEO, FBN Holdings Plc, GMD/CEO, FirstBank, Chief Risk Officer, Chief Financial Officer, Executive Directors and other senior management.	Semi-annually	Group meeting	Pension fund administrators
Investor conferences	These are conferences organised by investment banks – locally and internationally. Create an avenue for the Group's senior management to interact with and answer questions on the performance of the Group from key shareholders/investors/analysts. Create access to senior management, build confidence in the management team, and enhance visibility locally and internationally. Conferences attended during the year include: the Renaissance Capital Africa Conference, Lagos; Standard Bank Africa Conference, Lagos; FBN Capital Investor Conference, Lagos; HSBC Annual CEEMEA Investor Forum, London; JPM Emerging Corporate Conference, Miami; Bank of America, Merrill Lynch GEMs Conference, California. FBN representatives at these conferences were the Chief Financial Officer, Chief Risk Officer, Executive Director Public Sector South, Executive Director Retail Banking North (now CEO, FBN Holdings) and some other senior management staff.	At least once per quarter	One-on-one meetings Group meetings	Shareholders Investors Analysts

1 First Bank of Nigeria transited to FBN Holdings Plc after the third quarter of 2012. No results presentations or investor engagements were held after the commencement of FBN Holdings in 2012 other than the Nigerian Stock Exchange (NSE) facts behind the figures event.

Engagement

What does our Investor Relations function do?

Activity[1]	Description	Frequency	Channel	Target audience
Nigerian Stock Exchange (NSE) facts behind the figures	This event was hosted at the NSE to engage stockbrokers[2] in particular on the Bank's strategy and performance. Management presents the strategy and performance and also holds a question and answer session subsequently. During the year, two such sessions were held – to discuss FY 2011 results as well as the migration of First Bank of Nigeria Ltd to FBN Holdings. The last event was hosted by the Chairman, CEO, and the Company Secretary of FBN Holdings and representatives from FirstBank including: the GMD/CEO, Chief Financial Officer, Chief Risk Officer, Executive Director Public Sector South. Others are the Managing Director of FBN Capital for the Investment Banking and Asset Management business group, Managing Director of FBN Life Assurance for the Insurance business group and Managing Director of FBN Microfinance for the other financial services business group.	Annually	Physical visit at the NSE	Stockbrokers and indirectly retail investors Media The rest of the financial community

In addition to the above, other regular updates on the Company's progress via local and international investor engagements with the financial community include:

- interactive conference calls;
- email correspondence;
- telephone conversations; and
- in-house meetings.

In providing updates about the business to the shareholders, information is uploaded onto the investor relations website in addition to the corporate website, where general information about the FirstBank Group is available. In addition, investors have the opportunity to provide feedback by using the contact details available on these sites. Information available on the investor relations website includes: results, current and previous years' annual reports, quarterly presentations, conference call recordings and transcripts, credit ratings, press releases, financial reporting calendar and other shareholder information.

To ensure effective shareholder engagement, an independent assessment of the quality of engagement is conducted quarterly.

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, at which interaction is welcomed.

In ensuring we continuously build a sustainable engagement programme and, most importantly, develop and implement feedback from shareholders, investors and analysts on running a leading institution, executive management is provided with detailed feedback on the various engagement activities. In 2012, points of interest to investors and analysts focused on messaging, clarity of guidance and/performance, disclosure, asset quality, international expansion, capital management strategy and corporate governance.

While the NSE's focus has been on cleansing, restructuring and making the market more accessible, in 2013 the authorities intend to continue with innovations centred on technology and product development, as well as on advocating changes to policy. The intention of the authorities is that, by the end of 2013 they will have established technological competitiveness, restored regulatory robustness, and advocated for the policy changes necessary to enable the Nigerian capital market to absorb the forces of change currently reshaping global financial markets and the global exchange landscape. With dependability, scale, scope and cost-efficiency being priority areas for exchanges around the world, achieving competitiveness will be at the forefront of the Exchange's agenda in 2013.

1 First Bank of Nigeria transited to FBN Holdings Plc after the third quarter of 2012. No results presentations or investor engagements were held after the commencement of FBN Holdings in 2012 other than the Nigerian Stock Exchange (NSE) facts behind the figures event.

2 These are professional securities experts trading on behalf of several retail shareholders.

Engagement

What happens at our Annual General Meeting (AGM)?

Starting from the Group's first AGM, shareholder meetings will be duly convened and held in an open manner, and in line with the Group's Articles of Association and existing statutory and regulatory regimes, for the purposes of deliberating on issues affecting the strategic direction of the Group. This will involve a fair and transparent process, which will also serve as a medium for promoting interaction between the Board, management and shareholders.

Attendance at the AGM is open to shareholders or their proxies, and proceedings at the meeting will be monitored by members of the press, representatives of the Nigerian Stock Exchange, the Central Bank of Nigeria, the Securities and Exchange Commission and the Corporate Affairs Commission.

The Group's general meetings will afford shareholders the opportunity to appraise the Group's performance, especially as they are not actively involved in the day-to-day running of the Group. This medium affords them the chance to give approvals on certain decisions, assess the Group's performance and, by implication, the performances of the directors responsible for the effective management of stakeholders' interest.

Role of the Company Secretary

The Company Secretary offers support to the Chairman in the engagement of shareholders by extending the necessary invitations to the retail shareholders through their respective Shareholder Associations and making adequate arrangements for beneficial meetings. The Company Secretary also ensures collation of the views expressed for escalation to the full Board and/or management for consideration.

In addition to the above, the Company Secretary plays an important role in ensuring the effectiveness of both the Board of the Group and the boards of the subsidiary companies. To this end the Company Secretary:

- makes arrangements for Board meetings and takes minutes;
- ensures that Board procedures are followed;
- conveys information between members of the Board, members of the Board committees and the management;
- provides directors with guidance on their responsibilities, good governance and ethics; and
- coordinates directors' training and development programmes.

Moreover, the Company Secretary assists the Board in observing good corporate governance principles and is accountable to management and the Board on all such matters. Though the Company Secretary does not sit on the Board, he contributes to the proceedings of the Board in his position as an adviser.

The Company Secretary provides directors with guidance on their responsibilities, good governance and ethics. He is responsible to the Board for ensuring that Board procedures are followed and applicable rules and regulations are complied with. He plays an active role in training, strategic administrative planning and the directors' induction programme. The Company Secretary advises and updates the Board on relevant corporate governance codes and rules to ensure adequate compliance. The Company Secretary is involved in compliance, accountability, disclosure, and ensuring transparency in the administration of the Bank as the first source of legal advice to the Board. The Board has ultimate responsibility for the appointment and removal of the Company Secretary.

"We recognise that the task of embedding high standards of corporate governance is never complete; yet, we remain committed to implementing these high standards across the Group. This, we believe, will help us perform well in our chosen markets, ultimately resulting in a higher return on capital relative to cost.

On behalf of the Board, I pledge to adopt a rigorous approach towards ensuring compliance with best corporate governance practices as we realise this is crucial to ensuring the Group's long-term sustainability."

Oba Otudeko, CFR
Group Chairman

"As the first source of legal advice to the Group's Board on corporate governance matters, I am committed to ensuring that appropriate Board procedures are followed, and that regulations, statutes, corporate governance codes, rules and regulations relating to good governance and ethics, in accordance with local and global best practices, are adequately complied with – not only on the Board of the Group, but also the Boards of all subsidiary companies."

Tijjani Borodo
Company Secretary

Engagement

Whistleblowing procedures

The Group's Board of Directors prioritises high ethical standards and probity, and expects all its employees and officers to observe such standards in all their dealings within the Group.

The Group's whistleblowing policy spans both internal whistleblowers (staff, contract employees, management or directors) and external whistleblowers (customers, service providers, applicants, auditors, consultants, regulators and other stakeholders). The stakeholders include employees, customers, contractors and service providers. The process creates a work environment in which concerns about misconduct, irregularities or malpractices can be raised without fear of harassment and/or victimisation. Concerns are taken seriously and investigated, and the outcome communicated to all concerned parties.

Due to the Group's evolving processes, separate channels are yet to be developed for the Group for whistleblowing. In the interim, however, whistleblowers may report misconduct, irregularities or malpractices to the outlets developed by FirstBank.

The phone lines are 0700-34778-2668228, 01-4485500 and 07080625000, the email address for the public is firstcontact@firstbanknigeria.com and members of staff may contact Adeyemi.O.Ogunmoyela@firstbanknigeria.com or Internalaudit.Head@firstbanknigeria.com.

In addition, whistleblowers can also log on to www.firstbanknigeria.com and click on the whistleblowing portal to report misconduct. Other avenues open to whistleblowers are through a letter to the Group's CEO or directly to the Chief Internal Auditor of FirstBank.

We guarantee the confidentiality of the data revealed and the identity of the whistleblower.

Leadership

The Group's Board (the Board) is a considered blend of experience and knowledge and is composed of six Directors made up of five Non-Executive Directors and one Executive Director who is the Chief Executive Officer (CEO). This is in line with international best practice, which stipulates that the number of Non-Executive Directors should be more than that of Executive Directors.

The Board is made up of the following:

Oba Otudeko, CFR

Group Chairman

Dr Oba Otudeko (CFR) is Group Chairman, FBN Holdings Plc; Honeywell Group Ltd; Airtel Nigeria and Fan Milk Nigeria Plc. He is a foremost Nigerian entrepreneur and visionary reputed for his highly successful domestic and foreign investments that cut across diverse sectors of the economy. He was Chairman, First Bank of Nigeria Plc and FBN Bank (UK) Limited. He has, at various times, served on the Boards of Central Bank of Nigeria, Guinness Nigeria Plc, British American Tobacco Ltd and Ecobank Transnational Incorporated, headquartered in Lome, Togo. Dr Otudeko was the 16th President and Chairman of Council of the Nigerian Stock Exchange. He holds the Nigerian National Honour of Commander of the Order of the Federal Republic (CFR) awarded in 2011. He is a chartered banker, chartered accountant and chartered corporate secretary. He was, for 10 years, Chancellor of the Olabisi Onabanjo University, Ago-Iwoye, Ogun State and currently serves as a member of the Office of Distinguished Friends of London Business School (UK). Dr Oba Otudeko is the founder of Oba Otudeko Foundation (OOF), a not-for-profit organisation and he is married with children.

Bello Maccido

Chief Executive Officer

Bello Maccido was, until this appointment, the Executive Director, Retail Banking, North at First Bank of Nigeria Plc. As Chief Executive he brings over 23 years' financial services experience covering Retail, Corporate and Investment Banking at various institutions such as Ecobank Nigeria Plc, New Africa Merchant Bank Limited, and at FSB International Bank Plc, where he rose to become Acting Managing Director/Chief Executive. He left FSB International Bank Plc to set up Legacy Pension Managers, a pension fund administration (PFA) company as pioneer Managing Director and Chief Executive, a position he held before joining the Board of FirstBank in January 2011. His broad and diverse experiences in financial services are also evident in other national assignments he has handled, which include sitting as a Council Member of The Nigerian Stock Exchange between March 2009 and June 2012. He was also a member of the Finance Committee of the National Council on Privatisation, the Implementation Committee of the Financial System Strategy (FSS) 2020, and the Presidential Monitoring Committee on NDDC, among others. A Chartered Stockbroker, Bello is married with children.

Bisi Onasanya

Director

Bisi Onasanya is the Group Managing Director/Chief Executive Officer of First Bank of Nigeria Limited, the Commercial Banking business group of FBN Holdings Plc. He was previously Executive Director, Banking Operations & Services and the MD/CEO, First Pension Custodian Nigeria Limited, a subsidiary of FirstBank. He joined FirstBank in 1994 and coordinated the Century 2 Enterprise Transformation Project for the Bank. He is a highly respected and personable executive who has established a reputation at FirstBank for solid performance and sound judgement. Bisi is a Fellow of the Institute of Chartered Accountants of Nigeria, Fellow of the Chartered Institute of Bankers of Nigeria with 29 years' post-qualification experience and Associate Member of the Nigerian Institute of Taxation. He sits on the Board of several companies and has served as a member of the Chartered Institute of Bankers' Sub-Committee on Fiscal and Monetary Policies as well as the Presidential Committee on Reduction of Interest Rates. He has attended various executive programmes at London Business School, Harvard Business School and Wharton Business School. He loves swimming and is married with children.

Lt. General Garba Duba (Rtd)

Director

Lt. Gen. Garba Duba (Rtd) serves as the Chairman of SGI Nigeria Limited and has been a Non-Executive Director of Honeywell Flour Mills Plc since August 1998. He was one-time Chairman of the New Nigerian Development Company Limited and served as a Non-Executive Director of First Bank of Nigeria Plc until 31 December 2010. Garba Duba is a retired Lieutenant-General of the Nigerian Army and has served as the Military Administrator of Bauchi State, Military Governor of Sokoto State, and Commandant of the Nigerian Defence Academy. He is a farmer and a businessman, and has played several political and economic roles as the leader of the Niger State delegation to the National Political Reform Conference. He brings his immense experience in administration and business to bear on the Board. He is married with five children.

Oye Hassan-Odukale, MFR

Director

Oye Hassan-Odukale, MFR has, since 1994, held the position of Managing Director/CEO of Leadway Assurance Company Limited, a foremost underwriting firm in Nigeria. His appointment was preceded by over 14 years of experience in insurance brokerage, underwriting, investments and general management. Hassan-Odukale is a recipient of the national honour, Member of the Order of the Federal Republic (MFR) and sits on the Board of FBN Capital Limited, Seawolf Oilfield Services Limited, Leadway Pensure PFA Limited and Governing Council, Babcock University. His experience in investments and as a director on several boards informs his detailed insight which keeps the Board ahead of the competition in the financial services industry. Oye is a Munich Re scholar, Securities and Exchange Commission accredited Investment Manager and Portfolio Advisor and was a Non-Executive Director on the Board of First Bank of Nigeria Limited. He is married with children and enjoys listening to music, reading and travelling.

Abdullahi Mahmoud

Director

Abdullahi is a veteran banker with considerable experience in both domestic and international banking. He was the pioneer representative and later General Manager of the United Bank for Africa in New York, USA. He held the positions of Deputy Managing Director and later Chief Executive Officer of the African International Bank Limited. He was also Group Managing Director of the New Nigeria Development Company Limited. Abdullahi served as Non-Executive Director of the Board of FirstBank; Chairman First Funds Limited; and still serves on the Board of FBN Mortgages as Chairman. He brings his banking dexterity to bear on the Board. He is a Fellow of the Association of Chartered Certified Accountants of the United Kingdom (FCCA); the Institute of Chartered Accountants of Nigeria (FCA); the Chartered Institute of Bankers of Nigeria (FCIB); and the Institute of Directors, Nigeria (F-IOD). He is married with four adult sons.

What changes were there to the Board during the year?

The Board initially comprised four non-executive directors who were appointed by the subscribers to the Company's Memorandum and Articles of Association at the time the Company was incorporated in 2010 as a limited company and also at the later conversion to a public liability company in 2012. The Directors were Dr Oba Otudeko, CFR, Lt. Gen. Garba Duba (Rtd), Oye Hassan-Odukale, MFR and Abdullahi Mahmoud.

However, due to the restructuring of the Group and subsequent listing on the Nigerian Stock Exchange, there were significant changes to the Board in the latter part of 2012. Dr Oba Otudeko was appointed as the Chairman of the Board with effect from 10 September 2012 while Bello Maccido was appointed to the Board as a Director and the Chief Executive Officer (CEO) on 10 September 2012. Bisi Onasanya was appointed to the Board with effect from 18 September 2012 to represent FirstBank.

How do our Board meetings work?

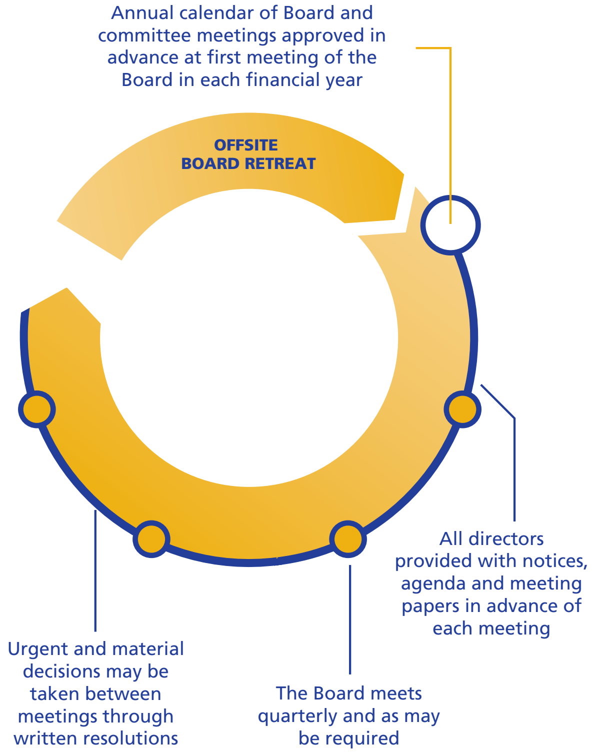
The Board meets quarterly and extraordinary meetings are convened as required.

The annual calendar of Board meetings is approved in advance at the first meeting of the Board in each financial year, and all directors are expected to attend each meeting. Material decisions may be taken between meetings through written resolutions as provided for by the Company's Articles of Association.

- The Board meets quarterly and as required.
- The annual calendar of Board meetings is approved in advance at the first meeting of the Board in each financial year.
- The annual calendar of Board activities usually includes a Board retreat at an offsite location, to consider strategic matters and review opportunities and challenges facing the Group.
- Urgent and material decisions may be taken between meetings through written resolutions.
- All directors are provided with notices, agendas and meeting papers in advance of each meeting.
- The Group's Board met four times in 2012.
- 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 operates an electronic circulation of memoranda to members of the Board exemplifying the Group's cost efficiency, dynamism and embrace of technology.

All directors are provided with notices, an agenda and meeting papers in advance of each meeting, and where a director is unable to attend a meeting he/she is still provided with the relevant papers for the meeting. Such director reserves the right to discuss with the Chairman matters he/she may wish to raise at the meeting. The meeting takes an average of three hours per session. Any director may request that a topic be considered at meetings. In addition, any director may bring up any issue deemed deserving of discussion and the same is usually taken under any other business (AOB) during the course of the meeting.

The number of issues identified for deliberation and, above all, the complexity of the issues, are major factors in determining the duration of the meetings. Board memoranda are dispatched in advance to enable directors to have adequate time to review and prepare for meetings.



What are the responsibilities of the Board?

The Board has a formal charter that is reviewed and re-assessed at least every three years or earlier, as required, to ensure it remains consistent with the Board's purpose and responsibilities in a changing and dynamic environment. The charter covers policies regarding Board memberships and composition, Board procedures, conduct of directors, risk management, remuneration, Board evaluation and induction. Some of the Board's tasks shall be:

Overseeing, guiding and monitoring the performance of management against Key Performance Indicators (KPIs)

- Reviewing and approving KPIs and tracking progress towards targets
- Planning for succession of key positions and developing senior executive management
- Overseeing risk and internal controls.

Protecting shareholders' rights

- Preparing and conducting AGMs and EGMs
- Ensuring compliance with corporate ethical standards
- Selecting and reviewing the External Auditor
- Approving related-party transactions.

Promoting disclosure and transparency

- Ensuring prompt and timely discussions of all material information, including financial results, the Company's corporate governance practices, codes and charters for the Board and its committees and details of compliance or non-compliance with those codes and charters.

Approving strategic direction and policies

- Approving, reviewing and monitoring corporate strategy, following the lead of management.

Other responsibilities of the Board shall be:

- approving all borrowings outside of the Group and all capital expenditure in excess of stipulated limits;
- approving all standard policies related to the general conduct of business, personnel and investment strategy, and approving all contractual arrangements with strategic partners;
- overseeing the integration of good corporate governance best practices;
- delegating authority to the Group CEO, where appropriate, for the effective overall management of the Group at the CEO level;
- stipulating which central services must be provided (a) by the holding company and (b) by other specified subsidiaries and which, if any, will be outsourced;
- appointing a Group Executive Committee which will meet regularly under the Group CEO and which is made up solely of the Managing Directors of the major subsidiaries within the Group;

- appointing management staff for the Group;
- overseeing corporate strategy to achieve long-term value creation and at the same time maintain short-term flexibility;
- overseeing long-term strategic developments;
- ensuring effective capital allocation and capital investment between the subsidiaries;
- overseeing seamless synergies between the banking and non-banking subsidiaries;
- approving the Group strategy and financial objectives and monitoring the implementation of those strategies and objectives;
- reviewing and approving the Group's capital and liquidity positions, approving proposals for the allocation of capital and other resources within the Group;
- overseeing the establishment, implementation and monitoring of a Group risk management framework to identify, assess and manage risks facing the Group; these risks include credit, markets, compliance, strategies, reputational and operational risks;
- deciding and approving the expenditure, authorisation, investment and credit-lending limits to be delegated to the Board committees, Boards of subsidiaries, executive and management members;
- reviewing on a regular and ongoing basis the succession planning for the Board and senior management staff (especially the CEO and other non-executive directors);
- approving all appointments of directors to the Boards of the subsidiary and affiliate companies;
- reviewing the recommendations of independent consultants on the annual review/appraisal of the performance of the Board and approving actions to be enforced;
- maintaining a sound system of internal controls to safeguard shareholders' investments and Group assets;
- reviewing significant audit and compliance issues and approving action and remediation plans;
- establishing and maintaining appropriate accounting policies for the Group;
- approving any significant changes to the organisational structure of the Group;
- approving the Group's performance-based compensation policy; and
- approving the Group's secondment/mobility policy.

What is our non-executive directors' remuneration?

Non-executive directors receive fixed annual fees and sitting allowances for service on Boards and Board Committee meetings. There are no contractual arrangements for compensation for loss of office. Non-executive directors do not receive short-term incentives nor do they participate in any long-term incentive schemes. The Board annually reviews and makes recommendations on the remuneration of the Chairman and other non-executive directors.

Operational structure

HoldCo's organisational design was driven by the following key guiding principles:

- lean holding company – in line with the regulator's mandate to be a non-operating entity;
- critical corporate centre functions – Finance, Risk Management, Company Secretariat, Strategy, Internal Audit, Investor Relations, Marketing and Corporate Communications;
- focus on setting Group standards and monitoring compliance for the Group e.g. HR and IT standards;
- synergy benefits from operating structure to be balanced against incremental costs; and
- oversee the bank and non-bank subsidiaries to ensure proper capital utilisation across subsidiaries.

These principles were the central considerations for the identification of HoldCo functions, and the roles and responsibilities of each of those functions.

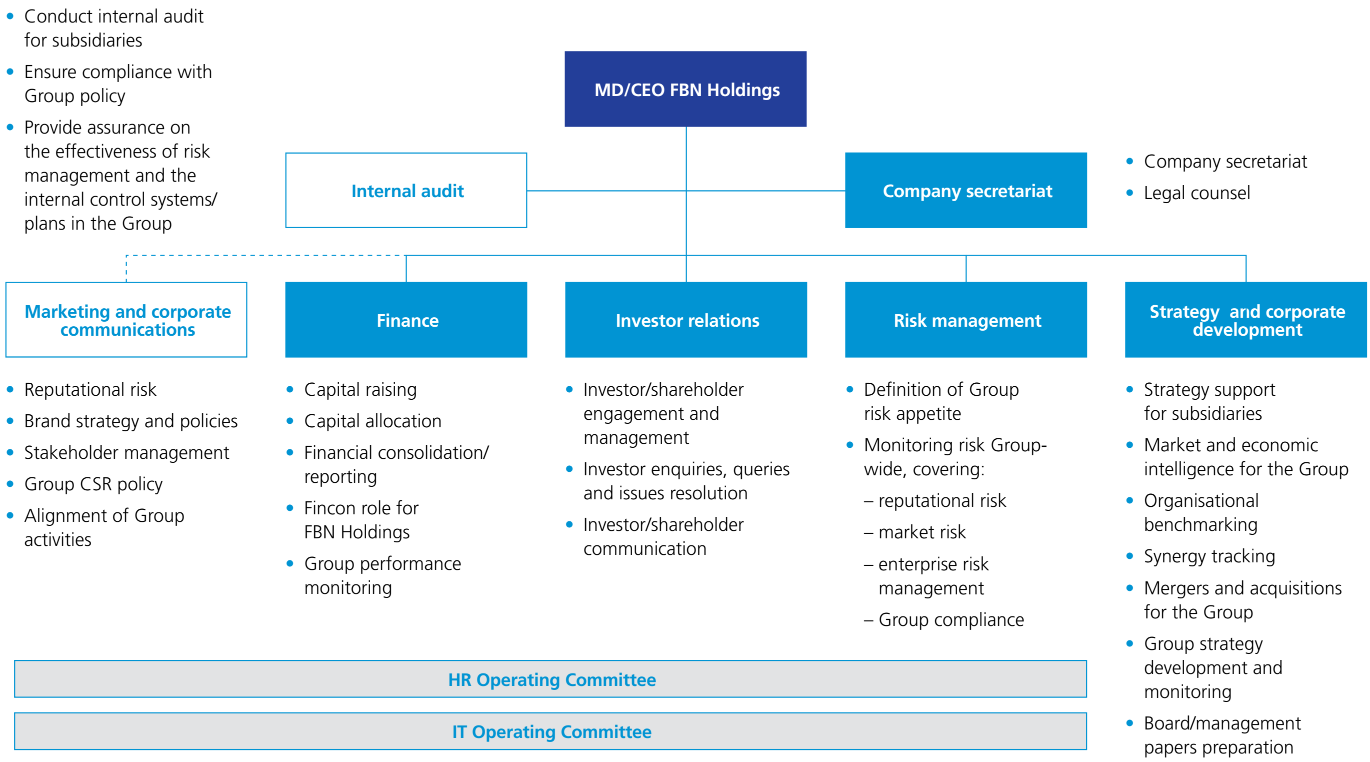
Below is the organisational structure and operating model of FBN Holdings Plc.

Board discussion

What key themes did we focus on?

Over the course of the last financial year, considerable time and effort were channelled into discussions on the following:

- defining the operating model of the holding company structure and giving adequate time to issues involving:
  - – capital allocation of resources;
  - – finalising the operationalisation plans – considerable time was spent on this to discuss details of the Group's adoption of a holding company structure and subsequent conversion to a public company; and
  - – carving out a dividend policy necessitated by the assimilation of shareholders who had previously held shares in FirstBank and the subsequent conversion to a public company – consideration had to be given to developing a dividend framework for the Group's shareholders.



What specifically did we spend our time on?

- Consideration of operational model and operationalisation plan for the Company. Discussed in order to develop a governance structure for the Group and to ensure a seamless transition into the holding company structure.
- Ratification of pre-operational expenses and amortisation.
- Board strategy retreat held. The Group's strategy, focus and challenges were discussed in detail on the retreat.
- Development of a Group Reporting Framework aimed at defining the nature, frequency and content of reports from the subsidiaries.
- Identification of synergies across the subsidiaries as well as modes for optimal cross-selling.
- Human resourcing to provide staffing for the take-off of the holding company.

What is our action plan for 2013?

In achieving the long-term action plan for 2013 outlined earlier, the Board is set to ensure the following:

- facilitation of the identified Group synergies across the business groups;
- maximisation of revenue through the monitoring of the Group strategy;
- implementation of the Group-wide risk management framework;
- migration to the recognition of shared services across the Group;
- acquisition of General Insurance Licence;
- injection of funds into Microfinance Bank;
- conclusion of the recruitment of key staff for the holding company;
- appointment of an independent director;
- efficient capital investment; and
- encouragement of interlocking directorships on the Boards of subsidiaries in the Group, in particular the Group CEO.

Attendance at Board meetings

The Group's Board met four times in 2012, all within the last four months due to it being a start-up company. The Board reflected upon how deliberations at its meetings could be enriched and agreed that the Chief Financial Officer and Chief Risk Officer of FirstBank should attend Board meetings pending the appointment of substantive officers for those portfolios in the Group. The record of attendance is provided below:

	Meetings held			
Name	**1 10 Sept 2012**	**2 18 Sept 2012**	**3 30 Oct 2012**	**4 29 Nov 2012**
Oba Otudeko, CFR	✓	✓	✓	✓
Lt. General Garba Duba (Rtd)	✓	✓	✓	✓
Oye Hassan-Odukale	✓	✓	✓	✓
Abdullahi Mahmoud	✓	✓	✓	✓
Bello Maccido	N/A	✓	✓	✓
Bisi Onasanya	N/A	✓	✓	✓

Constitution of committees

The Board approved the constitution of the committees listed below with their respective responsibilities, roles, membership and frequency of meetings, and they are expected to be operational in 2013.

Group Executive Committee (GEC)

The Committee shall from time to time invite to its meetings any attendees, as may be required, and shall meet bi-annually, or as may be required.

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 same;
- discussing and monitoring compliance with Group policies such as risk management, internal audit etc; and
- reviewing and recommending modifications to Group policies.

Membership

The CEO of FBN Holdings is to serve as Chairman while other members are:

- FirstBank GMD;
- Managing Directors of other FBN Holdings' subsidiary companies
  – FBN Capital
  – FBN Life
  – FBN Insurance Brokers
  – FBN Microfinance;
- FirstBank Chief Risk Officer;
- FirstBank Chief Finance Officer;
- FirstBank Chief Strategy Officer; and
- Group Company Secretary.

Information Technology Operating Committee (ITOC)

The role of the Committee will be to focus on articulating and recommending information technology (IT) policies, knowledge/best practices sharing, and facilitating IT synergies. Meetings shall be held monthly and the Committee shall report to FBN Holdings and the subsidiaries.

Role and focus

The Committee shall be responsible for the following:

- articulating Group IT policies and standards;
- ensuring regular review and refinement of Group IT policies and standards;
- gaining an understanding of issues of non-compliance to IT policies and standards, and ensuring the implementation of remedial actions;
- facilitating knowledge sharing and competency development across the Group in line with leading practices; and
- facilitating the achievement of IT synergies within the Group.

Membership

- Chairman – Head of the largest subsidiary IT function
- FBN Holdings representative
- Subsidiary IT Functional Heads

Human Resources Operating Committee (HROC)

The role of the Committee will be to focus on articulating and recommending Human Resources (HR) policies, knowledge/best practices sharing, and facilitating HR synergies. Meetings shall be held monthly and the Committee shall report to FBN Holdings and the subsidiaries.

Role and focus

The Committee is responsible for the following:

- articulating Group HR policies and standards;
- ensuring regular review and refinement of Group HR policies and standards;
- gaining an understanding of issues of non-compliance to HR policies and standards, and ensuring the implementation of remedial actions;
- facilitating knowledge sharing and competency development across the Group in line with leading practices; and
- facilitating the achievement of HR synergies within the Group.

Membership

- Chairman – Head of largest subsidiary HR function
- FBN Holdings representative
- Subsidiary HR Functional Heads

Statutory Audit Committee

Section 359(3) of the Companies and Allied Matters Act (CAMA) requires every public company to establish a Statutory Audit Committee (SAC) composed of an equal number of directors and representatives of its shareholders, provided that there shall be a maximum of six members of the SAC. Thus, FBN Holdings, being a separate legal entity/public company to FirstBank, is required to establish its own SAC, distinct from the SAC presently constituted for FirstBank as it is not authorised to act on behalf of the shareholders of FBN Holdings, regardless of the fact that FBN Holdings is the parent company of FBN; and notwithstanding that the SAC of FBN was constituted for FBN by the current shareholders of FBN Holdings before migrating their shareholdings in FirstBank to FBN Holdings, pursuant to the Scheme.

For the members of the SAC of FirstBank to act for FBN Holdings, they must be duly appointed as members of the SAC of FBN Holdings in accordance with Section 359(4) and (5) of CAMA.

To further underscore this position, it is important to note that the composition of the Board of Directors of FirstBank and that of FBN Holdings are different. Therefore, some of the directors nominated by the Board of Directors of FirstBank to serve in the SAC of FirstBank are not directors of FBN Holdings and therefore not eligible to be members of the SAC of FBN Holdings and to act in that capacity.

It is trite law that the appointment of shareholders' representatives to the SAC of a public company can only be effected at an AGM (and not any other general meeting) of the public company. Therefore, FBN Holdings not being in a position to constitute its own SAC before the AGM will have to do same at its first AGM convened since the Group's conversion to a public company.

For reference, the report of the Audit Committee of FirstBank, but by the current shareholders of FBN Holdings prior to the migration from FirstBank, has been included as an appendix in this report.

Accountability

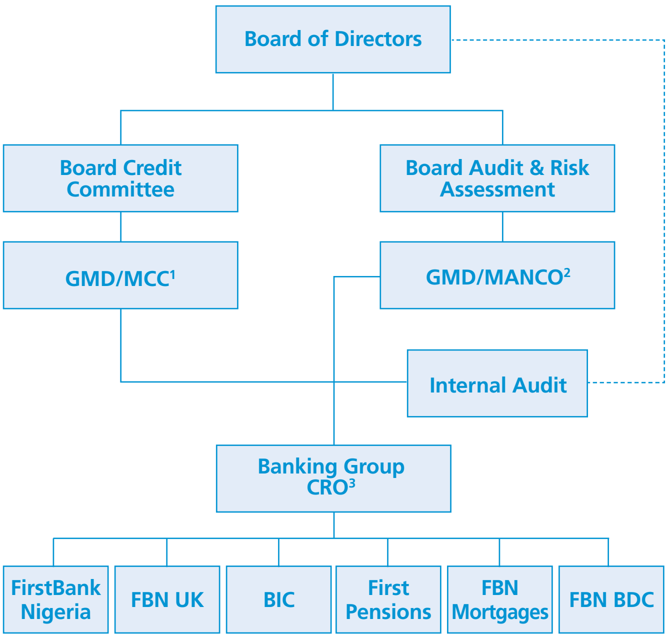
Governance framework

Responsibility and accountability for risk management resides at all levels within the Group, from the Board down through the organisation to each business manager and risk owner.

Outlined in the subsequent section is the governance framework for each business group.

Commercial Banking business group

The Commercial Banking business group risk management governance framework is outlined in the diagram below.



1 Group Managing Director/Management Credit Committee.
2 Group Managing Director/Management Committee.
3 Chief Risk Officer.

Roles and responsibilities of the Board of Directors

The Board of Directors provides oversight for the Group's risk management function. Specifically they:

- approve and periodically review risk strategy and policies;
- approve the Group's risk appetite annually and monitor the banking group's risk profile against this appetite;
- ensure executive management takes steps necessary to monitor and control risks;
- ensure that management maintains an appropriate system of internal control and review its effectiveness;
- ensure the risk strategy reflects the Group's tolerance for risk;
- ensure the Group's overall credit risk exposure is maintained at prudent levels and consistent with the available capital;
- review and approve changes/amendments to the risk management framework;
- review and approve risk management procedures and control for new products and activities;
- periodically receive risk reports from the management highlighting key risk areas, control failures and remedial action taken by the management – this is done at least once every quarter;
- ensure that the management as well as individuals responsible for credit risk management possess the requisite expertise and knowledge to accomplish the risk management function;
- ensure that the Group implements a sound methodology that facilitates the identification, measurement, monitoring and control of risk;
- ensure that detailed policies and procedures for risk exposure creation, management and recovery are in place; and
- appoint credit officers and delegate approval authorities to individuals and committees.

The Board drives the risk governance and compliance process through the Board committees and is also supported by various management committees that help it develop and implement various risk strategies.

Board committees

The responsibilities of the Board of Directors are discharged primarily by two committees, namely:

- Board Audit & Risk Assessment Committee; and
- Board Credit Committee.

Without prejudice to the roles of these committees, the full Board retains ultimate responsibility for risk management.

Roles and responsibilities of the Board Audit & Risk Assessment Committee

The primary role of the Committee is to report to the Board and provide appropriate recommendations on matters relevant to risk management and internal audit. The Committee is made up of the Group Managing Director, three executive and two non-executive directors, with a non-executive director as Chairman. The Chief Risk Officer (CRO) reports to this Committee and is a non-voting member.

Specifically, the Committee shall perform the following functions for risk management:

a. Evaluate internal processes for identifying, assessing, monitoring and managing key risk areas, particularly:

- important judgements and accounting estimates;
- business risk in the areas of credit risk, market risk and operational risk;
- specific risks relating to outsourcing; and
- consideration of environmental, community and social risks.

b. Evaluate/review:

- the adequacy of the Bank's risk management systems and the adequacy of the Bank's control environment with management, and the internal and external auditors;

- the Bank's risk profile, the action plans in place to manage risks, and progress against plan to achieve these actions; and
- the processes the Bank has in place for assessing and continuously improving internal controls, particularly those related to areas of significant risk.

c. Approve the provision of risk management services by external providers.

Roles and responsibilities of the Board Credit Committee

The Board Credit Committee ensures effective management of credit risk in the banking group.

It is also responsible for approving the following:

- banking group credit risk management strategy, policies and standards;
- credit products, processes and approving authorities;
- credit risk appetite and limits; and
- credit requests above MCC level, including those going to the full Board as a recommendation. This Committee is made up of the Group Managing Director/Chief Executive, all the Executive Directors and five non-executive directors. The Chairman is a non-executive director.

Roles and responsibilities of the Management Committee (MANCO)

For all categories of risk, the Management Committee is responsible for formulating policies, monitoring implementation and reviewing risk reports for presentation to the Board/Board committees as well as implementing Board decisions across the banking group.

To be more specific, the management of the banking group is responsible for the following:

- implementation of risk strategy approved by the Board of Directors;
- developing policies and procedures for identifying, measuring and controlling risk;
- providing appropriate resources to evaluate and control risk;
- reviewing risk reports on a regular and timely basis; and
- providing all reports required by the Board and its committees for the effective performance of risk management oversight functions.

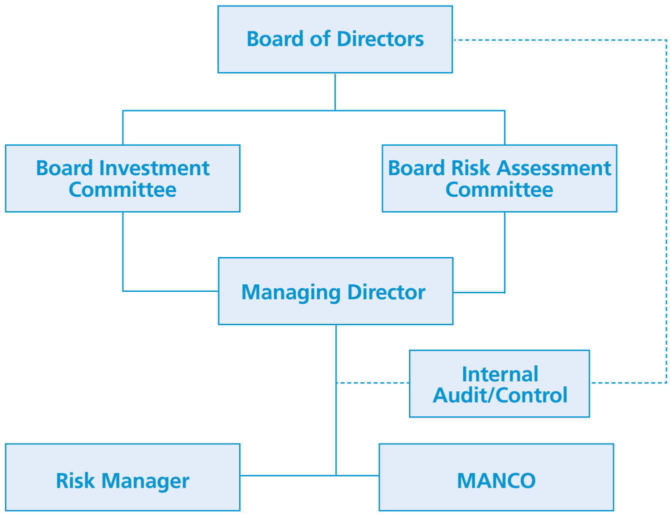
Roles and responsibilities of the Management Credit Committee (MCC)

It is the responsibility of this Committee to:

- establish and maintain an effective risk management environment in the banking group;
- review proposals in respect of credit policies and standards and endorse them to the Board of Directors for approval;
- define the banking group's risk and return preferences and target risk portfolio;
- monitor on an ongoing basis the banking group's risk quality and performance;
- define a credit approval framework and assign credit approval limits in line with the banking group policy;
- review defined credit product programmes and endorse to the Board of Directors for approval;
- review credit policy changes initiated by the management of the banking group and endorse to the Board of Directors for approval;
- ensure compliance with the banking group credit policies and statutory requirements prescribed by the regulatory/supervisory authorities;
- approve credit facility requests within limits defined by the banking group credit policy, and within the statutory requirements set by the regulatory/supervisory authorities;
- review and recommend to the Board Credit Committee facilities beyond management approval limits;
- review monthly credit portfolio reports and assess portfolio performance;
- request rapid portfolio reviews or sector/industry reviews from CRM where deemed appropriate; and
- approve exceptions/write-offs, waivers and discounts on non-performing credit facilities within specified limits.

Investment Banking and Asset Management business group

The Investment Banking 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 Company'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 review its effectiveness.
- Ensure risk strategy reflects the Company's tolerance for risk.
- Review and approve changes/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 the Board committees

The Board discharges the above responsibilities primarily through two committees, namely the:

- Board Investment Committee; and
- Board Risk Assessment Committee.

The full Board retains the responsibility for risk management without prejudice to the roles of these committees.

Roles and responsibilities of the Board Investment Committee

The role of the Committee includes the following:

- ensure the effective management of investment risk by the Company;
- approve investment risk management policies and standard proposals on the recommendation of the Management Committee (MANCO); and
- approve investment risk appetite and portfolio strategy.

Roles and responsibilities of the Board Risk Assessment Committee

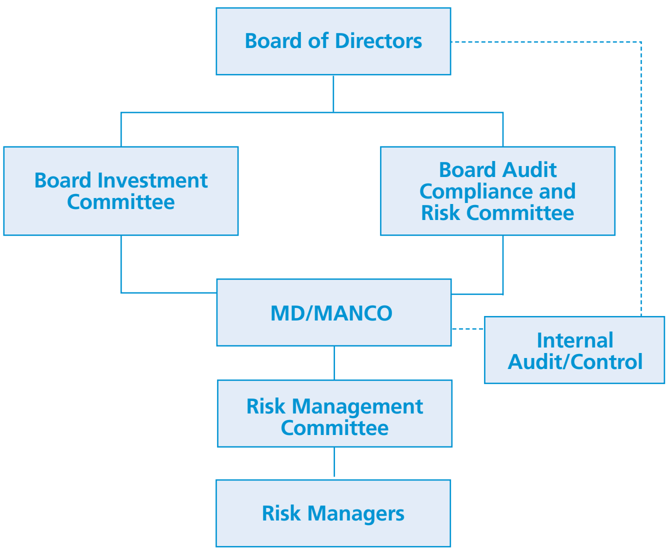
The primary role of the Committee is to report to the Board and provide appropriate advice and recommendations on matters relevant to risk management.

Roles and responsibilities of the Management Committee (MANCO)

The Management Committee is responsible for monitoring implementation of risk policies approved by the Board, reviewing risk reports for presentation to the Board/Board committees, and implementing Board decisions across the Company.

Insurance business group

The Insurance business group governance framework is outlined in the diagram below.



Roles and responsibilities of the Board of Directors

- Approve the Company's risk appetite and monitor the risk profile against this appetite.
- Review policies on an annual basis in line with guidelines issued by the Securities and Exchange Commission (SEC) and the National Insurance Commission (NAICOM) to ensure full compliance.
- Ensure that management maintains an appropriate system of internal control and review its effectiveness.
- Periodically receive risk reports from management highlighting key risk areas, control failures and remedial actions taken by management.

Roles and responsibilities of the Board committees

The Board discharges the above responsibilities primarily through two committees, namely the:

- Audit, Compliance and Risk Committee; and
- Investment Committee.

Board Audit, Compliance and Risk Committee

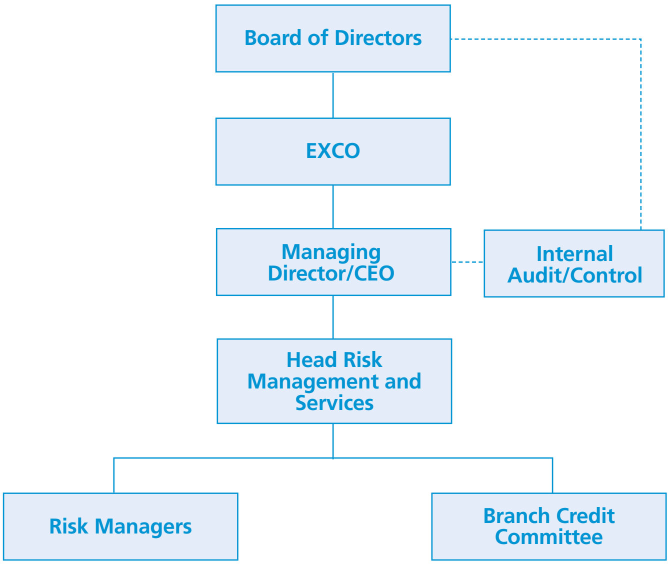
- Set and oversee the overall standard for financial and actuarial reporting, risk management and internal controls within the Company.
- Monitor the effectiveness of business risk management processes in the Company.
- Liaise with external and internal auditors on the quality and acceptability of the 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 Company 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 practise good governance.
- Monitor the Company's asset liability matching position.
- Set policy for and monitor credit and concentration risk in the portfolios.
- Set requirements for and monitor the use of risky assets such as derivatives and unlisted investments.
- Govern the unit pricing process to ensure that prices are calculated accurately and customers are treated fairly.
- Review compliance with regulatory requirements on investments.
- Monitor the investment process from a governance point of view e.g., avoiding conflicts of interest, insider trading and other ethically suspect practices.

Other Financial Services business group (FBN Microfinance Bank Limited)

The Microfinance Bank's governance framework is outlined in the diagram below.



Board committees

The Board discharges the above responsibilities primarily through two committees, namely the:

- Management Credit Committee; and
- Branch Credit Committee.

Management Credit Committee (MCC)

- Establish and maintain an effective risk management environment in the Bank.
- Monitor on an ongoing basis the Bank's risk quality and performance, review periodic credit portfolio reports and assess portfolio performance.
- Define a credit approval framework and assign credit approval limits in line with the Bank's policy.
- Approve credit requests within limits defined by the Bank's credit policy.
- Review monthly credit portfolio reports and assess portfolio performance.
- Approve exceptions/write-offs, waivers and discounts on non-performing credit facilities.
- Review and recommend to the Board facilities beyond Management Credit Committee approval limits.

Branch Credit Committee

- Analyse facility requests in line with the credit policy of the Bank and recommend to the Management Credit Committee for approval.
- At the branch level, ensure compliance with the Bank's credit policies and statutory requirements prescribed by the regulatory/supervisory authorities.
- Recommend exceptions/write-offs, rescheduling, waivers and discounts on non-performing credit facilities within specified limits.
- Monitor approved facilities to ensure prompt payment.

Accountability

Internal control

Internal control in FBN Holdings and its subsidiaries refers to the overall operating framework of practices, systems, organisational structures, management philosophy, code of conduct, policies, procedures and actions that exist in the Group and is designed to ensure:

1. that 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 that is capable of sustaining its current leadership position in the financial services industry.

Group internal control framework

This is predicated on COSO (Committee of Sponsoring Organisation) 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 lines of defence and controls 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 control challenges by identifying critical activities in the Bank, assessing the risk exposures, determining appropriate preventive/detective control measures and monitoring such measures to ensure compliance. The framework is supported by internal control policy and guidelines.

The Internal Control Policy outlines best-practice control standards, roles and responsibilities of directors, management, subsidiaries and staff of the Group while the guidelines outline procedures for identification, management and documentation of relevant processes/sub-processes including 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 with applicable laws, internal policies and regulations;
4. identifying and exploring opportunities for improving efficiency of processes and controls; and
5. effectively managing our business operations and achieving our strategic objectives.

Group operational procedure

Detailed Control Administrative and Accounting Procedure (CAAP) manuals have been developed for all processes, activities, products and services of the Group including business continuity and disaster recovery. These are updated regularly by the business owners as processes change.

Internal control, as part of its daily and regular review activities, monitors compliance with the CAAP manuals.

Strategy and policy

FBN Holdings and its subsidiaries operate in an environment that is continuously exposed to uncertainties and changes. Such risks may prevent the holding company from achieving its strategic business objectives. To effectively manage these risks, the Group has put in place internal control measures that cover its subsidiaries including the Bank.

The Group has also instituted an effective and efficient internal control environment that ensures minimal operational losses arising from fraud, errors, operational lapses, armed robberies, customer dissatisfaction and complaints, and other risk exposures.

Given the advancement in technology and its effect on the banking environment, information technology control has been further strengthened to provide regular and frequent updates to the banking services group on activities that may constitute potential fraud.

Strong and effective IT control and revenue assurance

The Group has developed a strong framework for effective information technology (IT) controls. This essentially revolves around ensuring the integrity, security, efficiency, reliability and compliance of the Group's information systems and resources, including:

1. management and administration of users/access control on the various application software to ensure proper user access rights are attached to each job role and to ensure reliability of access control mechanisms on the applications;
2. monitoring and review of the processes, practices and procedures of the subsidiaries to maximise revenue through a systematic and automated approach, crossing all departmental and functional boundaries, guaranteeing validity, completeness, accuracy and timeliness of financial data relating to the Group's revenue. This includes interest income, premium income, interest expense, commissions, fees, commission on turnover (COT) and management fees validation among others;
3. monitoring IT operations, databases, server hardware and server operating systems, network infrastructure and applications systems monitoring; and
4. quality assurance, systems development controls and user acceptance testing (UAT); reviewing all new systems end-to-end and coming up with technology-related risk and vulnerabilities in the product, process or system being developed and advising mitigating controls.

Group internal control priorities for 2013

We have identified and set out various priorities for improved and increased efficiency and effectiveness of internal controls in the Group. These include the following among others:

- strengthening internal control consciousness in the various subsidiaries through effective support and training of staff generally and particularly front-line staff in their role as the first line of defence in risk management;
- strengthening of IT controls and monitoring to ensure adequate controls built around all the software of the Group. To this end, user administration controls will be extended to most user applications in the Group;
- expanding the scope of revenue assurance to additional income lines to ensure total elimination of income leakages;
- monitoring branch and Head Office activities to ensure policies and procedures are adhered to;
- preparing and presenting monthly reports to senior management on control failures and action taken to address such failures; and
- creating an exception resolution workflow for issues noted during branch visits with deadlines to ensure prompt resolution.

The effectiveness of internal control is being regularly monitored through internal audit reports of reviews of the subsidiaries and the various Strategic Business Units. Control failures are analysed through a root-cause analysis and improved procedures and processes installed to forestall a repeat of such incidences.

The Internal Control department also engages in regular and joint training sessions with the operators where issues and updates in processes and control techniques are highlighted.

Directors' report

For the year ended 31 December 2012

The directors present their annual report on the affairs of FBN Holdings Plc ('the Company') and its subsidiaries ('the Group'), together with the financial statements and auditors' report for the financial year ended 31 December 2012.

a. Legal form

During the year, there was a business restructuring within the FirstBank Group, which resulted in the adoption of the holding company model. Thus, FBN Holdings Plc was set up as a non-operating legal entity domiciled in Nigeria. This necessitated the movement of non-permissible assets from First Bank of Nigeria Limited to the holding company. The Company was initially incorporated as a private limited liability company in Nigeria in 2010 and it was converted to a public company in September 2012.

The holding company structure was ratified through shareholder votes at the Extraordinary General Meeting held on 24 September 2012, and the relevant approvals were obtained from the regulatory authorities and the Nigerian Stock Exchange.

Upon securing the requisite regulatory approvals, FirstBank was granted leave to convene a Court Ordered Extraordinary General Meeting ('Court Ordered Meeting') of the shareholders of the Bank, by the Federal High Court. The Court Ordered Meeting was held on 24 September 2012, during which the Bank's shareholders approved the scheme document, which implemented the restructuring of the FirstBank Group. The shares of FBN Holdings Plc were subsequently registered by the Securities and Exchange Commission (SEC) on 5 November 2012.

The shares of First Bank of Nigeria Plc were delisted on the floor of the Nigerian Stock Exchange on 23 November 2012 and the shares of FBN Holdings Plc ('FBN Holdings') on 26 November 2012 issued in their place.

b. Principal activity and business review

The principal activity of the Company is the raising and allocating of capital and resources.

The Company is also saddled with the responsibility of coordinating Group-wide financial reporting to shareholders and managing shareholder, investor and external relations to the Group, and the task of developing Group strategy and coordinating implementation.

The Company consists of four groups namely:

- Commercial Banking business group made up of First Bank of Nigeria Limited, FBN Bank (UK) Limited, FBN Mortgages Limited, First Pension Custodian Nigeria Limited, FBN Bureau de Change Limited and Banque Internationale de Crédit (BIC);
- Investment Banking and Asset Management business group, made up of FBN Capital Limited, First Funds Limited, First Trustees Nigeria Limited and FBN Securities Limited;
- Insurance business group made up of FBN Life Assurance Limited and FBN Insurance Brokers Limited; and
- Other Financial Services business group, with only FBN Microfinance Bank Limited for now.

The Company prepares consolidated financial statements.

c. Directors' shareholding

The direct and indirect interests of directors in the issued share capital of the Company as recorded in the register of directors' shareholding and/or as notified by the directors for the purposes of sections 275 and 276 of the Companies and Allied Matters Act and the listing requirements of the Nigerian Stock Exchange are noted:

Name	Direct holdings	Indirect holdings
Oba Otudeko, CFR	5,359,331	447,805,761
Bello Maccido	44,000	-
Abdullahi Mahmoud	606,738	-
Oye Hassan-Odukale, MFR	2,515,626	43,428,798
Lt. General Garba Duba (Rtd)	14,940,903	-
Bisi Onasanya	7,518,059	-

In accordance with the Company's Articles of Association, the following directors, Oba Otudeko, CFR, Abdullahi Mahmoud, Oye Hassan-Odukale, Lt. General Garba Duba (Rtd), Bello Maccido and Bisi Onasanya, offer themselves for election as directors of the Company.

d. Operating results

Gross earnings and profit before tax of the Group increased by 31.6% and 158.5% respectively.

The directors recommend the approval of a final dividend of ₦32.632 billion.

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Gross earnings	360,345	273,811
Profit before tax	92,701	35,863
Taxation	(17,031)	(17,227)
Total profit for the year	75,670	18,636
Non-controlling interest	(220)	(884)
Appropriations		
Transfer to statutory reserves	11,203	3,636
Transfer to statutory credit reserves	6,335	(18,454)
Contingent reserves	37	13
Bonus issue	-	-
Transfer to retained earnings reserves	43,680	23,109

e. Directors' interests in contracts

For the purpose of section 277 of the Companies and Allied Matters Act, CAP C20 LFN 2004, none of the directors had direct or indirect interest in contracts or proposed contracts with the Company during the year.

f. Property and equipment

Information relating to changes in property and equipment is given in Note 34 to the Accounts. In the directors' opinion, the market value of FBN Holdings' properties is not less than the value shown in the financial statements.

g. Shareholding analysis

Range	No of holders	Holders %	Units	Units %
1–10,000	980,138	79.15	2,650,007,041	8.12
10,001–50,000	214,616	17.33	4,349,603,970	13.33
50,001–100,000	21,639	1.75	1,516,668,988	4.65
100,001–500,000	17,774	1.44	3,506,172,897	10.74
500,001–1,000,000	2,092	0.17	1,467,471,970	4.50
1,000,001–5,000,000	1,604	0.13	3,038,982,439	9.31
5,000,001–10,000,000	205	0.02	1,450,718,096	4.45
10,000,001–50,000,000	180	0.01	3,410,542,945	10.45
50,000,001–100,000,000	26	0.00	1,855,030,773	5.68
100,000,001–500,000,000	27	0.00	5,563,646,506	17.05
500,000,001–32,632,084,356	4	0.00	3,823,238,731	11.72
	1,238,305	100	32,632,084,356	100.00

Type of shareholding	% held
Retail	53.46
Institutional	27.35
Foreign	16.02
Government-related holdings	3.17
	100

h. Substantial interest in shares

According to the register of members as at 31 December 2012, no shareholder held more than 5% of the issued share capital of the Company.

i. Human resources

Employment of disabled persons

It is the policy of the Group that there should be no discrimination in considering applications for employment, including those from physically challenged people. 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 Group continues and appropriate training is arranged to ensure that they fit into the Group'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 Group provides subsidy to all levels of employees for medical, transportation, housing, etc.

Fire prevention and fire-fighting equipments are installed in strategic locations within the Company's premises.

The Group operates both a Personal Accident and the Workmen's Compensation Insurance covers for the benefit of its employees. It also operates a contributory pension plan in line with the Pension Reform Act 2004, as well as a terminal gratuity scheme for its employees.

k. Employee involvement and training

The Group 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 Group's policy of continuous development, training facilities are provided in a well-equipped training school. In addition, employees of the Company are nominated to attend both locally and internationally organised courses. These are complemented by on-the-job training.

l. Diversity in employment

FBN Holdings is committed to maintaining a positive work environment and to conducting business in a positive, professional manner by consistently ensuring equal employment opportunity. As at 31 December 2012, the Group had 25% females in top management positions. The table below shows the gender distribution of top management staff by grade within the Group:

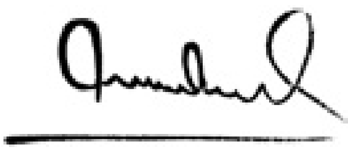
Top management complement by gender within the Group as at December 2012

	Female	Male	Total
Chief Executive Officer	2	8	**10**
Chief Operating Officer	-	2	**2**
Executive Director	3	12	**15**
General Manager	2	9	**11**
Deputy General Manager	13	21	**34**
Assistant General Manager	5	22	**27**
Total	**25**	**74**	**99**
% Distribution	25%	75%	**100%**

m. Auditors

The joint auditors, Messrs PricewaterhouseCoopers and PKF Professional Services, have indicated their willingness to act in office as auditors. In accordance with Section 357 (1) of the Companies and Allied Matters Act, CAP C20 LFN 2004, a resolution will be proposed at the Annual General Meeting to approve the appointment of the auditors and authorise the directors to determine their remuneration.

BY ORDER OF THE BOARD



Tijjani Borodo
Company Secretary

Lagos, Nigeria

Risk factors

In this section

Our Group is exposed to certain risks and we have robust policies and procedures in place to mitigate and manage these risks.

Within an updated enterprise risk management framework, we have proactively managed financial risks in a highly dynamic and competitive landscape to forestall credit and operational losses.

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Risk management summary

This risk management disclosure aims to provide stakeholders with information on the enterprise risks to which the Group is exposed, and the policies and procedures put in place to mitigate and manage these risks. The information provided herein is demonstrative of the commitment of the Board of Directors of the respective entities in the Group to adhere to sound corporate governance and regulatory requirements on disclosures.

Sequel to the 2009 regulators' intervention in the banking industry, supervision of the industry has continued to heighten with reforms initiated by the Central Bank of Nigeria (CBN) to further promote stability and improve investors' confidence in the financial system. Central to these reforms was the withdrawal of the universal banking model and, in its place, banks could either opt for a commercial banking licence or a holding company structure, the latter being the option the FirstBank Group has adopted to create a broad financial services platform. Other reforms initiated by CBN include the adoption of the International Financial Reporting Standards (IFRS) for financial disclosure, increase in the minimum capital adequacy ratio (ratio of adjusted capital to risk-weighted assets) from 10% to 15% for international banks and restriction on the recapitalisation of foreign subsidiaries. Also the revised microfinance regulatory and supervisory framework was released and it requires a national microfinance bank to have a minimum paid-up capital of ₦2 billion and a fixed asset to shareholders funds ratio of not more than 20%.

In the course of the year, aggregate credit growth gradually rebounded, albeit at a slower pace than the pre-2009 global financial crisis due to a more favourable operating environment and cleaner balance sheets, as well the increased focus of banks to grow revenue. With the sale of toxic assets to the Asset Management Corporation of Nigeria (AMCON), stability has returned to the industry and with improved liquidity, banks are in a better position to lend to viable sectors of the economy.

It should be noted that, due to monetary policy initiatives of the CBN in the year under review, which were basically designed to curb inflationary pressures and defend the naira, some banks increased their holdings in government securities given the real positive yields of such instruments and perceived lower risk attached to them, resulting in lesser emphasis on loan growth. However, the CBN has continued to embark on stimulating credit growth to the real sector, with about ₦600 billion made available to banks for on-lending to key sectors in the economy including power, agriculture, aviation, manufacturing and mortgage sectors. It is key to point out that the Group was actively involved in the implementation of a number of regulator-led initiatives as a means of economic development subject to all risk considerations.

In the investment banking sphere, investor interest in the equity market was reignited in the latter part of quarter 3, particularly by the pension fund administrators (PFAs) who hitherto had maintained an indifferent disposition towards equities investment. The equity market rebounded in the year to date as the Nigerian Stock Exchange All Share Index (ASI) crossed the 25,000 mark projected by analysts, achieving a 26% year-to-date return. Investor risk appetite, however, remained subdued and the modest resurgence of secondary equity market activity is yet to be transmitted to the primary equity market.

With regard to the insurance sector, the growth that has been experienced in the last decade has been largely reform driven with emphasis on local risk retention, non-discretionary (compulsory) insurances and by the constructive engagement of NAICOM (National Insurance Commission) under its Market Development and Restructuring Initiatives (MDRI) which are aimed at deepening market penetration. Despite this, insurance market opportunities remained limited and the industry continues to witness stiff competition with mergers and acquisitions that are likely to materialise in 2013. These dynamics have the capacity to change the competitive landscape in a significant way.

In summary, the Group has diligently pursued its strategic imperatives of growth, service excellence and people management, within a robust enterprise risk management framework, and proactively managed financial risks in a highly dynamic and competitive landscape to forestall credit and operational losses. The subsequent section of this report provides further insight on the management of various risk aspects within the Group.

Credit risk

In the financial year under review, the Group continued to improve its suite of credit products with enhanced focus on improving credit processes to meet market demands subject to pre-defined risk appetite of the Group. Our risk management processes, benchmarked against best practice, aim to improve the efficiency while not compromising asset quality. The credit policies were also enhanced to address changes in risk complexities in the business environment.

The banking group, especially the bank operating out of Nigeria (First Bank of Nigeria), recorded high demand for credit lines from existing and new customers, necessitating the deployment of appropriate resources to the assessment of credit requests to ensure that only acceptable risks as defined by the Board in approved risk appetite framework were taken into the portfolio. The Group recorded a 25% growth in its loan portfolio for the 2012 financial year, reflecting an aggressive expansion of lending, especially to moderate-risk assets. The aggregate loan growth was, however, above the 15% target for 2012, primarily due to business opportunities that came up in the period, in respect of which the Group took a strategic position to fund in view of the limited window for consummation of such deals. These deals were all subject to our robust assessment process and considered to be fair risk, and are currently performing.

The Group will continue to provide credit and financial intermediation to key sectors of the economy to bridge infrastructure gaps in power and telecoms and support growth in the manufacturing and agriculture sectors through well-articulated and viable business models. Additionally, we will continue to promote sound portfolio management practices by ensuring a well-diversified portfolio to dilute any form of concentration risk that may expose the Group to unforeseen risks. Also the banking group has provided the requisite collateral securities for eligible companies to access funds at concessionary rates under the various Federal Government stimulus packages through the Central Bank of Nigeria and Bank of Industry for manufacturers, Small and Medium Enterprises (SMEs), power and aviation companies. We will continue to use this platform to support government-led initiatives to revamp the economy.

Our classification and provisioning strategy has remained conservative and well above regulatory guidelines, and with the adoption of the International Financial Reporting Standards, the Group acquired relevant skills and systems aimed at ensuring compliance. Our impairment models have been developed to align with best practice through the acquisition and configuration of internal risk measurement systems. In line with the Group's policy on proactive management of the loan portfolio, we would continue to adopt processes for the prompt identification of delinquent loans and take active remedial and recovery steps on non-performing loans through a combination of strategies including in-house recovery initiatives, external recovery agents, legal proceeding and sale to debt factor companies. Asset quality ratio for the period was 2.6% and within the acceptable threshold of the Group.

The Group continues to give utmost attention to staff training and acculturation in order to ensure that there are appropriate human resources to execute the risk and control processes, risk appraisal, measurement, monitoring and reporting requirements in a highly dynamic financial landscape. Our policies will continue to be aligned with international risk and compliance strategies and the Basel Accord frameworks, with the objective of building a sound and sustainable financial institution capable of withstanding macroeconomic stress and systemic risks that may occur.

Market and liquidity risk

Market risk was moderated during the year by a strict regulatory stance and stable macro-economic environment.

Foreign exchange risk remained low due to reduced position limits and sustained support for the naira. The benchmark interest rate was relatively stable during the year. Also the Central Bank of Nigeria frequently intervened with open-market operation, and changes to the open position limit and cash reserve requirement to stabilise short-term interest rate and supply of base money leading to reduce interest volatility both in the trading portfolios and banking books and also reduce demand pressure on the naira. In the period under review, security trading was limited by low market liquidity.

The Group maintained a strong liquidity position in the face of keen competition, due to our renewed focus on customer-centric products and processes, which translated to growth and stability.

The Group has clearly identified the potential sources of market and liquidity risks in its operations and hedged material exposures accordingly.

Operational risk

The Group is embedding and continuously improving upon a robust operational risk management practice, culture and environment predicated on the three lines of defence principle. The first line of defence is the line management made up of all staff of the business units and support functions with the responsibility for risk identification, assessment, mitigation, management and compliance with standards and policies. The Management Committees (MANCO), Business Risk and Compliance Committees (BRCC) and the respective corporate risk and control functions such as operational risk management, internal control, legal and compliance, financial control, information security, human capital management and development constitute the second line of defence with responsibility for establishing frameworks, standards and policies and providing assurance on policy implementation and quality controls. The internal audit function serves as the third line of defence by providing independent assurance to the Board and other stakeholders on the adequacy of operational risk management. Based on this partnership model, operational risk is managed within acceptable levels through appropriate management focus and resources aimed at minimising operational losses in the Group.

The general security situation in the country remains a concern having taken a different dimension with the political, social and economic undercurrent. The Group continues to work at ensuring safety and protection of assets, staff and customers' investments through implementation of a robust Business Continuity Management System (BCMS) in line with global best practice. The prestigious BS 25999 certification received last year by the commercial bank in Nigeria from the British Standards Institution (BSI) on its BCMS was a call for an unending continuous improvement journey. To this end, we are pleased to report that the maiden surveillance audit of the BCMS was carried out in the last quarter of this year with a verdict that the Bank in Nigeria still earns the retention of the certification and is the first and only organisation in Nigeria to have earned this certification.

Information security risk

The Group, in its drive to sustain its leadership position in implementing strategic governance initiatives and safeguard information assets of its customers and staff, has put in place a strong Information Security Framework backed with documented processes and inbuilt controls, to align with the best of international standards in information security and its practices.

From implementation and a successful biannual surveillance audit of the commercial Bank in Nigeria and since its certification to the information security standard ISO 27001 in 2010, the Bank has continued to expand the scope of certification to include its network of branches and advanced implementation of the Payment Card Industry Data Security Standard (PCI DSS). The Group, through its implementation of reputed international standards, is well equipped and positioned to tackle emerging vulnerabilities in its business practices and organisational culture, which are guided by global best practices.

We will continue to train our staff and partner with leading security organisations worldwide to promote good information security practices and governance in the banking industry, to ensure a more secure operational environment in Nigeria.

Legal and compliance risk

The current regulatory regime places much pressure on financial institutions to identify, assess and understand the money laundering and terrorist financing risks they face in order to ensure that the measures they implement to prevent or mitigate money laundering and terrorist financing are commensurate with risks identified. The risk-based approach is intended to ensure that regulated entities apply their resources more efficiently.

The Group is poised to looking 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.

Conclusion

The Group will continue to foster proactive assessment and management of risks in its different business lines and areas of operations to meet its transformation objectives. Also business initiatives will be subject to risk considerations and only implemented when the risks associated with such initiatives are considered fair and acceptable. Unguarded and uncalculated risk on capital will be avoided based on our commitment to upholding sound corporate governance, transparency and best-in-class risk management practices.

Risk management framework

What is our risk management philosophy?

The key elements of our philosophy are as follows:

- Consider sound risk management to be the foundation of a long-lasting financial institution.
- Continue to adopt a holistic and integrated approach to risk management and, therefore, bring all risks together under one or a limited number of oversight functions.
- Empower risk officers to perform their duties professionally and independently without undue interference.
- Govern risk management by well-defined policies and structures that are clearly communicated across the Group.
- Aim to build a shared perspective on risks that is grounded in consensus.
- Promote clear segregation of duties between market-facing business units and risk management functions.
- Take risk-related issues into consideration in all business decisions and continue to strive to maintain a conservative balance between risk and revenue considerations.
- Report risk openly and fully to the appropriate levels once they are identified.
- Risk officers work as allies and thought partners to other stakeholders within and outside the Group, and are guided in the exercise of their powers by a deep sense of responsibility, professionalism and respect for other parties.
- All entities within the holding company are guided by the principles enshrined in the risk management policies of the Group.

Risk culture

The key elements of our risk culture are as follows:

- The Board and management teams consciously promote a responsible approach to risk and ensure that the sustainability and reputation of FBN Holdings Plc are not jeopardised while expanding the Group's market share.
- The responsibility for risk management in the holding company is fully vested in the Board of Directors, which in turn delegates such to senior management.
- The Group pays attention to both quantifiable and unquantifiable risks.
- Management promotes awareness of risk and risk management across the Group and avoids products, markets and businesses where it cannot objectively assess and manage the associated risks.

Risk appetite

The risk appetite of the Group is defined by the amount of risk exposure or potential adverse impact from an event that the Group is willing to accept/retain.

The risk appetite of each group entity is set by the Board of Directors annually, at a level that minimises erosion of earnings or capital due to avoidable losses in the banking, investment and trading books, or from fraud or operational inefficiencies.

Outlined below is the risk appetite of each business group.

Commercial Banking business group

The appetite for risk is governed by the following:

- High-quality risk assets measured by four Key Performance Indicators:
  - i. ratio of non-performing loans to total loans;
  - ii. ratio of loan loss expenses to interest revenue;
  - iii. ratio of loan loss provision to gross non-performing loans; and
  - iv. ratio of unsecured loans to total loans.

The broad objective is to be among the top three banks with respect to (i) and (ii) above and for (iii) to maintain a ratio that ensures that there are adequate provisions for all non-performing assets based on their levels of classification.

- Diversification targets are set for the credit portfolio and limits are also set for aggregate large exposures.
- Losses due to fraud and operational lapses are pegged at a maximum of a specified percentage of gross earnings and in any case must be lower than the industry average.
- Financial and prudential ratio targets are pegged at a level more conservative than regulatory requirements and better than the average of benchmark banks. These include liquidity ratios, deposit concentration limits and open position limits.
- The group aims at minimising the following independent indicators of excessive appetite for risk:
  - i. exception reporting by internal control officers, auditors, regulators and external rating agencies;
  - ii. adverse publicity in local and international press;
  - iii. frequent litigations;
  - iv. payment of fines and other regulatory penalties; and
  - v. above average level of staff and customer attrition.
- Sector, obligor and country concentration limits are set at a percentage of the balance sheet total and subject to overriding maximum amounts.

The banking group will not compromise its reputation through unethical, illegal and unprofessional conduct. The group also maintains zero appetite for association with disreputable individuals and entities.

Investment Banking and Asset Management (IBAM) business group

The group's appetite for risk is governed by the following over-arching principles:

- to meet all regulatory requirements and expectations;
- to maintain an adequate level of capital to support the businesses we are engaged in;
- to deliver stable earnings with equally stable earnings growth;
- to minimise exposure to losses from stress events; and
- to ensure stability in funding and liquidity through sound balance sheet management.

The IBAM group has further defined risk appetite in terms of the key areas of its risk exposures in Credit, Market and Operational risks. These are:

a. The group maintains low exposures to credit risk. The business model is one that focuses on the facilitation and intermediation of the investing and financing needs of clients.

b. 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.

c. 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 the group is willing to place 'at risk' of loss from market movements.

Insurance business group

The group's risk appetite considers all risks across the business in an integrated manner, comprising both quantitative and qualitative elements, and is aligned with the group's business strategy.

Risk category	Statement
Capital/ Earnings	Maintain a minimum return on EV (Embedded value) of 10% Invest in low-risk assets (low-risk tolerance for investment) Maintain a solvency ratio of at least 105% Ensure that our earnings do not fall below budget by more than 20% in any one year Achieve steady and sustainable growth on operating results
Credit	Ensure that our counterparty exposure is no greater than 15% of GPI (Gross premium income) Maintain a maximum of not more than 20% of GPI as outstanding premiums in any period Ensure re-insurance arrangements are adequate and proportionally spread
Reputation	Staff will display the highest level of competence and integrity at all times All customer issues are treated within 72 hours We will continue to maintain top quartile customer satisfaction in all our business lines All claims processing and payments must be made within 48 hours of receipt of complete documentation
Operation	All policy documents to be issued within one week of application (Should be reviewed in line with each product) Zero tolerance for infrastructure and process failures
Other	100% compliance with all regulatory/statutory requirements Zero tolerance for regulatory penalties and fines.

Other Financial Services business group (FBN Microfinance Bank Limited)

The Bank's risk appetite shall be the maximisation of profit through the minimisation of all avoidable risks. Integrity, professionalism, proactivity and customer friendliness, being our core values, shall drive our risk-taking behaviours.

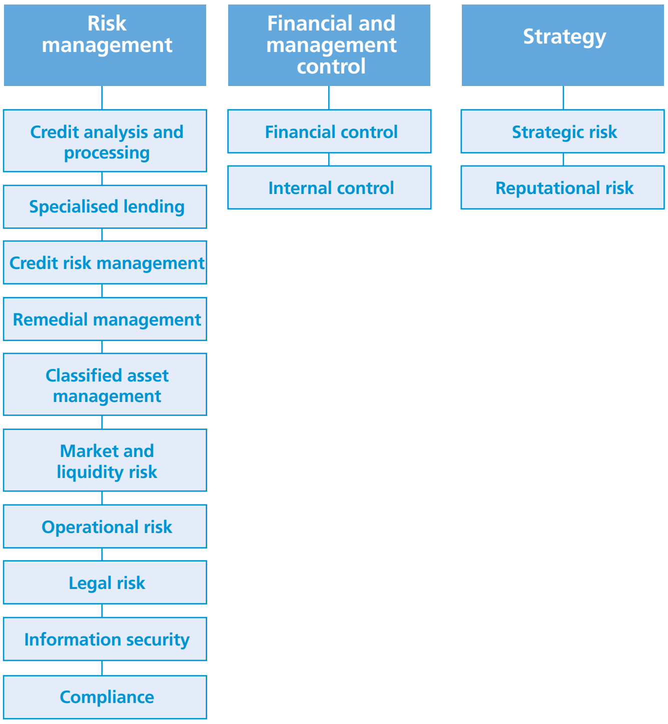
The Bank shall aim at minimising the following independent indicators of excessive appetite for risk:

i. excessive reporting by auditors, regulators and external rating agencies;
ii. adverse publicity in local and international press;
iii. frequent litigations; and
iv. payment of fines and other regulatory penalties.

The Bank shall not compromise its reputation through unethical, illegal and unprofessional conduct. The Company shall also maintain zero appetite for association with disreputable elements.

Risk management oversight

The banking group has a risk management directorate which provides central oversight of risk management across the Group to ensure that the full spectrum of risks facing FBN Holdings Plc is properly identified, measured, monitored and controlled to minimise adverse outcomes. The Directorate is, however, complemented by other Strategic Resource Functions (SRF) in the management of certain important risks as illustrated below.

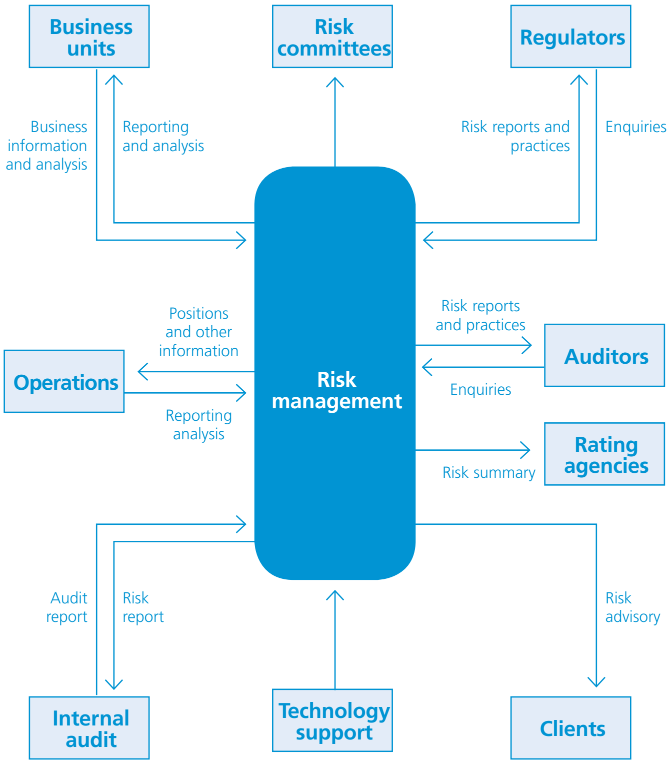


The Directorate coordinates the monitoring and reporting of all risks across the holding company, and is headed by a skilled and highly competent personnel at executive level.

Without prejudice to the above, the internal control function performs second-level verification of the holding company operations and testing of control measures across the Group. Furthermore, Internal Audit has the responsibility of auditing the risk management function to ensure that all units charged with risk management perform their roles effectively on a continuous basis. Internal Audit also tests the adequacy of internal controls and makes appropriate recommendations where weaknesses are identified with the view of strengthening the Group's risk management framework.

Relationship of risk management with other units

The relationships between the Risk Management Directorate (RMD) and other sections of the Group are highlighted below.



- Sets policies and defines limits for other units in the Group.
- Performs risk monitoring and reporting, and provides a framework for the management of risk.
- Other units provide relevant data to risk management for risk identification, monitoring and reporting, while risk management provides a framework for managing such risks.
- Collaborates with market-facing units in designing new products.
- Coordinates activities with internal audit to provide a holistic view of risks across the Group.
- Makes recommendations with respect to capital allocation, pricing and reward/sanctions based on risk reports.
- Collaborates with the information technology support group to provide relevant automated credit operations processes, such as credit scoring, loss databases, loan origination and management systems, etc.

Risk management disclosures

Group risk factors

The scope of risk impacting on the banking group's activities is as follows:

- Credit risk: risk that an obligor will fail to perform its obligation under a trading or loan contract or when the ability to perform such obligations is impaired.
- Market risk: risk that the value of on and off balance sheet positions of a financial institution will be adversely affected by movements in market rates such as interest rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices resulting in a loss to earnings and/or capital.
- Liquidity risk: risk of loss to the Group arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable cost or losses.
- Operational risk: risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
- Legal risk: risk of real or threatened litigation against the Group. It can represent significant costs, disrupt operations and reduce the earnings and capital of the Group.
- Compliance risk: risk to earnings, capital or reputation occurring from violations of or non-conformance with laws, regulations, prescribed practices or ethical standards and may result in fines, penalties, payment of damages and voiding of contracts.
- Strategic risk: potential for loss arising from ineffective business strategies, the absence of integrated business strategies, the inability to implement those strategies and the inability to adapt the strategies to changes in the business environment.
- Reputational risk: risk that may occur to earnings or capital that results from negative public opinion.

The subsequent section highlights the management of the principal risks impacting each business group.

Risk management disclosures

Credit risk

Overview

Credit risk is defined as the potential that an obligor or counter party will fail to meet obligations in accordance with agreed terms.

Credit risk management verifies and manages the credit process from origination to collection. In designing credit policies, due consideration is given to the Group's commitment to:

- create, monitor and manage credit risk in a manner that complies with all applicable laws and regulations;
- identify credit risk in each investment, loan or other activity of the Group;
- utilise appropriate, accurate and timely tools to measure credit risk;
- adopt a risk-based approach for determining appropriate pricing for lending products and service offerings;
- set acceptable risk parameters;
- maintain acceptable levels of credit risk for existing individual credit exposures;
- maintain acceptable levels of overall credit risk for the Group's portfolio;
- coordinate credit risk management and other risks inherent in the Group's business activities; and
- set remedial and recovery actions.

Philosophy

The following principles guide credit risk management across the Group. The Group shall:

- deliberately manage its risk asset portfolio to ensure that the risk of excessive concentration to any industry, sector or individual customer is minimised, as well as ensure portfolio flexibility and liquidity;
- ensure that exposures to any industry or customer are determined by the regulatory guidelines, clearly defined internal policies, debt service capability and balance sheet management guidelines;
- extend credit to only suitable and well-identified customers and never where there is any doubt as to their ethical standards and record;
- never extend credit where the source of repayment is unknown or speculative, nor where the purpose/destination of funds is undisclosed;
- never take a credit risk where ability of the customer to meet obligations is based on the most optimistic forecast of events. Risk considerations shall have priority over business and profit considerations;
- ensure that the primary source of repayment for each credit is from an identifiable cash flow from the counterparty's normal business operations or other financial arrangements; the realisation of security remains a fall-back option;
- adopt a pricing model that reflects variation in the risk profile of various exposures to ensure that higher risks are compensated by higher returns;
- ensure that products to be sold in the retail market are backed by approved product programmes;
- ensure that the quantum of exposure and quality and value of collateral required are determined based on the risk profile of the counterparty;
- avoid all conflict of interest situations and report all insider-related credits to appropriate bodies; and
- ensure that there are consequences for non-compliance with the Group's credit policies.

The subsequent section outlines the management of credit risk across the Group.

Commercial Banking business group

Responsibilities and functions of key stakeholders in the credit process

In line with the banking group's philosophy to entrench sound corporate governance in its operations, the credit division under risk management is structured to ensure the separation of policy, monitoring, reporting and control functions from credit processing functions. To this end the credit processes in the respective commercial banking entities are grouped as:

- Credit Analysis and Processing
- Specialised Lending
- Credit Risk Management
- Remedial Management and Recovery

Credit Analysis and Processing is responsible for the appraisal of non-specialised credit requests and processing to obtain requisite approvals in line with the Group's credit policy. The strategic function is constituted to review requests from the various Business Units – Corporate Banking, Institutional Banking, Private Banking, Public Sector and Retail Banking, etc.

The Specialised Lending function is responsible for the appraisal of credit requests and processing through to final decision of specialised types of credit, due to the peculiarity of such transactions in view of their size and complexity such as:

- Project finance
- Power
- Oil and gas (upstream and downstream)
- Utilities (water projects, etc.)
- Transportation (mass transit, aviation)
- Commercial real estate projects i.e., projects conceived for commercial gain
- Infrastructure, including public assets concessions (roads, airports, etc.)
- Agricultural credit product programmes
- Financial institutions credit requests
- Public sector

The credit processing units are structured to enhance efficiency, while being effective in risk identification and mitigation.

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 function is structured to manage risks peculiar to the Strategic Business Units (SBUs) and to provide independent support and guidance to the relationship teams in the management of facilities, by ensuring early warning signs of deterioration are promptly picked up and remedial action is set in motion. The credit control function is embedded in the broad CRM function and is responsible for ensuring adherence to control measures, confirming approval of credit, conveying approvals and ensuring conditions are satisfied. CRM has ownership of all rating systems/scorecards and recommends and monitors the credit risk appetite for the year and reports periodically to the Board and management. The department serves as the credit secretariat and manages the documentation and other credit process initiatives for the Group.

The Remedial Management function will operate to checkmate the level of loan default in a tough operating environment. Emphasis will continue to be placed on prompt identification of weak assets for active loan work-out. Effort will be geared to independently follow up on customers with delinquent assets before the level of delinquency becomes irreversible and thereby reduce the level of potential loss in the portfolio. Should remedial efforts fail within a reasonable period, a full recovery process will be initiated. The strategic resource unit in charge of recovery will continue to liaise with debt recovery agents, receivers/managers and solicitors to ensure effective recovery of bad loans.

Internal ratings scale

In measuring the credit risk of loans and advances to customers and to banks at a counterparty level, the banking group reflects the following components:

- the character and capacity of the client or counterparty to pay on its contractual obligations;
- current exposures to the counterparty and its likely future development; and
- credit history of the counterparty and likely recovery ratio in case of default obligations – value of collateral and other ways out.

The banking group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are reviewed and upgraded when necessary. The banking group regularly validates the performance of the rating and their predictive power with regard to default events.

Obligor risk rating (ORR) system

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

Description	Rating bucket			Range of scores	Probability of default	Grade
Extremely low risk	AAA	1	1.00 – 1.99	90–100%	1%	Investment
Very low risk	AA	2	2.00 – 2.99	80–89%	1%	
Low risk	A	3	3.00 – 3.99	70–79%	1.5%	
Low risk	BBB	4	4.00 – 4.99	60–69%	2%	
Acceptable – moderately high risk	BB	5	5.00 – 5.99	50–59%	4%	Non-investment
High risk	B	6	6.00 – 6.99	40–49%	6%	
Very high risk	CCC	7	7.00 – 7.99	30–39%	9%	
Extremely high risk	CC	8	8.00 – 8.99	10–29%	13%	
High likelihood of default	C	9	9.00 – 9.99	0–9%	15%	
Default risk	D	10				Default
Sub-standard	D				25%	
Doubtful	D				50%	
Lost	D				100%	

Collateral risk rating (CRR)/Facility risk rating (FRR)

- The banking group shall not lend to non-investment grade obligors without any form of collateral, except as specified under a product programme. Collaterals are rated from best to worst in order of liquidity, controllability and realisable value. The more liquid a collateral is, the lower the estimated portion of the exposure that may not be covered in the event of default. Therefore, for highly illiquid collaterals, a higher loss-given default is assumed.
- Under the internal rating systems, all facilities should have a facility risk rating (FRR), which is different from the obligor risk rating to the extent of the perceived value of the collateral provided.

Risk limit control and mitigation policies

The industry and portfolio limits are set by the Board of Directors on the recommendation of the Chief Risk Officer. Credit Risk Management monitors compliance with approved limits.

Portfolio limits

- The banking group engages in a detailed portfolio plan annually. In drawing up the plan, 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, Strategic Business Units and approved product programmes. Portfolio limits are set on:
  - aggregate large exposure limit as a percentage of shareholders' funds;
  - public sector exposure; and
  - industry/economic sectors based on risk rating and correlated industries.

Geographic limits

- The banking group takes a few exposures on counterparties domiciled outside its area of operation. Such exposures are mainly taken through the Bank in the United Kingdom, which operates within country limits defined by its Board of Directors. The banking group has a fully developed country risk rating system that is employed in defining limits for countries.

Single obligor limits

- Limits are imposed on loans to individual borrowers. The banking group as a matter of policy does not lend above the regulatory lending limit for the country of its operations. In addition, internal guidance limits lower than regulatory limits are set to create a prudent buffer.
- Product programmes contain guidelines on single obligor limits in order to promote diversification of the loan portfolio.

The Group also sets internal credit approval limits for various levels in the credit process. Approval limits are set by the Board of Directors and reviewed from time to time as market and risk conditions demand. Exposure to credit risk is also managed through regular analysis of borrowers and potential borrowers to meet interest and capital repayment obligations, and by changing these lending limits where appropriate.

Classification and provisioning policy

Classification and loan loss provisions are made in recognition of the requirements of IFRS (International Financial Reporting Standard) IAS 39, which estimates expected future losses based on an incurred loss model. Under this requirement, impairment provisions are made where the recoverable amount of a loan is less than the carrying amount.

Impairment is classified under three categories, namely:

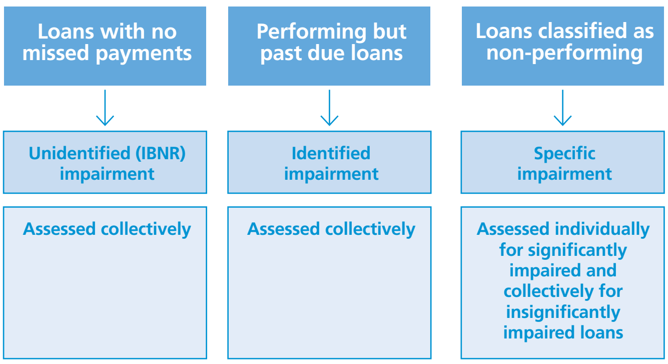
1. **Unidentified impairment:** Collective impairment on a portfolio of performing loans where individual accounts cannot be identified as having experienced a loss event.
2. **Identified impairment:** Collective impairment on a portfolio of performing accounts where individual accounts can be identified as having experienced a loss event, although default has not yet been established.
3. **Specific/Individual impairment:** Individual impairment on a portfolio of non-performing loans where default has already been established.

Under the collective impairment methodology for identified and unidentified impairment, provision is calculated using a set of risk inputs determined based on internal loan loss models. As a rule, a minimum of three years' data is used in model development for estimating the risk parameters, namely the probability of default (PD), the loss given default (LGD) and the incurred but not reported factor (IBNR).

Under specific impairment, provision is estimated in two fold:

i. provision is calculated using the expected cash flow method for significant non-performing loans; and

ii. provision is assessed collectively using a set of risk inputs based on internal loan loss models (PD, LGD) for insignificant non-performing loans.



Write-off and recoveries

After full evaluation of a non-performing exposure, in the event that either one or all of the following conditions apply, such exposure shall be recommended for write-off:

- continued contact with the customer is impossible;
- the recovery cost is expected to be higher than the outstanding debt;
- the amount obtained from realisation of credit collateral security leaves a balance of the debt; or
- it is reasonably determined that no further recovery on the facility is possible.

All credit facility write-offs shall require endorsement at the appropriate level as defined by the Bank. Credit write-off approval shall be documented in writing and properly initialled by the approving authority.

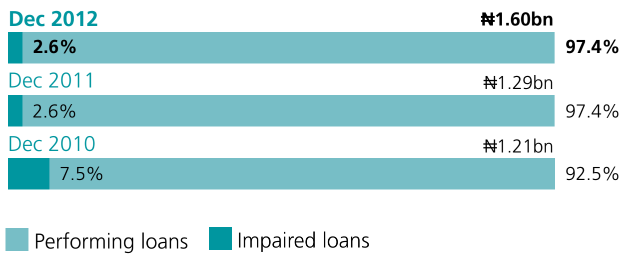
Whenever amounts are recovered on previously written-off credit exposures, such amount recovered is recognised as income on a cash basis only.

Portfolio ratios

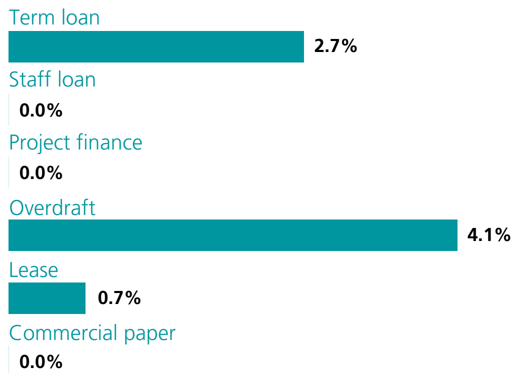
Asset quality ratios

Total non-performing loans as at 31 December 2012 stood at ₦41.4 billion with gross provisions of ₦39.3 billion resulting in loan loss coverage of 95%. Non-performing loans to gross loans ratio for the period was 2.6% (see chart below) and is attributable to the recognition and classification of weak and delinquent assets in the portfolio.

Asset quality ratio



Asset quality by facility type



Performing but past due loans

Performing but past due loans are performing loans and advances where individual accounts can be identified as having experienced a loss event, however default is as yet being ascertained. The gross amount of loans and advances by customer class that are past due but performing as at 31 December 2012 is as follows:

At 31 December 2012	Corporate (₦mn)	Financial institutions (₦mn)	Retail (₦mn)	SME (₦mn)	Total (₦mn)
Past due up to 30 days	58,631	124	37,919	217	96,891
Past due 30–60 days	2,758	8	10,162	0	12,928
Past due 60–90 days	60,870	0	3,464	5	64,677
	122,260	**132**	**51,871**	**222**	**174,497**

Group portfolio distribution by business lines (December 2012 in ₦bn)

Business lines	First Bank of Nigeria Ltd	FBN UK	BIC	Other	Commercial Banking business group
Corporate	724	132	4	-	860
Consumer	165	-	9	-	174
Wholesale	60	-	1	-	61
Retail	157	9	2	-	168
Financial institutions	7	-	-	-	7
Agriculture/misc.	27	26	-	-	54
Public sector	119	5	-	-	125
Trade/commerce	49	13	5	-	67
Financial market	11	-	-	-	11
Treasury/investment	-	-	-	-	-
Real estate	33	41	2	3	78
Total	**1,353**	**226**	**20**	**3**	**1,602**

The consumer and retail segments contributed 21% of loan portfolio as at December 2012.

Group portfolio distribution by risk rating (December 2012 in ₦bn)

Description	Rating bucket	First Bank of Nigeria Ltd	FBN UK	BIC	Other	Commercial Banking business group	% of portfolio
Extremely low risk	AAA	-	-	-	-	-	-
Very low risk	AA	47	-	-	-	47	3
Low risk	A	16	22	-	-	38	2
Low risk	BBB	167	18	-	3	187	12
Acceptable – moderately high risk	BB	515	0	-	-	515	32
High risk	B	559	184	20	-	764	48
Very high risk	CCC	12	-	-	-	12	1
Extremely high risk	CC	-	-	-	-	-	-
High likelihood of default	C	0	-	-	-	0	0
Default	D	37	-	-	-	39	2
Grand total		**1,353**	**226**	**20**	**3**	**1,602**	**100**

The Obligor Weighted Risk Rating banking group (Obligor WARR) calculates the aggregate risk rating of the Bank's credit portfolio weighted against probability of default. It provides a holistic view on the level of risk on the Bank's portfolio through credit ratings.

Obligor WARR for December 2012 stood at BB, which is the Board-approved target.

Investment Banking and Asset Management (IBAM) business group

The IBAM group maintains a very low credit risk profile and leverages on the Nigerian bank credit function in managing its credit-related risks.

The group maintains a commitment to developing business and support staff to raise risk awareness, particularly in the area of counterparty risk, and provides effective tools for controlling those risks. Additionally, the group ensures that risk management staff are suitably qualified and possess the required skills to help proactively manage these risks.

The IBAM group will focus on the development of procedures to ensure that it does not breach internal or any applicable regulatory limits, and also maintains credit risk within predefined tolerance levels.

Insurance business group

The Company's financial instruments do not represent a concentration of credit risk because the business deals with a variety of re-insurers, and its premiums receivable and loans are spread among a number of major industries, customers and geographic areas. Amounts receivable in terms of long-term insurance business are secured by the underlying value of the unpaid policy benefits in terms of the policy contract. Premiums outstanding for more than 180 days are 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.

Broker loans and advances are provided where the Company has adequate retention balance held for the broker, and an assessment of the broker's financial position is performed before granting the loan or advance. In addition to managing the credit risk, it should be noted that the Company's current exposure to broker debt is immaterial because precautionary provisions have been made against the bulk of the debt.

The Company reviews re-insurance companies that it conducts business with to ensure that the re-insurer is a company with high international or similar credit ratings.

Other Financial Services business group (FBN Microfinance Bank Limited)

The entity derives its credit risk management function from the banking group, which also provides oversight for their risk management function.

Credit monitoring in FBN Microfinance Bank Limited

The credit monitoring function is cascaded along the following detailed lines:

i. **Field Officer** – first-level monitoring covering all loans initiated by the officer;

ii. **Senior Field Officer** – second-level monitoring for loans initiated by his team;

iii. **Branch Manager** – third-level monitoring for loans initiated by the service outlet;

iv. **Credit Monitoring Officers** – fourth-level monitoring for all loans with past due obligations;

v. **Head, Credit Risk Management** – fifth-level monitoring for all loans with past due obligations including portfolio monitoring for service outlets; and

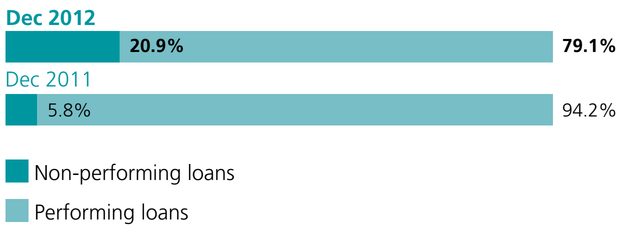
vi. **Head, Business Development** – sixth-level monitoring for all loans with past due obligations, including portfolio monitoring for all service outlets with non-performing loans.

Portfolio ratios

Asset quality

Total non-performing loans as at 31 December 2012 stood at ₦337 million with gross provisions of ₦116 million. Non-performing loans to gross loans ratio was 20.9% against 5.8% recorded in December 2011. Decline in asset quality was occasioned by various socio-economic issues including the tightening of the market environment, which led to the recognition and classification of weak and delinquent assets in the portfolio.

Asset quality ratio



Credit risk management outlook

The holding company will continue to promote sound risk and corporate governance practices and actively pursue loan growth in line with its overall strategic imperatives. It is expected that there will be greater demand for financing by the various operators in the power sector in view of the advanced stage of the reform agenda. Accordingly, the Group will consider such proposals against sound risk criteria while ensuring the risks are appropriately priced in line with approved policy. FBN Holdings Plc will, however, not compromise the drive for a well-diversified portfolio through effective management of concentration risks, and will also ensure that asset quality is maintained within acceptable thresholds through the execution of portfolio management and control mechanisms.

Inflationary pressure is expected to constitute one of the major issues dominating the economic landscape in 2013. The likely removal of the petroleum subsidy by the Federal Government, increase in electricity tariffs and the hike in import duties paid for some imported food items may have the attendant impact of weakening the disposable income of consumers and contracting the consumer market. However, growth is still envisaged in the consumer market, especially the ever-expanding middle income class, and the holding company will continue to tap into this market by creating appropriate credit products for this segment of the market. We will ensure that credit growth in the consumer segment is guided by sound risk processes and controls, and ensure that the risk acceptance and target market criterion is not compromised. Production volumes are also expected to grow in the manufacturing and agriculture sectors as a result of a likely increase in electricity generation, resulting in a larger year-on-year growth in the non-oil sector.

The holding company will subject its control mechanisms to revalidation and benchmarking to ensure fitness of purpose in the next financial year. Scenario stress tests will be championed and implemented across all risk areas, providing information to management on risk assets' sensitivity to extreme but plausible macroeconomic and environmental factors to curtail unexpected shocks. Greater focus will also be given to risk analytics and measurement approaches and will be supported by quantitative and statistical analysis using both internal and external data to enhance the risk mitigation, monitoring and pricing strategies.

Risk management disclosures

Market risk

Overview

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

Market risk arises from positions in currencies and securities held in our trading portfolio, arising from our assets management, insurance, commercial and investment banking business as well as from other non-trading activities.

The movement in market risk variables may have a negative impact on the Group's financial position or performance, mainly as a result of:

- interest rate movements due to fiscal 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 in the Group and across member entities is to manage exposures and optimise returns while maintaining a market profile consistent with our status in the various industries in which we operate.

Philosophy and risk approach

FBN Holdings Plc's market risk management philosophy is disciplined risk-taking within a framework of well-defined risk appetite that aims to deliver superior shareholder value through effective utilisation of risk capital.

FBN Holdings Plc's market risk management framework is evolving, and is deeply rooted in the following principles:

- well-defined market risk appetite in each entity;
- market risk exposure maintained at levels consistent with available capital; and
- stable, reliable and consistent methodology for identifying, measuring, controlling, monitoring and reporting market risk across the individual entities.

Governance

Oversight of the market risk management function in the Group is vested in the Board of Directors of member entities, operating through the Board Audit & Risk Assessment Committee (BARAC).

The BARAC is responsible for:

- approval of the market risk management framework, policies, strategies, guidelines and philosophy;
- provision of oversight for the implementation of market risk management policies; and
- approval of market risk-related limits for the commercial banking business.

Management oversight is provided by the Assets & Liabilities Management Committee (ALCO) in 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 market risk-related limits, i.e., position, concentration, currency, dealing gap, total portfolio and counterparty limits; and
- approving 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 (MRLP), Liquidity Risk Package (LRP), Management Action Triggers (MATs) and Triggers for Accrual Portfolios (TRAP) for all the Risk Taking Units (RTUs);
- ensuring the certification of financial models, the effectiveness of the market risk systems and other systems used to 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 test reports;
- recommending steps to protect the Bank's capital ratios from the effects of changes in market risk factors;
- reviewing the market risk strategy periodically; and
- endorsing the appointment of the Head of Market and Liquidity Risk department.

The day-to-day implementation of the market risk management policies, procedures and systems in the Commercial Banking business group is delegated to the Head of the Market and Liquidity Risk Management department who reports to the Executive Director (ED)/Chief Risk Officer.

The Market and Liquidity Risk department is responsible for:

- implementation of the framework and establishment of the market risk policy;
- defining identification standards and independent measurement, monitoring, controlling and reporting of market risk;
- definition, approval and monitoring of limits;
- performance of qualitative risk assessments; and
- performance of stress tests and scenario analyses.

Performance

Commercial Banking business group

The Commercial Banking business group 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.

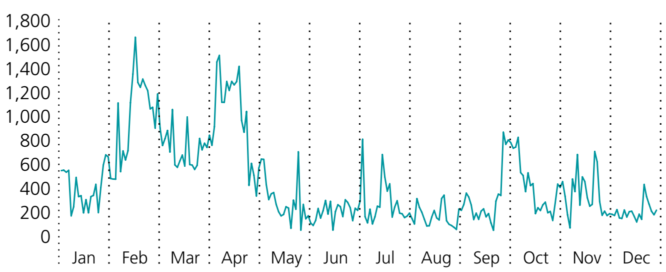
VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 99% and a 10-day holding period. The confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced three times in every 250 days.

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 show the trading VaR of the Commercial Banking business group. The major contributors to the trading VaR are foreign exchange and Treasury Bills due to high volatility in those instruments impacting positions held by the Commercial Banking business group during the period. The yield on various maturities for Treasury Bills dropped over 350 basis points from year to date; while the naira depreciated by about 2% in the interbank market.

Daily VaR (@ 99%,10-day) trading (₦mn)	Average	High	Low	Actual
Bonds	29.13	167.37	0.00	-
Treasury Bills	235.11	1,135.90	3.38	154.51
Foreign exchange	176.29	1,266.93	1.67	53.75

Daily trading VaR (₦mn)



Stress testing

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

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress-testing methodology is applied to trading and non-trading books. Stress scenarios are regularly updated to reflect changes in risk profile and economic events.

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

Non-trading portfolio

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

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

The Bank uses a variety of tools to measure non-tradable interest rate risk such as:

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

Hedged non-trading market risk exposures

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

Investment Banking and Asset Management business group

The group is exposed to equity and interest rate risk in its portfolio management, proprietary trading portfolio, money market activities and its investment activities in general.

In equities, market risk is the exposure to adverse changes in equity prices as a result of market forces. There have been no approved parameters for trading on the Company's shareholders' funds and as such no proprietary trading is currently being undertaken in equities. However, the Company retains some of its capital in quoted equity investments. These holdings form part of our investment book, with no active trading done on those positions in the course of the year.

Market making on the Nigerian Stock Exchange (NSE) officially commenced in September 2012. FBN Securities Limited is one of the 10 market makers appointed by the NSE.

As opposed to traditional investors in equity markets who seek to profit from directional moves in equity prices, market makers seek to profit by providing trading liquidity in the stocks for which they make markets. The presence of market makers enhances the ability of investors to execute a trade (either buy or sell) in a stock, whenever they decide to do so. As an approved market maker, FBN Capital adds liquidity in the trading of designated stocks by posting 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 multi-tiered approach to risk management is employed. We:

i. ensure risk diversification by making markets in a selection of stocks in different sectors and apply explicit limits to positions in each sector;
ii. define position limits for each stock in which we make markets based on market activity levels; and
iii. detail stop-loss limits that restrict loss of capital over a period of time in a given stock.

The group has no active trading position in any fixed-income securities that can give rise to traded market risk, however fixed income securities holding in the investment book expose the group to interest rate risk. We continue to manage these associated interest rate risks through a comprehensive balance sheet management process.

Insurance business group

Market risk in the Insurance business group arises from the uncertain movement in fair value or net asset value of the investments, which stems principally from potential changes in sentiment towards the investment, the variability of future earnings that is reflected in the current perceived value of the investment and the fluctuations in interest rates and foreign currency exchange rates. Policyholders' investments in equities are valued at fair value and are therefore susceptible to market fluctuations.

The acquisition of policyholders' assets is based on the design of the product and marketing descriptions. Within these parameters, investments are managed with the aim of maximising policyholders' returns while limiting risk to acceptable levels within the framework of statutory requirements. The focus of risk measurement and management is to ensure that the potential risks inherent in an investment are reasonable for the future potential reward, exposure to investment risk is limited to acceptable levels, premium rates are adequate to compensate for investment risk and an adequate reserving policy is applied for long-term policy liabilities.

The diverse product range requires a variety of approaches to the management of risk; these range from portfolio management practices and techniques such as optimisation of expected risks and rewards based on investment objectives, to asset–liability matching in support of statement of financial position obligations.

An investment management contract exists with FBN Capital Limited to ensure investment income stability, asset security and appropriately manage associated risks.

The majority of interest rate risk is borne by policyholders.

Risk management disclosures

Liquidity risk management

Overview

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

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

The objective of FBN Holdings Plc's liquidity risk management is to ensure that all anticipated funding commitments within the Group and member institutions can be met as and when due and that access to funding sources is coordinated and cost effective.

Risk approach

FBN Holdings Plc's liquidity risk management ensures the maintenance of an optimal level of liquidity through the active management of both assets and liabilities while complying with regulatory requirements and optimising returns.

Liquidity risk management is primarily undertaken in our various operating entities in compliance with policies and limits set by the entity's risk management oversight committee. These policies are usually adapted to the markets and industry sectors in which the entities operate. Our general policy is that each entity must manage its liquidity and on a standalone basis.

The following principles guide liquidity risk management across the Group:

- 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 the new product approval process;
- sound process for identifying, measuring, monitoring and controlling liquidity risk including a robust framework for projecting cash flows arising from assets, liabilities and off balance sheet items over an appropriate set of time horizons;
- a clear funding strategy that provides effective diversification in the sources and tenor of funding;
- ranking and prioritisation of funding sources by stability;
- early warning indicators of liquidity risk to aid the prompt identification of liquidity risk such as concentrations either in assets or liabilities, deterioration in quality of credit portfolio, a large size of off balance sheet exposure; and
- a comprehensive contingency funding plan (CFP) that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations.

Governance

FBN Holdings Plc's risk governance structure is evolving; the overall philosophy is to institutionalise sound world-class risk management practices across the member companies.

Executive management oversight for all risk types will be delegated by the Group Executive Committee to a Group Risk Oversight Committee that 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.

It shall be the responsibility of executive management in each business unit to ensure the implementation of Group risk governance standards.

Governance structures are currently maintained at individual business group levels, in order to aid coordination across analogous business lines and regulatory environments.

Commercial Banking business group

The Assets & Liabilities Management Committee provides oversight for the Commercial Banking business group's liquidity risk management function.

The Assets & Liabilities Management Committee, made up of Executive Directors and other relevant divisional heads, is responsible for the following:

- review of policies relating to liquidity risk management;
- recommendation of liquidity risk policies to the Board;
- review of liquidity risk strategy and recommendation of the same for Board approval;
- provision of management oversight on the implementation of policies relating to liquidity risk;
- monitoring of liquidity risk inherent in the maturities mismatch of assets and liabilities;
- development of policies, procedures, tools and systems for identifying, measuring, controlling and reporting liquidity risks;
- ensuring compliance with statutory and regulatory requirements relating to liquidity risks;
- review of and recommendations on liquidity risk-related limits for approvals; and
- approving stress scenarios and contingency funding plan assumption.

Implementation of market and liquidity risk management policies, procedures and systems is delegated to the Head of the Market and Liquidity Risk Management department who reports to the Executive Director (ED)/Chief Risk Officer.

Investment Banking and Asset Management business group

The Management Committee (MANCO) provides oversight for the liquidity risk management function in the Investment Banking and Asset Management business group.

The Management Committee is made up of senior management and heads of the Company's various divisions, and has the following responsibility:

- managing the implementation of the Company's strategic policies as approved by the Board;
- making proposals to the Board committees on the Company's policies, including liquidity risk management;
- review of policies relating to liquidity risk management;
- recommendation of liquidity risk policies to the Board; and
- provision of management oversight for the implementation of liquidity risk management policies.

Insurance business group

The Investment Committee is responsible for providing oversight to the liquidity management function. They are responsible for:

- ensuring that insurance and investment contract liabilities are matched with appropriate supporting assets based on the type of benefits payable to the contract holders;
- ensuring that the long-term investment return on assets supporting policy liabilities is 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 trading positions are effectively managed within the pre-determined risk parameters.

Other Financial Services business group

Top management provides oversight for the liquidity risk management function in the group in line with the Central Bank's Microfinance Policy guidelines.

Performance

Commercial Banking business group

The Commercial Banking business group operates within the regulatory liquidity risk management framework of the Central Bank of Nigeria and other regulatory bodies in the host countries. The regulatory guidelines stipulate:

- the eligible liquid assets or instruments;
- minimum liquidity ratios and limits;
- illiquidity determination and intervention; and
- maintenance of liquidity reserves, etc.

The principal mechanism for implementing the liquidity policies within the Commercial Banking business group is the maintenance of liquid assets to deposit ratio over and above the defined regulatory minimum.

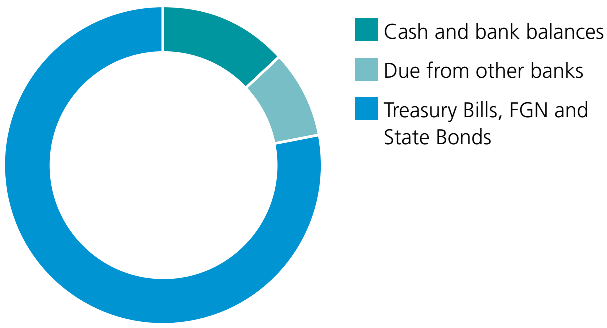
The liquidity ratio is interpreted in conjunction with cash flow projection and liability concentration ratios to measure exposure to liquidity risk. The cash flow technique used is the maturity ladder, which assesses all cash inflows against its outflows to identify the potential for net shortfalls or net funding requirements.

The liquidity and funding management process also includes the preparation of multi-currency balance sheets, assessing cash flows by major currencies and projecting cash flows under stress scenarios.

The use of concentration ratios prevents the banking group from relying on a limited number of depositors or funding sources.

Liquid assets portfolio composition

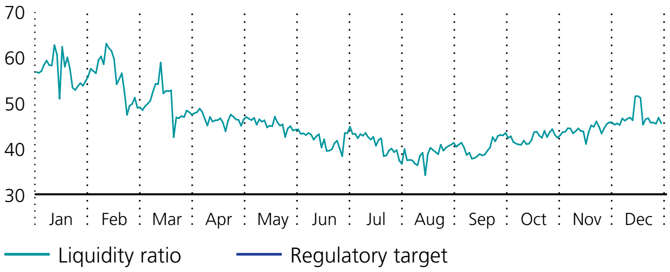
Commercial Banking business group	₦'bn
Cash and bank balances	106.62
Due from other banks	69.72
Treasury Bills, FGN and State Bonds	624.62
Total qualifying liquid assets	**800.86**



Liquidity sources, diversification, trend

The Commercial Banking business group is funded primarily by a well-diversified mix of retail and corporate deposits; a funding base that ensures stability and low funding cost with minimal reliance on higher cost time deposits and interbank takings as significant sources of funding. The Group places considerable importance on demand and savings deposits which provide over 85% of its funding base. Although these accounts are contractually repayable on demand, in reality they are stable and have formed a core component of the Group's liabilities.

Liquidity ratio trend



FBN UK is regulated in the United Kingdom by the Financial Services Authority (FSA) who sets 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 set by the FSA are not breached. The policy of the Group is to match the maturities and currencies as far as practicable for all (and particularly large) exposures or placements.

Maturity analysis of liabilities is based on the contractual cash flow and on the earlier of the periods to the next interest rate pricing date or the maturity dates.

Investment Banking and Asset Management business group

The group ensures the maintenance of ample liquidity to meet the various financial obligations as and when due by actively managing its funding and cash flows within approved limits, in order to maintain an optimal funding profile and manage liquidity costs.

Insurance business group

Liquidity risk is the risk that the business will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk arises when there is a mismatch between the maturities of liabilities and assets.

Liquidity mismatches are managed by ensuring that all policyholders' funds are invested in appropriate assets to meet the reasonable benefit expectations of policyholders, which include the expectation that funds will be available to pay out benefits as required by the policy contract.

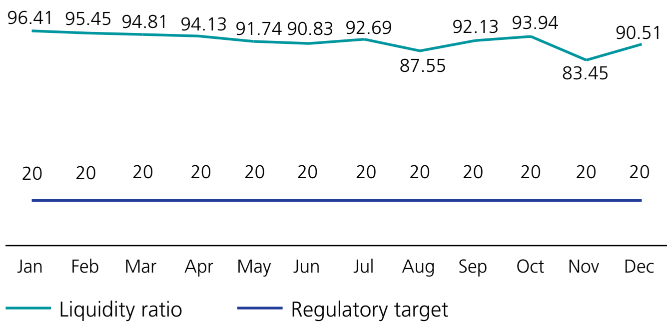
The Insurance business group was able to pay all benefits as and when due during the year.

Other Financial Services business group

FBN Microfinance Bank Limited is primarily funded by micro savings and corporate deposits. The micro savings are short term, but the Bank's concerted efforts at maintaining good liquidity and aggressive drive for savings through the introduction of schemes like the 'Daily savings' promo and mandatory deposits on loans have helped in maintaining stability of liquidity. These deposits come at a very minimal cost.

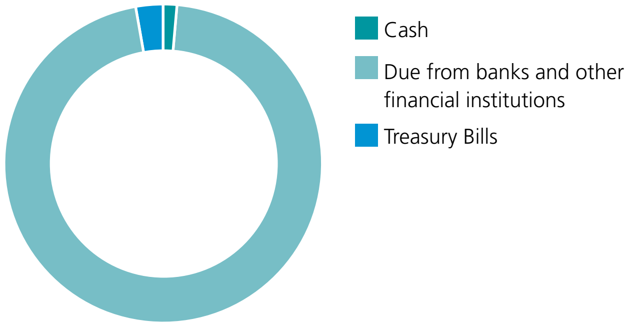
The group maintained a stable liquidity position during the year, with an average liquidity ratio of 91.97%.

Liquidity ratio trend



Liquid assets composition

FBN Microfinance Bank Limited	₦'bn
Cash	0.06
Due from banks and other financial institutions	3.58
Treasury Bills	0.10
Total qualifying liquid assets	**3.74**



The Bank ensures there is no mismatch of funds; fixed deposits are strictly invested in the interbank money market while risk assets are funded from the pool of stable savings deposits and part of unutilised paid-up capital.

Capital management

Overview

FBN Holdings Plc's capital management framework is aimed at ensuring that the Group and its members are capitalised in line with the risk profile, economic capital standards and regulatory requirements.

Risk approach

The Group's capital management approach will aim to achieve a functional balance between capital levels that support business growth while maintaining depositor confidence, and providing sustainable returns to shareholders.

FBN Holdings Plc's capital management strategy will aim to allocate capital to businesses based on their economic profit targets, with due consideration of cost of capital, and within regulatory and economic capital requirements.

Governance

FBN Holdings Plc 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 group operates within the regulatory capital management framework of the Basel Committee on Banking Supervision, the Central Bank of Nigeria and other regulatory bodies in the host countries. The regulatory guidelines stipulate minimum capital requirements and capital measurement.

The Commercial Banking business group's capital management policies are in tandem with the relevant regulatory framework, ensuring the maintenance of capital over and above the regulatory minimum and maintenance of economic capital that is sufficient for the members' risk profiles.

Capital composition and adequacy

	December 2012	December 2011
Capital adequacy ratio	21.80%	22.16%
	₦ million	**₦ million**
Capital composition:		
Tier 1		
Paid-up capital	16,316	16,316
Reserves	373,792	333,323
Tier 2		
Long-term debt stock	2,560	4,677
Reserves	45,216	17,933
Total qualifying capital	**437,884**	**372,249**
Qualifying risk-weighted assets	**2,008,823**	**1,679,482**

The capital management framework for the non-banking entities within FBN Holdings Plc ensures discipline over investment, and capital allocation decision in a way that protects shareholders' investments as well as clients'/customers' funds, and guarantees continuous profitable operations within a stipulated regulatory environment.

Risk management disclosures

Operational risk

Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. This definition includes legal risk but excludes reputational risk. Therefore, in line with the Basel II risk management framework and best practices, operational risk in the holding company is composed of the following risk types: operations risk, legal risk, regulatory compliance risk, financial crime risk, people risk, property, technology, vendor, financial, and environmental risk.

The Group recognises the significance of operational risk, which is inherent in all areas of our business. Operational risk is managed within acceptable levels through an appropriate level of management focus and resources.

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 empower process owners to be risk aware to reduce losses from operational failure and in particular avoid potentially large or catastrophic risk losses;
- improve performance measurement – the Group's improved understanding of its operational risk profile 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 banking group's internal control system; and
- raise awareness of operational risk in the Group from top to bottom through the implementation of an enterprise-wide operational risk approach.

Philosophy and principles

The following philosophy and principles govern the management of operational risk in the Group:

- The Board of Directors is responsible for setting the operational risk strategy of the Group and its implementation.
- The Board approves and periodically reviews the operational risk management framework.
- Ownership, management and accountability for operational risk are decentralised with business and functional units.
- Operational risk management activities in the banking group are coordinated through a centralised and independent operational risk management function.
- There are consistent standards for defining, evaluating, measuring, monitoring and reporting operational risk.
- The Group's operational risk management practices are in line with Basel II.
- The Group's operational risk management practices are subject to regular independent review by internal and external auditors.
- Operational risk management is governed by well-defined policies and procedures 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 to be reported openly and fully to the appropriate levels once they are identified.
- Adequate processes and systems for identifying, measuring, monitoring, reporting and controlling operational risks are being implemented by the Group.

Methodologies

In order to meet its operational risk management objectives, each business function within the Group is required to identify, assess, measure and control its operational risk in line with the policy set by the Board.

The following are some of the key tools and techniques used by each business unit, in line with the nature and scale of the business risks.

Issue and action page of the SAS® OpRisk Monitor (for risks and issues reporting)

This tool is used for operational risk reporting on a real-time basis. Issues to be reported using this template take the form of significant operational risk exposures, exceptions from key risk indicators (KRI) analysis and trending, exceptions from risk and control self-assessment (RCSA), operational and fraudulent losses incidences, significant control breakdowns rectified during the month, all exceptions to corporate governance standards and outstanding audit issues, and any other issues with operational risk implications.

Real-time incidence reporting

This is for reporting urgent and significant operational risk issues/events that have to be escalated to relevant senior management stakeholders within 48 hours of the incidence, without having to wait for the monthly risk reporting cycle. Examples of significant operational risk issues are armed robbery attack, fraud and losses.

Risk and control self-assessment (RCSA)

RCSA is a key component of FirstBank's operational risk framework and involves, on a quarterly basis, each business unit within FirstBank proactively identifying and assessing its significant operational risks and the controls in place to manage those risks.

Internal loss data

The tracking of internal loss event data is a key component of FirstBank's operational risk framework. Internal loss events and data are analysed with a view to focus attention on where they are needed and to forestall re-occurrence through sharing lessons learnt.

Key risk indicators (KRIs)

KRIs are measures that track the risk profile of FirstBank. Each entity within the Group develops and monitors key risk indicators for its significant risks, which:

- target key operational risk exposures for the business unit;
- enable management of the underlying causes of risk exposures;
- use thresholds aligned to the banking group's risk appetite and enable risk-based decision-making;
- are monitored with a frequency that matches the nature of the risks;
- complement the self-assessment and loss-event collection processes; and
- are reported as part of monthly management reporting.

Key operational risks

Major operational risks faced by the Group are financial crimes (internal fraud, external fraud and money laundering). Each incident is analysed, control failures are identified and new controls designed. Analysis also revealed that the quality of people and their integrity is a critical panacea to mitigating these key operational risks. As a result, the Group has adopted and developed a competency-based recruitment framework in which attitude, skills and knowledge are tested through background checks, a 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 the Group's assets. Other key counter-measures put in place include:

- enhanced staff training;
- enhanced Know Your Customer (KYC) drive and background checks on employees;
- issuance of appropriate and deterrent circulars;
- job rotation and segregation;
- dissemination of email and SMS alerts to the Bank's customers for each debit on their 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 Group's operational risk strategy aims to minimise the impact of operational risk on its shareholders' value. In more specific terms, the Group's strategy is to:

a. reduce the likelihood of occurrence of unexpected events and related costs by managing the risk factors and implementing loss prevention or reduction techniques to reduce variation in earnings;
b. 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
c. 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 normal business cost; but will ensure these costs are kept within acceptable levels and potential losses are minimised.

In implementing this strategy, the Group:

- has put in place best-practice operational risk management policies and procedures. These include tool kits to help identify, assess, control, manage and report on operational risk within the Group;
- ensures that roles and responsibilities are agreed and clearly understood by employees at all levels;
- ensures that all staff in business and support functions are aware of their responsibilities for operational risk management;
- considers the potential operational risk impact of its activities and products at the outset with a view to minimising this as far as possible;
- has put in place structures and processes for reporting control failures to designated individuals and escalating material issues to BRCC, MANCO and the Board Audit & Risk Assessment Committee;
- ensures that staff are provided with appropriate operational risk management training that is commensurate with their roles;
- establishes a workable business continuity plan (including disaster recovery and crisis management procedures) that minimises the impact of unexpected and catastrophic events on business operations and customer service;
- minimises the financial impact of operational losses, through management of risk factors and utilisation of insurance or other risk transfer strategies; and
- ensures that staff responsibility with respect to operational risk management is communicated through ongoing risk awareness workshops and management action.

Governance

The overall responsibility for operational risk management in the Group resides with the Board. The responsibility of the day-to-day management has been delegated as described in this section. On a regular basis, the Board receives reports on the Group's operational risk profile.

To ensure consistency and prudent management of operational risks, the responsibility for managing operational risk has been split as follows:

- the overall governance owned by the Board and Board Committees (Board Audit & Risk Assessment Committee (BARAC) and Management Committee (MANCO));
- the approval of operational risk policies and standards for risk identification, measurement, assessment, monitoring and reporting is the responsibility of the Board and Board Committees (BRCC, MANCO and BARAC);
- the operational risk management framework owned by Group Operational Risk Management; and
- the implementation of the operational risk framework within the Strategic Business Units (SBUs), Strategic Resource Functions (SRFs), Business Development Offices, (BDOs), branches, departments/business units and control and support units, and the day-to-day management of operational risks is owned by their respective management and executed through their management structure, supported by the operational risk relationship managers and nominated coordinators reporting into the respective senior management officials or their designates.

The Board and Board committees

The Board of Directors, Board Audit & Risk Assessment Committee and the Management Committee shall have overall oversight function for operational risk management. It shall be their responsibility to ensure effective management of operational risk and adherence to the approved operational risk policies.

Board of Directors

The Board of Directors:

- sets the Group's operational risk strategy and direction in line with the Bank's corporate strategy;
- gives final approval for the Bank's operational risk management framework, policies and procedures; and
- periodically reviews the framework to ensure its relevance and effectiveness; and ensures that senior management is performing its risk management responsibilities.

Board Audit & Risk Assessment Committee (BARAC)

The Committee:

- ensures that the operational risk management framework is comprehensive and in line with the Group's strategy;
- approves the operational risk management framework and oversees its implementation; and
- establishes a management structure capable of implementing the framework with clear lines of responsibility, accountability and reporting; and
- reports significant operational risk issues to the Board of Directors.

Management Committee (MANCO)

The Group's MANCO:

- ensures that the framework is implemented consistently across the entities;
- ensures policies and procedures are developed for managing operational risk in the Group's products, activities, systems and processes;
- ensures that all levels of staff understand their responsibilities with respect to operational risk management;
- reviews the Group's risk profile and assesses potential impact on the activities of the Bank or business unit;
- ensures the Group's risk profile is within established risk parameters;
- ensures that staff are adequately trained and have access to the necessary resources;
- obtains and reviews periodic reports on operational loss events, risk profiling and control failures Bank wide and monitors corrective measures being implemented;
- ensures that the outputs from the operational risk management process are factored into the day-to-day management decisions of the Group; and
- ensures that the Group's operational policies and procedures promote the desired risk culture.

Business Risk and Compliance Committee (BRCC)

The BRCC shall ensure the effective and efficient management of the operational and business risks within the Group and shall report to the Board Audit & Risk Assessment Committee (BARAC), which serves as a link between the Board of Directors and senior management with respect to the business risk management and Audit function.

The Group's BRCC:

- carries out the first-level review and challenging of developed operational risk and business risk frameworks, policies, procedures, processes and toolkits;
- ensures senior management become aware of and more directly accountable for, risks in their jurisdiction;
- manages significant operational risks where they originate within the business function;
- ensures compliance with Group business/function operational and business risk policies and procedures;
- ensures that operational risks identified within the business are assessed in terms of implications for wider business risk and to ensure that the identified business risks are reviewed and reported accordingly through the operational risk reporting process;
- ensures implementation of the approved operational risk framework, policies procedures, processes and tool-sets;
- continually promotes risk awareness throughout the Bank so that complacency does not set in;
- identifies, reports and manages the current top 20 operational risks and those in a six-month time frame;
- assists the Management Committee in managing on-going corporate governance issues;
- reports through MANCO to the Board Audit & Risk Assessment Committee (BARAC) on key business risk and compliance issues and decisions taken by the Committee;
- reviews the reports from Heads of all risk areas (operational, market and credit), management, business lines and their respective risk profiles, and concurs on areas of highest priority, putting in place the related mitigation strategies;
- reviews the internal audit reports relating to operational risk and the appropriateness of management's response thereto, and reports as necessary to the BARAC and/or Board of Directors (BOD);
- ensures that adequate resources are allocated at various levels to manage business risk across the Bank;
- receives copies of regulatory examination reports pertaining to matters that are within the purview of the Committee and management's responses thereto; and
- performs other activities related to this charter as requested by MANCO and the Board.

Chief Risk Officer

- Leads the development and implementation of operational risk management across the Group.
- Develops operational risk management strategy, principles, framework and policy.
- Implements appropriate operational risk management processes and methodologies.
- Advises and coaches management and business units on risk management.
- Coordinates the appropriate and timely delivery of risk management information.
- Exercises supervisory responsibilities over operational risk management in addition to responsibility over market risk, credit risk and other key risk types.
- Approves all reports, operational risk policy proposals, recommendations and other documents prepared by the Operational Risk Management group before submission to the Management Committee, Operational Risk Committees and Board Audit & Risk Assessment Committees.

Operational risk management function

The banking group operational risk management function is independent of the BDOs, branches, departments/business units and control and support units, and reports to the Chief Risk Officer, a member of the Board.

The core responsibility of the Group operational risk management function is the development and implementation of operational risk management across the Group.

This entails:

- drafting operational risk management policies, standards, processes and procedures;
- developing and driving implementation and maintenance of the operational risk management framework;
- developing and distributing tools, techniques, methodologies, common risk language, risk frameworks, analysis, reports, communication and training;
- coordinating, aggregating and facilitating operational risk management activities across the Bank;
- monitoring the operational risk profile, including accumulations of risk, trends and risks from internal and external market changes;
- escalating high-priority issues to senior management and the Board;
- collating, challenging and reporting on aggregate risk profile, control effectiveness and actions to risk committees and the Board;
- analysing BDOs, branches, departments/business units and control and support units' operational risk to derive emerging themes for the Bank;
- defining the yearly operational risk limit and appetite for the Bank, business and support units respectively; and
- liaising with external parties, e.g., regulators, analysts, external auditors, etc. on the Bank's operational risk management practices.

The Strategic Business Units and support functions

The Strategic Business Units and support functions are the first line of defence in our operational risk management process. They own, manage and are accountable for the operational risks and controls in their respective areas. They have the following responsibilities:

- Implement and comply with Group operational risk-related policies, procedures, processes and tools in their areas.
- Assess risks and the effectiveness of controls in line with documented risk policies and toolsets.
- Design, operate and monitor a suitable system of control.
- Manage and review risk as part of day-to-day business activity.
- Develop a divisional/control and support unit operational risk management plan that is consistent with the operational risk appetite and strategy of the Bank.
- Keep the Group's Operational Risk Management (ORM) fully informed of operational risk developments via timely ad hoc or regular reports and meetings.
- Identify, review and assess the inherent operational risks in the context of the existing control environment and document decisions with regard to the required mitigating action or acceptance of the risk.
- Update and maintain the operational risk framework for the division/control and support unit, ensuring that the data and analyses are timely, relevant and complete for reporting and, as required, validate and certify their quality.
- Ensure potential operational risks in new businesses, products and services, and processes within their business units are identified and mitigated.
- Prepare quarterly risk profiles for review by divisional/control and support senior management and the Bank's ORM function.
- The divisional/control and support unit senior management or their designate appoints the Operational Risk Coordinator with the responsibility of executing the divisional/control and support unit ORM strategy, effective day-to-day managing of operational risk and maintaining the required data within the division/control and support unit in line with this policy.

Operational Risk Coordinators

The role is a part-time role being performed by an individual in addition to his/her business-as-usual role. Below are the key responsibilities of the role:

- Helps line management in coordinating and driving operational risk management at branch and departmental levels.
- Addresses and escalates significant operational risk issues/trends to branch/departmental management and to Operational Risk Management (ORM) department through the real-time incidence reporting mechanism and the issue and action plan page of the OpRisk monitor.
- Creates awareness of operational risk.

- Oversees all operational risk management activities at his/her location, among which are:
  a. capturing of all operational losses, events and exposures on the operational risk system;
  b. proper monitoring and rendering of key risk indicators;
  c. prompt response to OpRisk control risk self-assessment (CRSA) administered on branch/department; and
  d. reporting of cases of default/breaches.
- Serves as Department Business Continuity Coordinator.

Milestones

- The prestigious BS 25999 certification received last year by the Bank from the British Standards Institution (BSI) on its business continuity management system (BCMS) is a call for an unending continuous improvement journey. This is predicated on the fact that continuous retention of the certification is a function of passing the annual surveillance audit of BCMS-certified scope. We are pleased to report that the maiden surveillance audit of the BCMS was carried in the last quarter of this year with a verdict that the Bank still earns the retention of the certification. The Bank still remains the first and only organisation in Nigeria to have earned this certification. The implementation of business continuity management in the Bank is in line with global best practice, which ensures safety and protection of the Bank's assets, staff and customers' investments in the event of any business disruption.
- In the same vein, the second-level implementation of the OpRisk monitor was completed during the year with roll-out and hands-on training for users in strategic resource functions. The Operational Risk Management module has two basic components, namely 'OpRisk Monitor and OpVaR'. The SAS® OpRisk Monitor is a browser-based application that collects, manages, tracks and reports on issues and action plans, risk and control assessment data, key risk indicators (KRIs) and operational loss data. The SAS® OpRisk Monitor will be used at every operational risk point (branches, departments and subsidiaries), while OpVaR is specifically designed for operational risk capital calculation, allocation and risk modelling using data mainly from the OpRisk Monitor.

Investment Banking and Asset Management business group

The Investment Banking group is actively embedding a risk management process to enhance the current control environment. Additionally, the Company is raising the levels of risk awareness throughout the organisation to complement the risk management process and contribute to a reduction in number and value of operational loss incidents. Finally, the Company is reviewing its business continuity and disaster recovery plans and processes to ensure that the capability to operate off-site in the event of an emergency is available with little or no downtime recorded.

Insurance business 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 back-up 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 business group (FBN Microfinance Bank Limited)

The Bank has continued to ensure that its operational policies are complied with, and that infractions are identified and addressed to prevent future occurrences.

Outlook

The Group is on a journey to embed robust operational risk management practices, culture and environment beyond complying with regulatory requirements, but as a value driver that enhances and contributes to stakeholders' value, 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:

- deepen the use and adoption of the SAS® OpRisk by users across all the operational risk points of the Group;
- deepen the adoption of the culture of self-assessment and KRI programmes in all activities and across all levels in the Group;
- extend and embed a business continuity management culture in the banking group's branches and subsidiaries;
- continue the review, refresh and update of existing operational risk management toolsets and processes and introduction of new ones;
- a capacity-building/aggressive Group-wide operational risk awareness campaign to increase employees' risk-awareness level and competence in managing risks;
- aggressive engagement of the Strategic Business Units and Strategic Resource Function (SRF) heads to provide dedicated resources to drive the implementation of operational risk management frameworks and to facilitate monitoring and discussion of operational risk issues coming out of the businesses; and
- support functions to increase the efficiency and effectiveness of the BRCC.

Risk management disclosures

Information security risk

Overview

The FirstBank Group in furtherance of its laudable achievement in the protection of its customers and staff data, has gone through its third British Standards Institution (BSI) surveillance audit since it set a record of being the first organisation in Nigeria to be awarded the prestigious ISO 27001 certification by the BSI in 2010. The Group also expanded its scope of ISO 27001 certification to include its network of branches and other key infrastructures.

The Group is presently engaged in extensive work in the implementation of the Payment Card Industry Data Security Standard (PCI DSS) as part of its effort to continuously implement far-reaching global standards and best practices that would in turn ensure strong risk governance.

Cyberspace brings enormous benefits, improved innovation, collaboration, productivity, competitiveness and customer engagement. The benefits continually drive organisations and their people to adopt new ways to interact and do business in cyberspace. They must be able to do so quickly and securely, while managing the risk versus the reward.

To take advantage of technology and cyberspace, organisations must manage new risks beyond those traditionally covered by the implementation of firewalls. Information security management within FirstBank is structured to forestall attacks on the Bank's reputation and all manner of technology attacks. Information security has been extended to create risk resilience and consciousness about incidents, which is built on a foundation of preparedness.

While individual threats pose risk, there is more danger when combined with organised crime and adopted techniques developed by online activists or use of cyber weapons. As the future is uncertain, organisations must prepare for the unpredictable, and be resilient to withstand unforeseen, high-impact incidents. A forward-looking stance increases organisational agility and resilience.

FirstBank has adopted international best practices and standards, which include its business continuity programme as well as being a member organisation of the international Information Security Forum (ISF) an organisation founded in 1989. The ISF has steadily expanded its mission and membership. It now includes hundreds of members, including a large number of Fortune 500 companies, with groups of members organised into regional chapters.

The Group has benefited from its membership of the ISF by harnessing and sharing in-depth knowledge and practical experience drawn from Fortune 500 companies and developed through an extensive research programme by the ISF.

Philosophy

Security is a business problem and the Group's management takes ownership and directs requirements for information security management as captured in the Information Security Management System (ISMS) organisational structure.

The Board

The Board and management have the overall responsibility to ensure that all information assets within 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 Bank to ensure all customer information receives adequate protection. In addition, it ensures that the Bank complies with all legal, regulatory, contractual and commercial requirements of information security.

Information security requirements will continue to be aligned with organisational goals and the ISMS is intended to be an enabling mechanism for information sharing, electronic operations, e-commerce and reduction of information-related risks to acceptable levels.

- The Board and management of FirstBank are committed to information security management, as they have demonstrated through resource and financial commitment to information security implementation.
- The Group has adopted the ISO 27001 standard, which is the de facto standard for information security management.
- FirstBank Group has also adopted the Payment Card Industry Data Security Standard (PCI DSS) to ensure the protection of its card data.
- The Group, through the establishment of its information security management office and adoption of the ISO 27001 standard, is poised to comply with not only local but international information security regulatory and legislative requirements.
- The Group is committed to ensuring that information is protected against unauthorised access or disclosure.
- The Group has put in place processes that will ensure that confidentiality of information will be maintained across its operations and processes.
- The Group is committed to preserving the integrity of information through protection from unauthorised modification, disclosure and theft.
- The Group is committed to the investigation and escalation of all suspected information security breaches.

Culture

FirstBank Group is committed to ensuring the confidentiality, integrity and availability of its customers' information through:

- maintenance of a comprehensive list of FirstBank information assets detailing ownership;
- identification of the value of information assets through appropriate risk assessments;
- understanding vulnerabilities and threats that the information assets may be exposed to; and
- appropriate management of information security risks for compliance with contractual and legal requirements as well as procedures and practices of ISO 27001 and other internal standards and best practices.

Appetite

The Group's information security risk appetite is set by the Board of Directors as identified in the risk assessment methodology; this is set at a level that minimises risk to the integrity, confidentiality and availability of information assets.

Oversight

The Board Audit & Risk Assessment Committee performs an oversight function. It ensures that detailed policies, procedures and standards are created, updated regularly and effectively communicated to stakeholders.

Relationships with other units

The information security office maintains key relationships with other units in the Group through key activities such as:

- getting involved in strategic projects within the Bank to ensure that information security and information security policy requirements are built into applications and processes at the conceptual stage and not bolted on at disparate junctions after full implementation;
- an information security awareness programme for the Bank; this includes awareness concepts computer-based training and facilitator-led training for all staff;
- organisation-wide asset identification, valuation and risk assessment based on the requirement of ISO 27001;
- liaising with Information Security Champions, information asset owners and subsidiary coordinators;
- incident documentation and learning points dissemination; and
- monitoring information security incidents enterprise-wide.

Governance

Function	Role
Board of Directors	Final authority and responsibility for safeguarding FirstBank's information assets rests with the Board of Directors.
Board Audit & Risk Assessment Committee	The Board Audit & Risk Assessment Committee (BARAC) reviews and approves information security policies and budgets to ensure they are in line with the Bank's strategic vision before passing on to the Board for final approval.
Management Committee	The Management Committee (MANCO) recommends for approval information security policies, strategies and budget. MANCO is responsible for reviewing and approving the information security monitoring programmes and the key results of monitoring activity, identifying key risks and the actions needed to keep them at an acceptable level.
Executive Director Risk Management (Chief Risk Officer)	The executive sponsor has the ultimate responsibility to provide an accurate view of the information security condition of the Bank and encourage information owners and users to keep risks at an acceptable level.
Information Security Forum	The Information Security Forum (ISF) consists of a number of FirstBank departmental heads and Business Development Managers (BDMs). It is a forum where security issues affecting the Bank are discussed, monitored and controlled.
Internal Audit	To support the monitoring process without losing independence, the Internal Audit function and information security office.
Compliance	The Compliance function is to protect business growth and sustainability by ensuring compliance with 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 security-related transaction investigation and reviews.
Information Security Champion	As part of its implementation of the Information Security Management practice, FirstBank has designated staff within Business Units and departments as Information Security Champions.
Information asset owners	Information asset owners are specific individuals (typically management personnel) who have been formally appointed by the Bank as being accountable for the secure storage and use of major information assets.
All FirstBank workers	All FirstBank workers (i.e., employees on the payroll and others acting in a similar capacity, such as contractors, consultants, student placements, etc.) are responsible for complying with the principles and policies in the information security policy manual where relevant to their jobs.

Strategy and policy

Information Security Risk Management Framework

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 shared by both management and employees of the Group, irrespective of designation or function. Information security management in the FirstBank Group is a continuous process. As part of its responsibility, the ISMD monitors risk indicators such as information security-related incidents, supplemented by trend analysis that highlights high-risk or emerging issues so that prompt action can be taken.

Certification drives

FirstBank, in line with its plans in 2011, commenced the implementation of the Payment Card Industry Data Security Standard (PCI DSS) and has reached extensive stages in the PCI DSS requirement for card-processing organisations.

The implementation will cut across all infrastructure that processes, stores, transmits or manages card data and card information. This is to ensure that all card information, inclusive of customer card information, is adequately protected across the Bank.

Outlook

Predicting the future is an inexact science. However, achieving a degree of insight into the future world would help an organisation to take informed, cost-effective and proactive actions to mitigate risk. The Group has taken a proactive stance when it comes to accessing future risk and vulnerabilities. Recent global threats have set a stance for the Group to compare itself in assessing the impact of likely future threats that it may face. These emerging threat factors are deeply associated with macro-economic factors, which include:

- **Infrastructural weaknesses** – Linked to an overall under-investment in both national critical and organisational infrastructure, the underlying technical computing platform is no longer robust and is poorly placed to support new and evolving technical business solutions, including e-commerce, cloud computing and mobile technologies.
- **Changing cultures** – Cultural behaviours have changed and, coupled with high levels of technology adoption driven by the domestic (rather than business) market, have resulted in irreversible changes in the attitude to protecting information and the establishment of a generation that has grown up with, and on, the internet.
- **Increasing globalisation** – Organisations that operate across the globe and are often subject to global threats, reflecting the attractiveness of the organisation as a criminal attack target (espionage); the desire to be seen as a globally responsible organisation; the multiple legal jurisdictions in which they operate (regulatory obligations related to integrity and privacy); and the sheer complexity of the organisation itself (converged threats).

While financial services firms are unwilling to collaborate with each other on strengthening security as a result of competition, FirstBank has adopted an open door approach and pioneering stance towards sharing security data with reputable organisations in order to better secure itself and also have other organisations learn from its experience.

This has enabled the Group to strengthen its incident management and response processes, and it is presently working with its service providers to instil effective security behaviours into FirstBank's culture and its third-party service providers. This would include having third-party service providers included in its incident management process and its privacy police implementation, and propagating its risk governance culture to organisations in the country.

FBN Holdings Plc information security management

In line with the Group's vision of being the leading diversified financial services group in Sub-Saharan Africa and to enhance its competitiveness, streamline and coordinate the various operations across its range of services, and further exploit opportunities for synergy between its subsidiaries, FBN Holdings Plc was developed following a review of the Bank's governance model.

Following the implementation of the new structure and existing relationship and synergy with FirstBank and the subsidiaries, which includes sharing of IT infrastructure and some support services, it was necessary to implement the information security management practices across the holding company with every company implementing best practice in information security aligned to renowned world standards.

Commercial Banking business group

The information assets of the Commercial Banking business group are considered a strategic business resource critical to the success of the Group's operations. Given the importance of this key resource, each entity within the Commercial Banking business 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. This document also sets the tone for the management of information security within the subsidiaries. Strong emphasis is placed on people-driven control against system-driven control given that people could be the strongest or weakest point in the chain of security depending on the level of awareness and training given.

Each subsidiary within the Commercial Banking business group has in place policy, documented procedures and standards that guide its daily operation. Given the range of threats and vulnerabilities likely to have negative impact on the confidentiality, integrity and availability of information assets, controls are implemented through a risk assessment process that safeguards these assets.

Each entity within the Commercial Banking business group places premium value on client, customer and staff information, and through its range of documented policies ensures that all sensitive and critical data are well protected.

These policies include a password management policy. Given the importance of passwords today and the role passwords play in access management, password management is a critical process in information assets management, and staff are continually trained on the use of strong passwords and password best practices in compliance with the requirements of the password policy.

Logical access policy is achieved using appropriate access controls to restrict access to, and the use of, systems and servers within the Bank. Each user is given a defined access right to the system. Users are prompted to change their passwords periodically. In addition, this access protects both the institution and the client's data from unauthorised alteration, theft, duplication and/or destruction. Wherever possible, technology is utilised to monitor and control access to information and computing systems.

This policy is applicable to all users accessing all applications, email and other IT infrastructure. Authorised vendors are given certain guest access rights to restricted sections of the network to perform their tasks.

Adequate security is in place for operating systems, applications, remote access to the network (using two authentication methods) and hardware devices. Appropriate logon banners have also been configured to ensure users adhere to logon standards with periodic review of access rights, access control, privileges, user accounts creation, deletion and password management.

The physical access policy controls access to physical and sensitive IT infrastructure that houses confidential information; this includes a specific access policy for all data centres. Unauthorised and/or temporary employees are denied access to the centre to ensure data integrity. Reviews are periodically carried out to verify those who have had access to secure environments within the organisation. Other physical controls protecting this environment include appropriate heating and air conditioning, installation of smoke alarms/sensors and installation of fire alarms and firefighting equipment.

Each has established an information security risk incident-handling procedure, which must be adhered to when an event of information security breach has happened. A security incident is defined as any suspected failure in information security, namely: incident management practices are documented and staff are trained on their responsibility regarding incident management and report with routine tests to demonstrate preparedness in cases of incident or crises.

Each entity within the FBN Holding Plc structure ensures that it adheres to 'best market' practices and adopts all the relevant elements of the internationally recognised renowned information security standard, ISO/IEC 27001, and all other relevant regulatory guidelines. The Bank is committed to ensuring that information is protected against internal, external or environmental attack/access whether malicious or accidental. The Commercial Banking business group and each of its entities is committed to minimising information security risk through the continued development and maintenance of adequate systems and controls.

In general, risk is managed through two principal committees; the Board Risk Assessment Committee and the Management Committee (MANCO) who are responsible for approving the information security policies and budget prior to final approval of the Board of each subsidiary.

Investment Banking and Asset Management (IBAM) business group

The Investment Banking and Asset Management business group takes protection of its information assets as being critical to its operation. These assets include proprietary information about its products, processes, customers and suppliers which supports the Investment Banking group's critical business.

Following a comprehensive risk analysis, a common vulnerability within any networked environment such as that within the IBAM group is unauthorised access to information and computer resources which may lead to loss of confidentiality, integrity and availability of these information assets. To ensure security of these information assets, processes and controls have been put in place to identify such threats before they happen. These threats include:

- unauthorised access to systems through the use of authorised user IDs to gain access to files or system resources that the unauthorised user is not permitted to access. Weak access controls often enable unauthorised access, which can compromise confidential files;
- poor password management practices, which may lead to unauthorised access and stolen information;
- lack of data integrity due to weak systems and process controls; and
- abuse of email and internet resources by users; emails are a veritable tool for moving out confidential data if the right access and permissions are not granted or being monitored.

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.

Some of the policies are:

- Staff will be identified using unique user IDs and passwords, which should not be shared with anyone.
- All systems will be password protected and only accessible to authorised users.
- Password lockout screens will be used and set to auto lock after a specified period of inactivity.
- Access to systems resources will be granted on a need-to-know basis.
- Staff will undergo mandatory awareness training prior to gaining access to IT infrastructures.
- All critical operation and transaction data will be backed up and stored securely.
- Email systems provided by the organisation will be used for official purposes. The organisation may permit some discreet private use.

Information security risk

Information assets are a strategic business resource critical to the success of the Investment Banking group's operations. Given the importance of this key resource, the Company has in place an information security risk plan, which ensures that the information technology-related risk assumed by the Company remains at tolerable levels.

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.

The Group places a premium on the value of its client information and ensures all data are well protected.

The first layer of internal security is access restriction. This is achieved using appropriate access controls to restrict access to, and the use of, its servers. Each user is given a defined access right to the system. Users are prompted to change their passwords periodically. In addition, this access protects both the institution and the client's data from unauthorised alteration, duplication and/or destruction.

This policy is applicable to all users accessing all applications, email and other IT infrastructure. Authorised vendors are given certain guest access rights to restricted sections of the network to perform their tasks.

Adequate security is in place for operating systems, applications, remote access to the network (using two authentication methods) and hardware devices. Appropriate logon banners have also been configured to ensure users adhere to logon standards.

Periodic checks are conducted to verify that no breach has occurred. There are currently ongoing enhancements in the process of periodic review of access rights, access control, privileges, user accounts creation, deletion and password management.

Furthermore, FM-200 (Fire Suppression System) is installed at the data centre and a smoke detector. This is in place to safeguard IT infrastructure from fire outbreak. The installation is regularly serviced and tested to ensure adequate functionality.

IT risk is managed through two principal committees: the Board Risk Assessment Committee and the Management Committee (MANCO). Their oversight responsibilities for IT security risk management are as follows:

Board Risk Committee

The Board Risk Committee is responsible for approving the information security policies and budget prior to final approval by the Board of the Company.

Key responsibilities of the Board Risk Committee on information security risk include:

- ensuring that the Company IT policies are up to date to support the business of the Company;
- ensuring that the Company has in place a business continuity plan;
- making adequate budgetary provision to support the IT infrastructures 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 personnel.

Insurance business group

The Insurance business 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.

To ensure security of the information assets, the following risk factors are identified:

- **Unauthorised access to systems:** This type of activity occurs when authorised system users gain access to files that they are not authorised to access. Weak access controls often enable unauthorised access, which can compromise confidential files.
- **Unauthorised access to sensitive data:** This is similar to the above but specific to the data on the systems. This can result in the data being moved to another unprotected location by hackers, leading to unauthorised information disclosure.
- **Loss of operating data:** This describes data losses that have occurred either internally or externally to the organisation.
- **Inability to retrieve or recover backup data:** This is a situation whereby we are unable to retrieve or recover backup data from the backup device.
- **Lack of data integrity due to weak systems and process controls.**
- **Misuse or abuse of email:** As important as email is as a means of communication with both internal and external parties, it can also be abused, which may result in loss of vital information to the organisation.

Information security risk management approach

The information security risk management approach is more of a proactive one rather than reactive. As a result, the Insurance business 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.

Some of the policies are:

- 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.
- Access to data resources is granted on a need-to-know basis.
- Our servers are password protected.
- It is the responsibility of Information Technology to set and maintain these passwords.
- We do a regular backup of all data.
- We have put in place a reliable offsite backup to guard against loss of data.
- We have put in place an email policy to regulate the use of email services.

Other Financial Services business group (FBN Microfinance Bank Limited)

Information security risk

The responsibility of information security is shared by both the management and employees of the Bank, irrespective of designation and function.

The Bank complies with all legal regulatory, contractual and commercial requirements of information security. The Bank employs a combination of continuous monitoring, well defined and established risk management metrics and an effective awareness programme to manage its data. The Bank has put in place processes that will ensure that confidentiality of information will be maintained across its operations and processes.

The Bank 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 Risk Committee

The Board Risk Committee (BRC) 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 detailed below:

- 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.
- Ensure that the Bank implements a sound methodology for managing information security.
- Ensure that detailed policies, standards and procedures are created, updated regularly and effectively communicated within the Bank.
- Assess the effectiveness of FBN Microfinance Bank's information security programme.
- Ensure FBN Microfinance Bank adequately budgets for information security.

Management Committee

The Management Committee (MANCO) 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. Key responsibilities of the MANCO with respect to information security are detailed below:

- Provide direction and ensure information security initiatives and activities are aligned with business objectives and strategies.
- Approve FBN Microfinance Bank's information security strategy and policies.
- Provide the resources required to implement the security initiatives.
- Ensure comprehensive risk assessments are performed and used to determine the level of protection accorded to the information assets.

Information asset management

Security of information assets is managed as follows: The Group shall:

- ensure that information assets are classified according to FBN Microfinance Bank classification guidelines;
- ensure that information assets are properly labelled;
- monitor the security condition of information assets;
- review staff logical access rights to systems and application quarterly;
- ensure system auditor reports information security incidents on a weekly basis;
- review annual risk assessment of the department/branch information assets and processes;
- review the department/branch operating procedure annually;
- maintain and update the department/branch assets register;
- ensure implementation of information security controls; and
- ensure all staff receive information security awareness training before granting them access to information assets.

Risk management disclosures

Compliance risk

Overview

The establishment of an independent Compliance function in the Group is in line with international best practice. The Compliance function operates from the Nigerian Bank and some selected hubs, each of which is supervised by dedicated compliance officers whose primary responsibility in the Group is to ensure compliance with established rules and regulations. Highlights of the scope of coverage of the Compliance function include:

- regulatory compliance;
- Anti Money Laundering (AML)/Countering the Financing of Terrorism (CFT) compliance (including Know Your Customer (KYC), Know Your Customers' Business (KYB) principles); and
- corporate governance compliance monitoring.

The objectives of the Compliance function, as part of an effective risk management framework, include the following:

- To assist and support line management to ensure that business is conducted in accordance with applicable statutory, regulatory and supervisory requirements.
- To enable the Group to demonstrate to the regulators that it is fit and proper to undertake its business.
- To maintain fairness in all the banking group's dealings.
- To facilitate the management of compliance risks.
- To prevent disciplinary action by regulators.
- To minimise the possibility of civil and criminal action against the Group.

Philosophy

The Board approves and periodically reviews the compliance framework and strategies in the Bank and assumes overall accountability for compliance performance. The ownership, management and accountability for compliance risk is decentralised across various Strategic Business Units and Strategic Resource Functions (SBUs and SRFs).

The Group's compliance risks are centrally managed by an independent Compliance function. The compliance risk management practices in the Bank are subject to periodic independent reviews by internal audit as well as by external auditors.

Each and every one of the activities of the Compliance function is governed by articulated policies and processes duly approved by the Board. The Bank's AML/CFT regime is driven by a documented, functional AML/CFT Policies & Procedures Manual to which every member of staff has unfettered access through the Bank's i-porter. As a living document, the manual is reviewed and updated regularly to reflect the dynamism and changing regulatory or environmental imperatives.

A detailed Compliance Standard Operating Procedure Manual has been developed for all compliance risk management processes, including Compliance function roles, responsibilities and operating procedures.

Strategy and priority

The Group remains committed to complying fully with both the spirit and the letter of applicable laws and regulations, and to always acting with care and due diligence. The risk of non-compliance with legal and regulatory requirements ranges from potential financial loss arising from regulatory sanctions, loss of business and/or franchise, as well as damage to the Group's reputation.

In ensuring compliance with laws and regulations, the Group has put in place a robust compliance framework. The Compliance function, under the leadership of the Chief Compliance Officer, ensures that statutory and regulatory requirements are adhered to and ensures that breaches are promptly reported. The Group has in place a comprehensive Compliance Process Manual, which is accessible to all staff through the Bank's i-porter. The Manual defines the roles and responsibilities of all stakeholders in ensuring compliance with laws and regulations.

While the primary responsibility for complying with regulatory requirements lies with all members of staff conducting particular transactions or activities to which regulation applies, the Board of Directors is ultimately accountable for compliance performance.

The current regulatory regime places much pressure on financial institutions to identify, assess and understand the money laundering and terrorist financing risks they face in order to ensure that the measures they implement to prevent or mitigate money laundering and terrorist financing are commensurate with risks identified. The risk-based approach is intended to ensure that regulated entities apply their resources more efficiently.

The Group continually reviews and analyses relevant laws and regulations to ensure business is run in line with international best practices, and complies with regulations.

Governance structure

In line with international best practice, the Compliance function is responsible for ensuring that the Group continuously manages its regulatory risk.

Regulatory risk is the risk that occurs when financial institutions do not comply with the spirit and the letter of applicable laws and regulations or supervisory requirements.

The management of regulatory risk comprises ensuring compliance with all the statutory and regulatory requirements. The Compliance function is therefore responsible for ensuring compliance with all rules imposed on the business by regulators/supervisors.

Responsibility for managing compliance with internal rules created by the Group itself lies with the internal audit and control functions. These are monitored as part of their normal duty of ensuring that an effective system of internal controls is maintained in FirstBank.

Certain internal rules are of such importance that the Management Committee (MANCO) may require the involvement of the Compliance function for effective implementation. The Compliance function is also, to that extent, responsible for monitoring compliance with internal rules, as determined by MANCO from time to time.

The Compliance function operates independently of internal audit and control functions. However, the division leverages on the Internal Audit and Control infrastructure by administering compliance checklists on business units and branches through the independent control and normal audit procedures. These compliance reports are forwarded to the Compliance department for review and subsequent monitoring.

Roles and responsibilities

Roles and responsibilities for compliance are assigned to various functions as follows:

Function	Role
Board of Directors	Assumes overall accountability for compliance performance.
Chief Executive Officer	Provides demonstrable support to the CCO with the development of a compliance culture.
Executive Directors, Executive Vice President – MANCO	Assume overall accountability for compliance within their Strategic Business Units (SBUs)/Strategic Resource Functions (SRFs).
Business Unit Heads and Business Development Managers	Responsible for day-to-day compliance with regulations applicable to their business.
SBU/SRF Compliance Officers	Facilitate the implementation of the compliance process within their SBU/SRF.
Branch Managers (Branch Compliance Officers)	Branch Managers assume overall responsibility for compliance in their branches and are responsible for conducting periodic compliance reviews.
All employees	Responsible for familiarising themselves with the regulatory requirements applicable to their business and ensuring that all transactions and activities in which they are involved are carried out in accordance with those regulations.
Internal control	Assists the Compliance function in the conduct of independent monitoring.
Internal Audit	Provides quality assurance for the Compliance function.
Chief Compliance Officer (CCO)	Responsible for the development, communication, leadership and implementation of the compliance strategy, policy, structure and process.
External Audit	Responsible for reviewing the compliance risk management process as part of their statutory audit duties.

Responsibilities of the Chief Compliance Officer (CCO)

The CCO takes responsibility for compliance issues in the Group including its Strategic Business Unit. The CCO works closely with the Chief Risk Officer (CRO) in the performance of the following specific responsibilities:

- Assigns a robust compliance structure, process and advisory service in order to ensure line management's compliance with current laws, regulations and supervisory requirements.
- Reports non-compliance with laws, regulations and supervisory requirements to the Chief Executive Officer and the Board of Directors in a timely manner.
- Provides the Board of Directors with regular information on the level of the Group's compliance with laws, regulations and supervisory requirements.
- Ensures, as far as possible, that no conflict of interest exists between the Compliance function and other internal control functions.
- Establishes a compliance culture in the Group that contributes to the overall objective of prudent risk management.
- Establishes effective communication with line management in order to continuously monitor compliance with laws, regulations and supervisory requirements.
- Mandates line management to monitor compliance with laws, regulations and supervisory requirements as part of their normal operational duties.
- Ensures that regulatory requirements are incorporated into operational procedures and manuals where appropriate.
- Makes recommendations whenever necessary to ensure that laws, regulations and supervisory requirements are being complied with.
- Establishes effective mechanisms for reporting and resolving non-compliance with laws, regulations or supervisory requirements.
- Documents his findings, including remedial action, as part of the compliance monitoring programme.
- In conjunction with Training and Development, ensures continuous training of compliance staff on technical knowledge of regulatory framework and associated risks.
- Compiles and maintains a comprehensive compliance manual for the Group, in conjunction with line management.

Investment Banking and Asset Management business group

The group ensures that it complies with all regulatory and legal obligations governing its operations. The group also ensures that all employees comply with the policies regarding the prevention of money laundering.

Insurance business group

The group considers compliance with applicable laws, industry regulations and codes, an integral part of doing business. The group Compliance function, together with the Compliance functions of the Company, facilitates the management of compliance through the analysis of statutory and regulatory requirements, and monitoring the implementation and execution thereof.

Other Financial Services business group (FBN Microfinance Bank Limited)

The Bank utilises risk indicators to monitor the compliance risk exposure of the business units and assess the effectiveness of controls for the key risk areas.

A compliance risk management plan, with responsibilities and target dates, is used to indicate how the risks identified are managed. The plan entails preventative details to lower the probability of the risk occurring and contingent controls to reduce the impact should the risk materialise.

Outlook

The regulatory environment in 2012 brought about enormous challenges on banks and other financial institutions. The recent directive from the Central Bank of Nigeria (CBN) to designated non-financial businesses and professionals (DNFBPs) to register their operations with the Special Control Unit on Money Laundering (SCUML), Federal Ministry of Trade and Investment on or before 31 January 2013, came with enormous challenges on the part of the banks. The challenge is in creating the enabling environment in terms of awareness creation and customer sensitisation to avoid loss of business and regulatory infraction.

To further step up the fight against money laundering and terrorist financing, the CBN commenced full implementation of its Anti Money Laundering and Countering the Financing of Terrorism (AML/CFT) Risk Based Supervision (RBS) framework in August 2012. By this policy, banks are expected to focus on new areas of AML/CFT and compliance risks in products/service offerings as well as provide guidelines to regulatory supervisors, for a risk-based approach to assessing financial institutions' AML/CFT and compliance risks. Our Group has commenced the process of institutionalising a risk-based audit approach by putting in place strategies to ensure that our internal audit plan for 2013 aligns with this policy.

The Foreign Account Tax Compliance Act (FATCA) enacted on 18 March 2010 by the US congress requires foreign financial institutions to submit detailed information on their US customers to the US tax authorities, the Internal Revenue Service (IRS), commencing January 2014. Whilst management has considered the likely business implications, the Group awaits the recommendation of the regulators regarding a countrywide approach to adopt.

The challenges all these policy measures/initiatives have brought to the fore is in our process and procedures re-alignment to current regulatory and business realities, fine-tuning our technology infrastructure to understand and manage our risks more prudently, and in responding to the huge regulatory pressures on us to know our customers and their businesses (KYC/KYB) as well as implementing processes/controls for combating money laundering/terrorist financing.

The Group is poised to looking inwards with a view to revalidating our compliance risk management processes and procedures to withstand the emerging pressures, and is committed to continuously educate its employees, including the Board, on regulatory changes and their attendant implications on the business and our customers. We will continue to improve on current measures aimed at understanding regulations as they affect the industry and the implication for non-compliance.

Financial statements

In this section

Our financial statements for the year ending 31 December 2012 represent the first year of performance under our HoldCo structure and are prepared according to International Financial Reporting Standards (IFRS).

Income statement

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Statement of financial position

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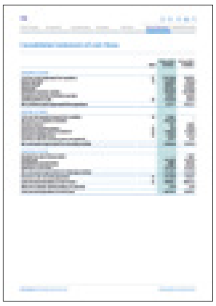
Consolidated statement of cash flows



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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 Group and Other Financial Institutions Act;

ii. establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and

iii. prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgements and estimates, that are consistently applied.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with:

- International Financial Reporting Standards (IFRS);
- Financial Reporting Council of Nigeria (FRC) Act;
- Prudential Guidelines for Licensed Banks;
- Relevant Circulars issued by the Central Bank of Nigeria;
- The requirements of the Banks and Other Financial Institutions Act; and
- The requirements of the Companies and Allied Matters Act.

The directors are of the opinion that the IFRS financial statements give a true and fair view of the state of the financial affairs of the 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 will not remain a going concern for at least 12 months from the date of this statement.

Bello Maccido

Managing Director/CEO

Report of the Independent Auditors to the Members of FBN Holdings Plc

Report on the financial statements

We have audited the accompanying consolidated and separate financial statements of FBN Holdings Plc ("the Company") and its subsidiaries (together "the Group"). These financial statements comprise the consolidated and separate statements of financial position as at 31 December 2012 and the consolidated and separate income statements and statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these 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 necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an independent opinion on the 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 information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the accompanying consolidated and separate financial statements give a true and fair view of the state of the financial affairs of the Company and the Group at 31 December 2012 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 other legal requirements

The Companies and Allied Matters Act and the Banks and Other Financial Institutions Act require that in carrying out our audit we consider and report to you on the following matters. We confirm that:

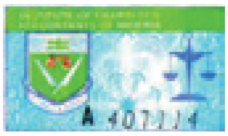
i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) the Company has kept proper books of account, so far as appears from our examination of those books and returns adequate for our audit have been received from branches not visited by us;

iii) the Company's statement of financial position, income statement and statement of comprehensive income are in agreement with the books of account;

iv) related-party transactions and balances are disclosed in Note 49 to the financial statements in accordance with the Central Bank of Nigeria Circular BSD/1/2004.

PricewaterhouseCoopers



Chartered Accountants
Lagos, Nigeria
FRC/2013/ICAN/00000000639
26 April 2013

PKF Professional Services

Chartered Accountants
Lagos, Nigeria
FRC/2013/ICAN/00000000753
26 April 2013

Income statement

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

Statement of comprehensive income

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

Statement of financial position

	Note	Group 31 Dec 2012 ₦ million	Group 31 Dec 2011 ₦ million	Group 1 Jan 2011 ₦ million	Company 31 Dec 2012 ₦ million
ASSETS					
Cash and balances with Central Banks	21	**300,531**	199,228	75,517	**-**
Loans and advances to banks	23	**411,429**	462,856	575,467	**-**
Loans and advances to customers	24	**1,541,687**	1,252,462	1,160,293	**-**
Financial assets at fair value through profit or loss	25	**3,611**	5,964	16,636	**-**
Investment securities	26				
available-for-sale investments		**369,397**	356,933	222,822	**2,307**
held to maturity investments		**337,278**	337,336	31,886	**2,450**
loans and receivables		**-**	-	-	**11,014**
Asset pledged as collateral	27	**50,109**	72,129	122,009	**-**
Inventory	33	**21,676**	25,609	23,081	**-**
Investments in subsidiaries	53	**-**	-	-	**243,065**
Investments in associates accounted for using the equity method	31	**6,321**	7,489	8,996	**11,875**
Other assets	37	**40,000**	62,272	39,282	**236**
Investment properties	32	**4,003**	4,055	2,440	**-**
Intangible assets	35	**3,522**	1,008	494	**-**
Property, plant and equipment	34	**75,386**	65,874	63,634	**30**
Deferred tax	36	**8,201**	6,954	12,274	**-**
Asset classified as held for sale	30	**12,978**	-	-	**-**
Total assets		**3,186,129**	2,860,169	2,354,831	**270,977**
LIABILITIES					
Deposits from banks	38	**88,187**	183,500	148,352	**-**
Deposits from customers	39	**2,400,860**	1,951,321	1,447,600	**-**
Financial liabilities at fair value through profit or loss	40	**1,796**	2,857	1,639	**-**
Liability on investment contracts	42	**12,321**	49,440	76,446	**-**
Liability on insurance contracts		**2,127**	825	-	**-**
Borrowings	41	**76,168**	104,473	126,350	**-**
Retirement benefit obligations	43	**19,380**	15,081	11,426	**-**
Current income tax liability	18	**23,228**	24,254	20,052	**-**
Deferred tax	36	**222**	1,067	901	**-**
Other liabilities	44	**120,157**	158,771	120,470	**1,084**
Liabilities classified as held for sale	30	**2,836**	-	-	**-**
Total liabilities		**2,747,282**	2,491,589	1,953,236	**1,084**

Statement of financial position

	Note	Group 31 Dec 2012 ₦ million	Group 31 Dec 2011 ₦ million	Group 1 Jan 2011 ₦ million	Company 31 Dec 2012 ₦ million
EQUITY					
Share capital	45	**16,316**	16,316	16,316	**16,316**
Share premium	46	**254,524**	254,524	254,524	**254,524**
Retained earnings		**73,367**	41,587	47,304	**(819)**
Other reserves					
Statutory reserve	46	**43,347**	32,144	28,508	**-**
SSI reserve	46	**6,076**	6,076	6,309	**-**
AFS fair value reserve	46	**26,272**	8,525	47,033	**(138)**
Contingency reserve	46	**50**	13	-	**-**
Statutory credit reserve	46	**16,101**	9,766	28,220	**-**
Treasury share reserve	46	**(1,422)**	(1,941)	(27,767)	**-**
Capital reserve		**-**	-	-	**10**
Foreign currency translation reserve	46	**1,668**	606	-	**-**
		436,299	367,616	400,447	**269,893**
Non-controlling interest		**2,548**	964	1,148	**-**
Total equity		**438,847**	368,580	401,595	**269,893**
Total equity and liabilities		**3,186,129**	2,860,169	2,354,831	**270,977**

The financial statements on pages 199 to 300 were approved by the Board of Directors on 15 March 2013 and signed on its behalf by:

Dr Oba Otudeko, CFR
Group Chairman
FRC/2013/ICAN/00000002365

Bello Maccido
Chief Executive Officer
FRC/2013/CISN/00000002366

Consolidated statement of changes in equity

	Share capital ₦ million	Share premium ₦ million	Retained earnings ₦ million	Statutory reserve ₦ million	SSI reserve ₦ million	AFS fair value reserve ₦ million	Contingency reserve ₦ million	Statutory credit reserve ₦ million	Treasury share reserve ₦ million	FCTR ₦ million	Total ₦ million	Non-controlling interest ₦ million	Total equity ₦ million
	Attributable to equity holders of the parent												
Balance at 1 January 2011	16,316	254,524	47,304	28,508	6,309	47,033	-	28,220	(27,767)	-	400,447	1,148	401,595
Profit for the year	-	-	19,520	-	-	-	-	-	-	-	19,520	(884)	18,636
Other comprehensive income													
Foreign currency translation differences, net of tax	-	-	-	-	-	-	-	-	-	606	606	-	606
Tax effects on revaluation of financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value movements on available-for-sale financial assets						(38,509)	-	-	-	-	(38,509)	-	(38,509)
Actuarial gains/(losses) on defined benefit pension scheme	-	-	(2,129)	-	-	-	-	-	-	-	(2,129)	-	(2,129)
Share of OCI of associates, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	17,391	-	-	(38,509)	-	-	-	606	(20,512)	(884)	(21,396)
Transactions with owners													
Issue of new shares	-	-	-	-	-	-	-	-	-	-	-	700	700
Disposal of Treasury shares	-	-	(18,335)	-	-	-	-	-	25,826	-	7,491	-	7,491
Transfer to statutory credit reserve	-	-	18,454	-	-	-	-	(18,454)	-	-	-	-	-
SMEEIS reserves written off	-	-	-	-	(233)	-	-	-	-	-	(233)	-	(233)
Dividends	-	-	(19,580)	-	-	-	-	-	-	-	(19,580)	-	(19,580)
Transfer from retained earnings	-	-	(3,649)	3,636	-	-	13	-	-	-	1	-	1
Total transactions with owners	-	-	(23,109)	3,636	(233)	-	13	(18,454)	25,826	-	(12,321)	700	(11,621)

Consolidated statement of changes in equity

	Attributable to equity holders of the parent												
	Share capital ₦ million	Share premium ₦ million	Retained earnings ₦ million	Statutory reserve ₦ million	SSI reserve ₦ million	AFS fair value reserve ₦ million	Contingency reserve ₦ million	Statutory credit reserve ₦ million	Treasury share reserve ₦ million	FCTR ₦ million	Total ₦ million	Non-controlling interest ₦ million	Total equity ₦ million
At 31 December 2011	16,316	254,524	41,587	32,144	6,076	8,525	13	9,766	(1,941)	606	367,616	964	368,580
Profit for the year	-	-	75,890	-	-	-	-	-	-	-	75,890	(220)	75,670
Other comprehensive income													
Foreign currency translation differences, net of tax	-	-	-	-	-	-	-	-	-	1,062	1,062	-	1,062
Tax effects on revaluation of financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value movements on available-for-sale financial assets	-	-	-	-	-	17,747	-	-	-	-	17,747	-	17,747
Actuarial gains/(losses) on defined benefit pension scheme	-	-	(431)	-	-	-	-	-	-	-	(431)	-	(431)
Share of OCI of associates, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	75,460	-	-	17,747	-	-	-	1,062	94,268	(220)	94,048
Transactions with owners													
Dividends	-	-	(26,105)	-	-	-	-	-	-	-	(26,105)	-	(26,105)
Exchange difference	-	-	-	-	-	-	-	-	-	-	-	-	-
Disposal of Treasury shares	-	-	-	-	-	-	-	-	519	-	519	-	519
Additional investment	-	-	-	-	-	-	-	-	-	-	-	518	518
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	-	1,286	1,286
Transfer from retained earnings	-	-	(37)	-	-	-	37	-	-	-	-	-	-
Transfer between reserves	-	-	(17,538)	11,203	-	-	-	6,335	-	-	0	-	0
Transfer resulting from business restructuring	-	-	-	-	-	-	-	-	-	-	-	-	-
Total transactions with owners	-	-	(43,680)	11,203	-	-	37	6,335	519	-	(25,586)	1,804	(23,782)
At 31 December 2012	**16,316**	**254,524**	**73,367**	**43,347**	**6,076**	**26,272**	**50**	**16,101**	**(1,422)**	**1,668**	**436,299**	**2,548**	**438,846**

Company statement of changes in equity

	Share capital ₦ million	Share premium ₦ million	Retained earnings ₦ million	Capital reserve ₦ million	AFS fair value reserve ₦ million	Total equity ₦ million
Opening balance	-	-	-	-	-	-
Transfer arising from business restructuring				10		10
Profit/(loss) for the period	-	-	(819)	-	-	(819)
Other comprehensive income						
Fair value movements on equity financial assets	-	-	-	-	(227)	(227)
Total comprehensive income for the period	-	-	(819)	10	(227)	(1,036)
Transactions with owners						
Issue of shares	16,316	254,524				270,840
Total transactions with owners	16,316	254,524	-	-	-	270,840
At 31 December 2012	**16,316**	**254,524**	**(819)**	**10**	**(227)**	**269,804**

Consolidated statement of cash flows

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

Notes to the annual financial statements
At 31 December 2012

1 General information

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

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

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

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

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

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

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

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in Note 57.

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

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

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

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

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

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

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

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

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

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

iv IFRS 11, 'Joint arrangements' (effective for periods beginning on or after 1 January 2013).
IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures.

Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the joint venturer has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is yet to assess the full effect of and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2013.

v IFRS 12, 'Disclosures of interests in other entities' (effective for periods beginning on or after 1 January 2013).

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

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

vi IFRS 13, 'Fair value measurement' (effective for periods beginning on or after 1 January 2013).

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

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

IAS 27 (revised 2011) includes the requirements relating to separate financial statements. The Group is yet to assess the full effect of IAS 27 and intends to adopt IAS 27 no later than the accounting period beginning on or after 1 January 2013 but this is not expected to have a material impact on the Group's operations.

viii IAS 28 (revised 2011), 'Associates and joint ventures' (effective for periods beginning on or after 1 January 2013).

IAS 28 (revised 2011) includes the requirements for associates and joint ventures that have to be equity accounted following the issue of IFRS 11.

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

ix IFRS 9, 'Financial instruments' (effective for periods beginning on or after 1 January 2015).

This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

The Group is yet to assess the full effect of IFRS 9 and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The directors will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

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

2.3 Consolidation

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

(a) Business combinations

i Acquisitions on or after 1 January 2011

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

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

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

ii Acquisitions prior to 1 January 2011

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

(b) Acquisitions of non-controlling interests

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

(c) Subsidiaries

The consolidated financial statements incorporates the financial statements of the Company and all its subsidiaries where it is determined that there is a capacity to control.

Control means the power to govern, directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities. All the facts of a particular situation are considered when determining whether control exists.

Control is usually present when an entity has:

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

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

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

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

(d) Associates

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

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

The excess of the cost of an acquisition over the Group's share of the fair value of the identifiable net assets acquired is recorded as goodwill. Goodwill is included in the carrying amount of the investment and assessed for impairment as part of the investment. A gain on acquisition is recognised immediately in profit or loss if there is an excess of the Group's share of the fair value of the identifiable net assets acquired over the cost of the acquisition. The Group's share of the results of associates is based on financial statements made up to a date not earlier than three months before the balance sheet date, adjusted to conform with the accounting policies of the Group. Unrealised gains and losses on transactions are eliminated to the extent of the Group's interest in the investee. Losses may provide evidence of impairment of the asset transferred, in which case appropriate provision is made for impairment.

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

(e) Special purpose entities (SPEs)

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

2.4 Common control transactions

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

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

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

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

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The consolidated financial statements are presented in naira millions, which is the Group's presentation currency.

(b) Transactions and balances

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

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

Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial instruments held at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments measured at fair value through other comprehensive income are included in the fair value reserve in other comprehensive income. Non-monetary items that are measured under the historical cost basis are not retranslated.

(c) Foreign operations

The results and financial position of all the Group entities that have functional currency different from the Group's presentation currency, are translated into the Group's presentation currency as follows:

- assets and liabilities of each foreign operation are translated at the rates of exchange ruling at the reporting date;
- income and expenses of each foreign operation are translated at the average exchange rate for the period, unless this average is not a reasonable approximation of the rate prevailing on transaction date, in which case income and expenses are translated at the exchange rate ruling at transaction date; and
- all resulting exchange differences are recognised in other comprehensive income and are classified as equity and recognised in the foreign currency translation reserve.

2.6 Income taxation

(a) Current income tax

Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income or to equity (for example, current tax on equity instruments for which the entity has elected to present gains and losses in other comprehensive income).

(b) Deferred income tax

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

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The tax effects of carry-forwards of unused losses, unused tax credits and other deferred tax assets are recognised when it is probable that future taxable profit will be available against which these losses and other temporary differences can be utilised.

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

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

2.7 Inventories

The Group recognises property as inventory under the following circumstances:

i property purchased for the specific purpose of resale;

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

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

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

2.8 Financial assets and liabilities

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

2.8.1 Financial assets

The Group allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The directors determine the classification of its financial instruments at initial recognition.

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

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

i those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

ii those that the Group upon initial recognition designates as available for sale; or

iii those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the statement of financial position as loans and advances to banks or customers or as investment securities. Interest on loans is included in the income statement and is reported as 'Interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the income statement as 'impairment charge for credit losses'.

Receivables arising out of insurance arrangements are also classified in this category and reviewed for impairment in line with IAS 39.

(c) Held-to-maturity financial assets

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

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

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

iii those that meet the definition of loans and receivables.

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

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

(d) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

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

(e) Recognition

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

2.8.2 Financial liabilities

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

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

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

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

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

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

(b) Other liabilities measured at amortised cost

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

2.8.3 Derivative financial instruments

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

2.8.4 Embedded derivatives

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

2.8.5 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges (for example, NSE) and broker quotes from Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

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

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

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

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, the directors believe that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the statement of financial position. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of the current market developments.

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

2.8.6 Derecognition of financial instruments

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

2.9 Reclassification of financial assets

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

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

2.10 Classes of financial instrument

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

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

2.11 Offsetting financial instruments

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

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.12 Revenue recognition

(a) Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating effective interest, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses.

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

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

(b) Fees and commission income

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

(c) Dividend income

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

2.13 Impairment of financial assets

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

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; and
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  i adverse changes in the payment status of borrowers in the portfolio; and

  ii national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

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

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

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

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

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

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

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

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

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

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

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

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

2.14 Impairment of non-financial assets

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

2.15 Collateral

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

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

2.16 Investment properties

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

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

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

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

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

2.17 Leases

Leases are divided into finance leases and operating leases.

(a) The Group is the lessee

i Operating lease

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

ii Finance lease

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

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

(b) The Group is the lessor

i Operating lease

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

ii Finance lease

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

2.18 Property, plant and equipment

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

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

Land included in leasehold land and buildings is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Asset class	Depreciation rate
Motor vehicles	25%
Office equipment	20%
Furniture and fittings	20%
Computer hardware and equipment	33.3%
Plant and machinery	20%
Freehold buildings	2%
Leasehold buildings	2% for leases of 50 years and above and over expected useful life for under 50 years

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

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

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

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

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

Payments in advance for items of property and equipment are included as prepayments in 'Other assets' and upon delivery are reclassified as additions in the appropriate category of property and equipment.

2.19 Intangible assets

(a) Goodwill

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

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

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

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

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

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

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

(b) Computer software

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

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

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

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

(c) Impairment of tangible and intangible assets excluding goodwill

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

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

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

2.20 Insurance contracts and investment contracts

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

2.21 Life insurance contracts

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

2.22 Employee benefits

The Group has both defined benefit and defined contribution plans.

(a) Defined contribution plan

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

(b) Defined benefit plan

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

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

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

2.23 Provisions

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

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

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

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

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

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

2.24 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

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

2.25 Share capital

(a) Share issue costs

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

(b) Dividends on ordinary shares

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

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

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

(c) Treasury shares

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

2.26 Earnings per share

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

2.27 Issued debt and equity securities

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

2.28 Fiduciary activities

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

2.29 Discontinued operations

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

3 Financial risk management

3.1 Introduction and overview

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

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

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

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

The key elements of the risk management philosophy are the following:

- The Group considers sound risk management to be the foundation of a long-lasting financial institution.
- The Group continues to adopt a holistic and integrated approach to risk management and, therefore, brings all risks together under one or a limited number of oversight functions.
- Risk officers are empowered to perform their duties professionally and independently without undue interference.
- Risk management is governed by well-defined policies that are clearly communicated across the Group.
- Risk management is a shared responsibility. Therefore, the Group aims to build a shared perspective on risks that is grounded in consensus.
- The Group's risk management governance structure is clearly defined.
- There is a clear segregation of duties between market-facing business units and risk management functions.
- Risk-related issues are taken into consideration in all business decisions. The Group shall continue to strive to maintain a conservative balance between risk and revenue considerations.
- Risk officers work as allies and thought partners to other stakeholders within and outside the Group and are guided in the exercise of their powers by a deep sense of responsibility, professionalism and respect for other parties.
- Risks are reported openly and fully to the appropriate levels once they are identified.
- 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 and arises mainly from the activities of the Commercial Banking segment and to a much lesser extent in the other segments within the Group. These activities include the commercial and consumer loans and advances and loan commitments arising from lending activities, and can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

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

3.2.1 Credit risk measurement

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

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

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. Each risk bucket may be denoted alphabetically and by range of scores as follows:

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

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

- The Commercial Banking subgroup does not lend to non-investment grade obligors, on an unsecured basis, except as specified under a product programme. The Facility Risk Rating (FRR) is different from the Obligor Risk Rating (ORR) to the extent of the perceived value of collateral/ enhancement provided.
- The Collateral Risk Rating grid indicates the acceptable collateral types rated 1–8 from best to worst in order of liquidity.

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

3.2.2 Risk limit control and mitigation policies

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

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

Portfolio limits

The process of setting the limits is as follows:

- The Group engages in a detailed portfolio plan annually. In drawing up the plan, the Group reviews the macro-economic factors, identifies the growth sectors of the economy and conducts a risk rating of the sectors to determine its acceptable target market industries and exception. The Group's target loan portfolio is then distributed across acceptable target market industries, strategic business units and approved product programmes.
- Aggregate large exposure limit of not more than 400% of the Company's shareholders' funds.

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

Geographical limits

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

Single obligor limits

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

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

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

Standard credit approval grid for wholesale and retail lending

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

The Group also controls and mitigates risk through collateral.

Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- mortgages over residential properties;
- charges over business assets such as premises, inventory and accounts receivable; and
- charges over financial instruments such as debt securities and equities.

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

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

Exposure management

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

Delinquency management/loan workout

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

Credit recovery

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

Management of concentration risk

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

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

3.2.3 Impairment and provisioning policies

Impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the date of the consolidated statement of financial position based on objective evidence of impairment.

The impairment allowance shown in the consolidated statement of financial position at year end is derived from the Group's rating system (the Obligor Risk Rating).

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

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

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

Assets held for sale of ₦12.9 billion include accounts receivable balance of ₦7.3 billion which has a credit risk exposure.

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

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Loan commitments	**27,111**	13,481	3,752
Letter of credit and other credit-related obligations	**220,388**	228,880	155,888
	247,499	242,361	159,640

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

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

3.2.6 Concentration of risks of financial assets with credit risk exposure

(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 2012, 31 December 2011 and 31 December 2010. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties. Investment securities and financial assets at fair value through profit or loss analysed below excludes investments in equity instruments.

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

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

	Lagos ₦ million	Southern Nigeria ₦ million	Western Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe and America ₦ million	Total ₦ million
Loan commitments	-	-	-	-	-	27,111	**27,111**
Letters of credit and other credit-related obligations	186,037	5,960	50	4,220	-	24,121	**220,388**
31 December 2012	**186,037**	**5,960**	**50**	**4,220**	**-**	**51,232**	**247,499**

	Lagos ₦ million	Southern Nigeria ₦ million	Western Nigeria ₦ million	Northern Nigeria ₦ million	Africa ₦ million	Europe and America ₦ million	Total ₦ million
Balances with Central Banks	153,935	-	-	-	-	-	153,935
Loans and advances to banks	33,627	-	-	-	3,434	425,795	462,856
Loans and advances to customers	781,515	168,783	78,974	82,901		140,289	1,252,462
Financial assets at fair value through profit or loss	1,672	-	-	-	-	1,010	2,682
Investment securities	596,384	12,889	1,009	2,366	-	29,528	642,176
Asset pledged as collateral	72,129	-	-	-	-	-	72,129
Other assets	40,942	5,607	4,159	2,288	-	-	52,996
31 December 2011	1,680,204	187,279	84,142	87,555	3,434	596,622	2,639,236

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

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

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

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

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

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

(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.

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

	Loans and advances to banks ₦ million	Loans and advances to customers ₦ million	Financial assets at fair value through profit or loss ₦ million	Investment securities ₦ million	Assets pledged as collateral ₦ million	Other assets ₦ million	Total ₦ million
Agriculture	-	21,057	-		-	-	21,057
Oil and gas	-	356,516	79		-	-	356,595
Consumer credit	-	224,245	-	-	-	-	224,245
Manufacturing	-	135,453	-	2,015	-	-	137,468
Real estate	-	49,622	-	-	-	-	49,622
Construction	-	8,566	-	513	-	-	9,079
Finance and insurance	462,856	51,018	1,010	11,260	-	52,996	579,140
Transportation	-	5,288	-	-	-	-	5,288
Communication	-	67,711	-	-	-	-	67,711
General commerce	-	92,204	35	-	-	-	92,239
Utilities	-	-	-	-	-	-	-
Retail services	-	129,074	-	-	-	-	129,074
Public sector	-	111,708	1,558	628,388	72,129	-	813,783
Total at 31 December 2011	462,856	1,252,462	2,682	642,176	72,129	52,997	2,485,301

	Loans and advances to banks ₦ million	Loans and advances to customers ₦ million	Financial assets at fair value through profit or loss ₦ million	Investment securities ₦ million	Assets pledged as collateral ₦ million	Other assets ₦ million	Total ₦ million
Agriculture	-	12,546	-	-	-	-	12,546
Oil and gas	-	214,820	-	-	-	-	214,820
Consumer credit	-	70,970	-	-	-	-	70,970
Manufacturing	-	88,832	-	-	-	-	88,832
Real estate	-	111,443	-	-	-	-	111,443
Construction	-	8,674	-	-	-	-	8,674
Finance and insurance	575,467	211,181	1,931	3,687	-	30,699	822,965
Transportation	-	1,804	-	-	-	-	1,804
Communication	-	71,783	-	-	-	-	71,783
General commerce	-	188,023	31	-	-	-	188,054
Utilities	-	1,274	-	-	-	-	1,274
Retail services	-	114,176	-	-	-	-	114,176
Public sector	-	64,767	9,523	168,145	122,009	-	364,444
Total at 1 January 2011	575,467	1,160,293	11,485	171,832	122,009	30,699	2,071,786

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

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

3.2.7 Loans and advances

Credit quality of loans and advances is summarised as follows:

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

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

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group (see section 3.2.1 for an explanation of the internal rating system).

Grades:	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
AAA	**-**	24,377	-
AA	**46,702**	101,823	62,000
A	**16,135**	16,000	17,000
BBB	**158,044**	179,518	353,000
BB	**627,213**	379,343	119,000
B	**504,570**	327,413	367,961
CCC	**11,873**	12,000	-
CC	**-**	3,000	-
C	**177**	14,404	-
	1,364,714	1,057,878	918,961

(b) Loans and advances past due but not impaired

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

(c) Collectively impaired loans

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

(d) Loans and advances individually impaired

	31 Dec 2012 Loans to customers ₦ million	31 Dec 2011 Loans to customers ₦ million	1 Jan 2011 Loans to customers ₦ million
Gross amount	**21,998**	14,669	65,338
Specific impairment	**17,254**	12,934	26,031
Net amount	**4,744**	1,735	39,307

(e) Sensitivity analysis on impairment

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

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

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

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

Scenario 1
The PD of the performing book was flexed by 20% while LGD was held constant. This is based on the assumption that obligor quality will deteriorate and this will lead to an increase in default.

Scenario 2
The LGD of the performing book and insignificant non-performing loans were flexed by 20% respectively while the PD was held constant. This is premised on deterioration in obligor quality, increase in rate of default as well as difficulty in realising collaterals pledged.

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

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

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

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

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

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

3.3 Liquidity risk

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 cost. This risk could arise from mismatches in the timing of cash flows.

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

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

Management of liquidity risk

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

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

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

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

Funding approach

The Group is funded primarily by a well-diversified mix of retail, corporate and public sector deposits. This funding base ensures stability and low funding cost with minimal reliance on more expensive tenured deposit and interbank takings as significant sources of funding. The Group places considerable importance on the demand and savings deposits which account for over 75% of its funding base. Although these accounts are repayable on demand, in reality, they are stable and have formed a core component of the Group's liabilities.

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

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

(a) Group

Table A – liquidity analysis on a contractual basis

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

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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 2011							
Financial liabilities							
Deposits from banks	-	188,913	-	-	-	-	188,913
Deposits from customers	179,629	296,410	252,678	288,109	943,489	-	1,960,315
Financial liabilities at fair value through profit or loss	14	1,995	84	50	714	-	2,857
Borrowings		10,047	6,002	5,494	84,394		105,937
Other liabilities	19,228	72,691	46,146	4,795	12,219	3,683	158,771
Total financial liabilities	**198,871**	**570,056**	**304,910**	**298,448**	**1,040,816**	**3,683**	**2,416,793**
Assets held for managing liquidity risk	**435,498**	**270,111**	**96,778**	**119,315**	**165,798**	**291,571**	**1,379,071**
Loan commitments	13,481	-	-	-	-	-	13,481
Letters of credit and other credit-related obligations	11,755	72,283	35,023	108,981	838	-	228,880
	25,236	72,283	35,023	108,981	838	-	242,361
1 January 2011							
Financial liabilities							
Deposits from banks	-	152,728	-	-	-	-	152,728
Deposits from customers	511,663	360,991	212,051	224,495	146,844	-	1,456,044
Financial liabilities at fair value through profit or loss	13	-	-	-	1,187	439	1,639
Borrowings	-	-	1,478	20,362	80,078	26,359	128,277
Other liabilities	58,763	4,792	41,728	900	14,287	-	120,470
Total financial liabilities	**570,439**	**518,511**	**255,527**	**245,727**	**242,396**	**26,798**	**1,859,158**
Assets held for managing liquidity risk	**636,439**	**32,425**	**24,974**	**31,221**	**161,053**	**70,198**	**956,310**
Loan commitments	3,752	-	-	-	-	-	3,752
Letters of credit and other credit-related obligations	18,043	22,518	12,303	102,473	551	-	155,888
	21,795	22,518	12,303	102,473	551	-	159,640

Table B – liquidity analysis on a behavioural basis

	0–30 days ₦ million	31–90 days ₦ million	91–180 days ₦ million	181–365 days ₦ million	Over 1 year but less than 5 years ₦ million	Over 5 years ₦ million	Total ₦ million
31 December 2012							
Financial liabilities							
Deposits from banks	-	91,426	-	-	-	-	91,426
Deposits from customers	377,646	351,951	198,273	329,498	1,184,802	-	2,442,170
Financial liabilities held for trading	518	61	616	40	561	-	1,796
Borrowings	43,606	512	135	1,024	4,419	25,846	75,541
Other liabilities	23,143	16,992	71,713	8,310	-	-	120,158
Total financial liabilities	**444,913**	**460,942**	**270,737**	**338,872**	**1,189,782**	**25,846**	**2,731,092**
Assets held for managing liquidity risk	**787,287**	**78,747**	**31,860**	**61,347**	**128,579**	**319,479**	**1,407,299**

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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 2011							
Financial liabilities							
Deposits from banks	51,306	132,194	-	-	-	-	183,500
Deposits from customers	176,100	297,784	253,276	287,116	955,219	-	1,969,495
Financial liabilities held for trading	1,862	-	-	-	439	556	2,857
Borrowings	9,926	28,195	-	-	36,855	29,497	104,473
Other liabilities	19,237	72,691	46,146	4,795	12,219	3,683	158,771
Total financial liabilities	**258,431**	**530,864**	**299,422**	**291,912**	**1,004,731**	**33,736**	**2,419,096**
Assets held for managing liquidity risk	**435,498**	**270,111**	**96,778**	**119,315**	**165,798**	**291,571**	**1,397,071**
1 January 2011							
Financial liabilities							
Deposits from banks	55,287	93,065	-	-	-	-	148,352
Deposits from customers	129,778	145,448	120,918	150,146	915,703	-	1,461,993
Financial liabilities held for trading	13	-	-	-	1,187	439	1,639
Borrowings	-	12,920	-	-	87,525	25,905	126,350
Other liabilities	58,763	4,792	41,728	900	14,287	-	120,470
Total financial liabilities	**243,841**	**256,225**	**162,646**	**151,046**	**1,018,702**	**26,344**	**1,858,804**
Assets held for managing liquidity risk	**636,439**	**32,425**	**24,974**	**31,221**	**161,053**	**70,198**	**956,310**

(b) Company

	0–30 days ₦ 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
Other liabilities	-	993	-	-	-	-	993

Assets held for managing liquidity risk

The Group holds a diversified portfolio of cash and high-quality securities to support payment obligations and contingent funding in a stressed market environment. The Group's assets held for managing liquidity risk comprise:

- cash and balances with Central Banks;
- government bonds and other securities that are readily acceptable in repurchase agreements with Central Banks; and
- secondary sources of liquidity in the form of highly liquid instruments in the Group's trading portfolios.

Derivative liabilities

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

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

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	Up to 1 month ₦ million	1–3 months ₦ million	3–6 months ₦ million	6–12 months ₦ million	1–5 years ₦ million	Over 5 years ₦ million	Total ₦ million
At 31 December 2012							
Derivative liabilities							
Interest rate swap	-	(61)	-	-	-	-	(61)
Accumulator-forward FX contract	-	-	-	-	(260)	-	(260)
	-	(61)	-	-	(260)	-	(321)
Derivative assets	-	-	-	-	-	-	-
	-	(61)	-	-	(260)	-	(321)
At 31 December 2011							
Derivative liabilities							
Interest rate swap	-	(282)	-	-	(158)	-	(439)
Accumulator-forward FX contract	-	-	-	-	(556)	-	(556)
	-	(282)	-	-	(714)	-	(995)
Derivative assets							
Interest rate swap	-	665	-	-	-	-	665
Accumulator-forward FX contract	138	-	-	-	-	-	138
	138	665	-	-	-	-	803
	138	383	-	-	(714)	-	(193)
At 1 January 2011							
Derivative liabilities							
Interest rate swap		-	-	-	(834)		(834)
Accumulator-forward FX contract		-	-	(354)	(439)		(793)
	-	-	-	(354)	(1,272)	-	(1,627)
Derivative assets							
Interest rate swap	-	-	-	-	1,927	-	1,927
	-	-	-	(354)	655	-	300

Derivatives settled on a gross basis

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

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

	Up to 1 month ₦ million	1–3 months ₦ million	3–6 months ₦ million	6–12 months ₦ million	1–5 years ₦ million	Over 5 years ₦ million	Total ₦ million
At 1 January 2011							
Derivatives held for trading							
Foreign exchange derivatives:	31	(9)	-	-	-	-	22
	31	(9)	-	-	-	-	22

3.4 Market risk

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

Market risk arises from positions in currencies and securities held in our trading portfolio and from our retail banking business, investment portfolio, and other non-trading activities. The movement in market risk variables may have a negative impact on the balance sheet or income statement.

Through the financial year, the Bank was exposed to market risk in its trading and non-trading activities, mainly as a result of:

- interest rate movements in reaction to monetary policy changes by the Central Bank of Nigeria, fiscal policies changes and market forces;
- foreign exchange fluctuations arising from demand and supply as well as government policies; and
- equity price movements in response to market forces and changing market dynamics, such as market making on the Nigerian Stock Exchange.

3.4.1 Management of market risk

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

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

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

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

3.4.2 Market risk measurement techniques

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

(a) Value at risk (VaR)

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

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 99% and a 10-day holding period. The confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced three times per year in every 250 days. Only First Bank of Nigeria Limited (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 bonds and foreign exchange due to high volatility in those instruments impacting positions held by the Bank during the period. The yield on various maturities for bonds rose by over 500 basis points on average; while the naira depreciated by about 5% in the interbank market.

	The Bank		
	Average ₦ million	High ₦ million	Low ₦ million
VaR summary			
12 months to 31 December 2012			
Foreign exchange risk	176	1,267	2
Interest rate risk	264	1,303	5
Total VaR	**440**	**2,570**	**7**
12 months to 31 December 2011			
Foreign exchange risk	76	276	1
Interest rate risk	57	214	0
Total VaR	**133**	**490**	**1**
1 January 2011			
Foreign exchange risk	53	492	2
Interest rate risk	295	1,196	22
Total VaR	**348**	**1,688**	**24**

(b) Stress tests

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

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

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

Non-trading portfolio

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

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

The Group uses a variety of tools to measure non-tradable interest rate risk such as:

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

Hedged non-trading market risk exposures

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

3.4.3 Foreign exchange risk

The Group is exposed to foreign exchange risks due to fluctuations in foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2012, 31 December 2011 and 1 January 2011. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

	Naira million	USD million	GBP million	Euro million	Others million	Total million
31 December 2012						
Financial assets						
Cash and balances with Central Banks	280,453	8,291	1,110	786	9,861	300,531
Loans and advances to banks	54,337	265,384	71,602	9,325	10,601	411,249
Loans and advances	924,338	364,671	225,694	8,245	18,739.00	1,541,687
Investment securities	655,712	-	50,389	-	574.00	706,675
Assets pledged as collateral	50,109	-	-	-	-	50,109
Financial assets at fair value through profit or loss	1,726	1,262	623	-	-	3,611
Other assets	20,161	17,714	198	37	1,890	40,000
	1,986,836	657,322	349,616	18,393	41,665	3,053,832
Financial liabilities						
Customer deposits	1,716,108	531,591	113,633	3,436	36,092	2,400,860
Deposits from banks	18,435	654	69,088	10	-	88,187
Financial liabilities at fair value through profit or loss	-	1,278	518	-	-	1,796
Borrowings	20,028	52,772	12	3,352	4	76,168
Other liabilities	19,774	63,661	26,818	5,500	4,405	120,158
	1,774,345	**649,956**	**210,069**	**12,298**	**40,501**	**2,687,169**
31 December 2011						
Financial assets						
Cash and balances with Central Banks	182,417	14,289	1,593	925	4	199,228
Loans and advances to banks	250,255	180,409	13,538	16,413	2,241	462,856
Loans and advances	891,118	250,685	110,659	-	-	1,252,462
Investment securities	670,624	-	23,645	-	-	694,269
Assets pledged as collateral	72,129	-	-	-	-	72,129
Financial assets at fair value through profit or loss	3,903	1,931	130	-	-	5,964
Other assets	19,686	42,201	204	171	10	62,272
	2,090,132	489,515	149,769	17,509	2,255	2,749,180
Financial liabilities						
Customer deposits	1,368,657	397,838	172,278	12,456	2	1,951,231
Deposits from banks	50,124	1,161	132,194	18	3	183,500
Financial liabilities at fair value through profit or loss	-	1,143	1,714	-	-	2,857
Borrowings	35,381	65,033	186	3,873	-	104,473
Other liabilities	32,122	78,673	41,597	3,245	3,135	158,772
	1,486,284	543,848	347,969	19,592	3,140	2,400,833

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	Naira million	USD million	GBP million	Euro million	Others million	Total million
1 January 2011						
Financial assets						
Cash and balances with Central Banks	65,223	7,164	2,058	1,068	4	75,517
Loans and advances to banks	280,162	96,495	180,463	17,949	398	575,467
Loans and advances	824,288	222,523	113,469	11	2	1,160,294
Investment securities	245,584	-	9,124	-	-	254,708
Assets pledged as collateral	122,009	-	-	-	-	122,009
Financial assets at fair value through profit or loss	14,674	1,962	-	-	-	16,636
Other assets	8,040	30,902	249	82	9	39,282
	1,559,980	359,046	305,363	19,110	413	2,243,912
Financial liabilities						
Customer deposits	1,151,322	288,573	4,126	3,577	2	1,447,600
Deposits from banks	148,336	-	-	13	3	148,352
Financial liabilities at fair value through profit or loss	-	1,639	-	-	-	1,639
Borrowings	41,111	79,511	254	5,474	-	126,350
Other liabilities	47,458	58,336	1,578	12,636	462	120,470
	1,388,227	428,059	5,958	21,700	467	1,844,411

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

Foreign exchange (FX) sensitivity analysis (31 December 2012)

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

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

The Group is exposed to the US dollar and euro currencies.

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

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

3.4.4 Interest rate risk

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

	Carrying amount ₦ million	Variable interest ₦ million	Fixed interest ₦ million	Non-interest bearing ₦ million
31 December 2012				
Financial assets				
Cash and balances with Central Banks	300,531	-	-	300,531
Loans and advances to banks	411,429	-	71,880	339,549
Loans and advances	1,541,687	1,541,687		
Financial assets at fair value through profit or loss	3,611	-	680	2,931
Investment securities	706,675	-	646,386	60,290
Assets pledged as collateral	50,109	-	50,109	-
Other assets	28,111	-	-	28,111
	3,042,153	**1,541,687**	**769,055**	**731,412**
Financial liabilities				
Customer deposits	2,400,860	1,894,391	496,804	9,664
Deposits from banks	88,187	-	88,187	
Financial liabilities at fair value through profit or loss	1,796	-	61	1,735
Borrowings	76,168	2,560	73,608	-
Other liabilities	120,158	-	-	120,157
	2,687,168	**1,896,951**	**658,660**	**131,557**
Interest rate mismatch		**(355,264)**	**60,286**	**(599,855)**
31 December 2011				
Financial assets				
Cash and balances with Central Banks	199,228	-	-	199,228
Loans and advances to banks	462,856	-	237,947	224,909
Loans and advances	1,252,462	1,252,462	-	-
Investment securities	694,269	-	642,176	52,093
Assets pledged as collateral	72,129	-	72,129	-
Financial assets at fair value through profit or loss	5,964	-	1,558	4,406
Other assets	52,996	-	-	52,996
	2,739,904	**1,252,462**	**953,810**	**533,632**
Financial liabilities				
Customer deposits	1,951,321	1,659,610	289,064	2,647
Deposits from banks	183,500	-	183,500	-
Financial liabilities at fair value through profit or loss	2,857	-	439	2,418
Liability on investment contracts	49,440	-	49,440	-
Borrowings	104,473	36,855	67,618	-
Other liabilities	158,771	-	-	158,773
	2,450,362	**1,696,465**	**590,061**	**163,838**
Interest rate mismatch		**(444,003)**	**363,749**	**369,794**

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	Carrying amount ₦ million	Variable interest ₦ million	Fixed interest ₦ million	Non-interest bearing ₦ million
1 January 2011				
Financial assets				
Cash and balances with Central Banks	75,517	-	-	75,517
Loans and advances to banks	575,467	-	379,609	195,858
Loans and advances	1,160,293	1,160,294		-
Investment securities	254,708	-	171,832	82,876
Assets pledged as collateral	122,009	-	122,009	-
Financial assets at fair value through profit or loss	16,636	1,927	9,523	5,186
Other assets	30,699	-	-	30,699
	2,235,329	**1,162,221**	**682,973**	**390,136**
Financial liabilities				
Customer deposits	1,447,600	1,172,557	273,755	1,288
Deposits from banks	148,352	-	148,352	-
Financial liabilities at fair value through profit or loss	1,639	1,187		452
Liability on investment contracts	76,446	-	76,446	-
Borrowings	126,350	60,481	65,869	-
Other liabilities	120,470	-	-	120,470
	1,920,857	1,234,225	564,422	122,210
Interest rate mismatch		**(72,004)**	**118,551**	**267,926**

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 2012. Carrying amounts of items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date. The interest rate exposure of the other subsidiaries is considered insignificant to the Group. Thus, the repricing profile of the Bank is deemed to be fairly representative of the Group.

	<=30 days ₦ billion	31–90 days ₦ billion	91–180 days ₦ billion	181–365 days ₦ billion	1–2 years ₦ billion	2 years and above ₦ billion	Rate sensitive ₦ billion
Treasury Bills	33	68	24	1	-	-	126
Government bonds	29	8	7	59	201	204	508
Loans and advances to banks	308	21	-	-	-	-	329
Commercial papers	42	71	13	-	-	-	126
Commercial loans	16	38	868	-	-	-	922
Overdraft	8	12	169	70	-	-	259
Equipment on lease	-	-	4	-	-	-	4
Staff loans	-	-	5	-	-	-	5
Total assets	**436**	**218**	**1,090**	**130**	**201**	**204**	**2,279**
Deposits from customers	250	263	196	283	274	181	1,447
Deposits from banks	-	18	-	-	-	-	18
Medium-term loan	50	1	1	1	4	25	81
Total liabilities	**300**	**282**	**196**	**284**	**278**	**206**	**1,546**
	135	**(64)**	**894**	**(153)**	**(77)**	**(2)**	**732**

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

3.5 Management of insurance risk

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

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk.

(a) Underwriting risk

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

Insurance events are random and the actual number and amount of underwriting benefits will vary from the best estimates established from statistical techniques and taking cognisance of past experience. The Company manages these risks through its underwriting strategy, reinsurance arrangements and claims handling processes.

The following policies and practices are used by the Company as part of its underwriting strategy to mitigate underwriting risk:

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

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

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

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

(b) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The most significant are the increasing level of death and job loss. Estimated inflation is also a significant factor due to the long period typically required to settle cases where information is not readily available.

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew policies and it has the right to reject the payment of a fraudulent claim.

The reinsurance arrangements include surplus and quota – share. The effect of such reinsurance arrangements is that the Company should not suffer total net insurance losses of more than ₦10 million on any policy. In addition to the overall company reinsurance programme, individual business units are permitted to purchase additional reinsurance protection.

The Company has specialised claims units dealing with the mitigation of risks surrounding claims. This unit investigates and adjusts all claims. The claims are reviewed individually on a quarterly basis and adjusted to reflect the latest information on the underlying facts, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

The concentration of insurance risk before and after reinsurance by class of business in relation to the type of insurance risk accepted is summarised below, with reference to the carrying amount of the estimated insurance liabilities (gross and net of reinsurance) arising from insurance contracts:

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

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

	31 December 2012			31 December 2011		
	Gross liability	**Reinsurance**	**Net liability**	**Gross liability**	**Reinsurance**	**Net liability**
Group life	**536,924**	**(123,881)**	**413,043**	70,653	(960)	69,693
Group credit life	**81,306**	**-**	**81,306**	11,316	-	11,316
Individual life	**3,173**	**-**	**3,173**	110	-	110
Total	**621,403**	**(123,881)**	**497,522**	**82,079**	**(960)**	**81,119**

(c) Sources of uncertainty in the estimation of future claim payments

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

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

Group business
An unexpired premium reserve (UPR) was included for Group life business, allowing for acquisition expenses at a ratio of 15% of premium. An allowance was made for IBNR claims in Group life to take care of the delay in reporting claims.

A similar approach was used to calculate reserves for Group credit life business (UPR and IBNR) allowing for acquisition costs at a ratio of 10% of premium. An additional expense reserve was also calculated for future operating expenses.

Process used to decide on assumptions

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

ii The valuation of the liabilities was made on the assumption that premiums have been credited to the accounts as they fall due, according to the frequency of the particular payment.

iii No specific adjustment has been made for immediate payment of claims.

iv No specific adjustment has been made for expenses after premiums have ceased in the case of limited payment policies, i.e., they have been allocated the same level of expenses as premium paying policies.

v No allowance had been made for lapses or surrenders.

vi Where negative reserves were calculated, these were set to zero to prevent policies being treated as assets.

vii Any policies subject to substandard terms were valued using the same basis as standard policies.

(d) Insurance risk sensitivity

The sensitivity analysis was performed using the under-listed variables:

(a) Valuation interest (discount) rate +/-1%

(b) Expenses +/- 10%

(c) Expense inflation +/-2%

(d) Mortality +/-5% (including Group Life)

	Base	VIR 1%	VIR -1%	Expenses 10%	Expenses -10%	Expense inflation 2%	Expense inflation -2%
Traditional individual risk	749,894	698,493	837,218	777,957	723,015	782,182	731,163
Group life	622,390	622,390	622,390	622,390	622,390	622,390	622,390
Group credit life	690,187	690,187	690,187	697,886	682,508	690,187	690,187
Reinsurance	(8,443)	(8,443)	(8,443)	(8,443)	(8,443)	(8,443)	(8,443)
Net liability	2,054,028	2,002,627	2,141,352	2,089,790	2,019,470	2,086,316	2,035,297
Assets	2,312,396	2,312,396	2,312,396	2,312,396	2,312,396	2,312,396	2,312,396
Surplus/deficit	258,368	309,769	171,044	222,606	292,926	226,080	277,099
% change in surplus	-	20%	(34%)	(14%)	13%	(12%)	7%

	Base	Mortality 5%	Mortality -5%
Traditional individual risk	749,894	753,889	745,979
Group life	622,390	662,491	596,249
Group credit life	690,187	690,187	690,187
Reinsurance	(8,443)	(11,253)	(8,443)
Net liability	2,054,028	2,095,314	2,023,972
Assets	2,312,396	2,312,396	2,312,396
Surplus/deficit	258,368	217,082	288,424
% change in surplus	-	(16%)	12%

Assumptions have been flexed on the basis used to calculate the value of in-force (VIF) business and the realistic and statutory reserving bases. The mortality sensitivity shows the impact of reducing and increasing mortality rates on business to 95% and 105% respectively of the base rates. The expense inflation sensitivity result shows the impact of reducing and increasing expense inflation rates on business to 98% and 102% respectively of the base rates. The expense sensitivity result shows the impact of reducing and increasing maintenance 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.

3.6 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 2012, the market value of quoted securities held by the Group is ₦6.99 billion (2011: ₦4.42 billion). If the all share index of the NSE moves by 100 basis points from the 28,078.81 position at 31 December 2012, the effect on the fair value of these quoted securities and other comprehensive income would have been ₦11.25 million.

The Group holds a number of investments in unquoted securities with a market value of ₦52.97 billion (2011: ₦47.68 billion) of which investments in Airtel Nigeria Ltd (49%), African Finance Corporation (31%) and Interswitch Ltd (3%) are the significant holdings. These investments were valued at ₦25.97 billion (cost ₦2.9 billion); ₦16.55 billion (cost ₦12.7 billion); and ₦1.56 billion (cost ₦31 million) respectively as at 31 December 2012. AFC is a private sector-led investment bank and development finance institution which has the Central Bank as a single major shareholder (42.5%) with other African financial institutions and investors holding the remaining shares. Airtel Nigeria is a private limited liability company whose principal activity is the provision of mobile telecommunications service using the Global System for Mobile Communications (GSM) platform. The AFC operates a US dollar denominated balance sheet and provides finance in this currency. As at 31 December 2011 the corporation had a balance sheet size of $1.26 billion. Interswitch is an integrated payment and transaction processing company that provides technology integration, advisory services, transaction processing and payment infrastructure to banks, government and corporate organisations.

	At 31 December 2012	
	Favourable changes ₦ million	Unfavourable changes ₦ million
Unquoted investment security – Arican Finance Corporation[1]	18,209	14,898
Unquoted investment security – Airtel[1]	28,567	23,374
Unquoted investment security – Interswitch[1]	1,711	1,400

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

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

3.7 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

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

	31 December 2012		31 December 2011		1 January 2011	
	Carrying value ₦ million	Fair value ₦ million	Carrying value ₦ million	Fair value ₦ million	Carrying value ₦ million	Fair value ₦ million
Financial assets						
Cash and balances with Central Banks	300,531	300,531	199,228	199,228	75,517	75,517
Loans and advances to banks	411,429	411,429	462,856	452,520	575,467	552,865
Loans and advances to customers						
overdrafts	266,555	266,555	173,591	173,591	151,178	151,178
term loans	1,081,168	1,173,192	871,863	987,775	779,534	885,012
staff loans	5,373	5,829	6,343	7,226	6,307	7,223
commercial papers	125,883	144,659	183,973	220,605	112,328	135,445
project finance	59,014	67,816	12,081	13,877	103,623	131,153
advances under finance lease	3,694	4,008	4,611	4,216	7,323	7,925
Investment securities (held to maturity)	337,278	344,272	337,336	304,606	31,886	32,250
Asset pledged as collateral	31,063	26,275	39,743	30,084	12,909	12,839
Other assets	40,000	40,000	62,272	62,801	39,515	39,515
Total	**2,661,988**	**2,785,037**	**2,353,897**	**2,463,476**	**1,895,587**	**2,053,524**
Financial liabilities						
Deposits from banks	88,187	88,187	183,500	183,500	148,352	148,352
Deposits from customers	2,400,860	2,400,860	1,951,321	1,951,321	1,447,600	1,447,600
Other liabilities	120,157	120,157	158,773	158,773	120,470	120,393
Borrowings	76,168	76,168	104,473	104,473	126,350	126,350
Total	**2,685,372**	**2,685,372**	**2,398,067**	**2,398,067**	**1,842,772**	**1,842,772**

(b) Fair valuation methods and assumptions

i Cash and balances with central banks

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

ii Loans and advances to banks

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

iii Loans and advances to customers

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

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

v Deposits from banks and due to customers
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

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

(c) Financial instruments measured at fair value

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

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

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

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

	Level 1	Level 2	Level 3	Total
31 December 2012				
Financial assets				
Financial assets at fair value through profit or loss				
Debt securities	**680**	**-**	**-**	**680**
Listed equity securities	**712**	**-**	**-**	**712**
Derivatives	**623**	**1,596**	**-**	**2,219**
Available-for-sale financial assets				
Investment securities – debt	**208,531**	**48,074**	**-**	**256,605**
Investment securities – unlisted debt	**-**	**52,503**	**-**	**52,503**
Investment securities – unlisted equity	**-**	**52,910**	**59**	**52,969**
Investment securities – listed equity	**7,319**	**-**	**-**	**7,319**
Assets pledged as collateral	**19,046**			**19,046**
Financial liabilities at fair value through profit or loss				
Derivatives	**518**	**1,278**	**-**	**1,796**
31 December 2011				
Financial assets				
Financial assets at fair value through profit or loss				
Listed debt securities	1,558	-	-	1,558
Listed equity securities	3,284	-	-	3,284
Derivatives	-	1,123	-	1,123
Available-for-sale financial assets				
Investment securities – debt	223,138	33,916	-	257,054
Investment securities – unlisted debt	-	47,786	-	47,786
Investment securities – unlisted equity	-	16,966	31,122	48,088
Investment securities – listed equity	4,007	-	-	4,007
Assets pledged as collateral	32,386	-	-	32,386
Financial liabilities at fair value through profit or loss				
Derivatives	-	2,857	-	2,857

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

Reconciliation of level 3 items

	Level 1	Level 2	Level 3	Total
At 1 January 2011				23,963
Total gains/(losses) recognised through OCI				7,159
At 31 December 2011				31,122
Purchases				-
Sales				-
Total gains/(losses) recognised through OCI				-
Impairment allowance				
Transfer into/(out of) Level 3				(31,063)
At 31 December 2012				**59**

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

Sensitivity analysis of level 3 items

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

	At 31 December 2012		At 31 December 2011		At 1 January 2011	
	Favourable changes ₦ million	Unfavourable changes ₦ million	Favourable changes ₦ million	Unfavourable changes ₦ million	Favourable changes ₦ million	Unfavourable changes ₦ million
Financial assets						
Unquoted investment security – African Finance Corporation[1]	-	-	23,739	19,423	22,595	18,487
Unquoted investment security – Capital Alliance Property Investment Company[1]	-	-	1,229	1,005	781	639

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

3.8 Measurement basis of financial assets and liabilities

	Fair value through profit and loss held for trading ₦ million	Fair value through other comprehensive income available for sale ₦ million	Amortised cost ₦ million	Total ₦ million
31 December 2012				
Financial assets				
Cash and balances with Central Banks	-	-	300,531	300,531
Loans and advances to banks	-	-	411,429	411,429
Loans and advances to customers	-	-	1,541,687	1,541,687
Investment securities		369,397	337,278	706,675
Asset pledged as collateral	-	19,046	31,063	50,109
Financial assets held for trading	3,611	-	-	3,611
Other assets excluding prepayments	-	-	28,111	28,111
Total financial assets	3,611	388,443	2,650,099	3,042,153
Financial liabilities				
Customer deposits	-	-	2,400,860	2,400,860
Deposits from banks	-	-	88,187	88,187
Financial liabilities held for trading	1,796	-	-	1,796
Borrowings	-	-	76,168	76,168
Other liabilities excluding accruals			102,256	-
Total financial liabilities	1,796	-	2,667,471	2,567,011
31 December 2011				
Financial assets				
Cash and balances with Central Banks	-	-	199,228	199,228
Loans and advances to banks	-	-	462,856	462,856
Loans and advances to customers	-	-	1,252,462	1,252,462
Investment securities	-	356,933	337,336	694,269
Asset pledged as collateral	-	32,386	39,743	72,129
Financial assets held for trading	5,964	-	-	5,964
Other assets excluding prepayments	-	-	52,996	52,996
Total financial assets	5,964	389,319	2,344,621	2,739,904
Financial liabilities				
Customer deposits	-	-	1,951,321	1,951,321
Deposits from banks	-	-	183,500	183,500
Financial liabilities held for trading	2,857	-	-	2,857
Borrowings	-	-	104,473	104,473
Other liabilities excluding accruals			147,282	147,282
Total financial liabilities	2,857	-	2,386,576	2,389,433
1 January 2011				
Financial assets				
Cash and balances with Central Banks	-	-	75,517	75,517
Loans and advances to banks	-	-	575,467	575,467
Loans and advances to customers	-	-	1,160,293	1,160,293
Investment securities		222,822	31,886	254,708
Asset pledged as collateral	-	109,100	12,909	122,009
Financial assets held for trading	16,636	-	-	16,636
Other assets excluding prepayments	-	-	30,699	30,699
Total financial assets	1,639	331,922	1,886,771	2,235,329
Financial liabilities				
Customer deposits	-	-	1,447,600	1,447,600
Deposits from banks	-	-	148,352	148,352
Financial liabilities held for trading	1,639	-	-	1,639
Borrowings	-	-	126,350	126,350
Other liabilities excluding accruals			114,534	114,534
Total financial liabilities	1,639	-	1,836,835	1,838,475

4 Capital management

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

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

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

The Group's capital is divided into two tiers:

- Tier 1 capital: core equity tier 1 capital including ordinary shares, statutory reserve, share premium and general reserve, non-controlling interests arising on consolidation from interests in permanent shareholders' equity. The book value of goodwill, intangible assets, unpublished losses and under provisions are deducted in arriving at tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, preference shares, collective impairment allowances, debenture stock, non-controlling interest and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

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

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

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

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Tier 1 capital			
Share capital	**16,316**	16,316	16,316
Share premium	**254,524**	254,524	254,524
Statutory reserve	**43,347**	32,144	28,508
SMEEIS reserves	**6,076**	6,076	6,309
Retained earnings	**73,367**	41,587	47,304
Less: intangible assets	**(3,522)**	(1,008)	(494)
Total qualifying for tier 1 capital	**390,108**	349,639	352,467
Tier 2 capital			
Fair value reserve	**26,272**	8,525	47,033
Statutory credit reserve	**16,101**	9,766	28,220
Translation reserve	**1,668**	606	-
Minority interest	**2,548**	964	1,148
Contingency reserve	**50**	13	-
Treasury share reserve	**(1,422)**	(1,941)	(27,767)
Other borrowings	**2,560**	4,677	7,036
Total qualifying for tier 2 capital	**47,777**	22,610	55,670
Total regulatory capital	**437,885**	372,249	408,137
Risk-weighted assets			
On balance sheet	**1,792,706**	1,518,606	1,425,675
Off balance sheet	**216,117**	160,876	207,280
Total risk-weighted assets	**2,008,823**	1,679,482	1,632,955
Risk-weighted capital adequacy ratio (CAR)	**21.80%**	22.16%	24.99%

5 Segment information

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

The Group is divided into the following business units:

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

Investment Banking 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 largely institutional (corporations and governments) clientele.

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

Other Financial Services business group
Currently serves as an incubator for our smaller non-bank financial services businesses. FBN Microfinance Bank Limited provides microfinance services to the mass-market retail segment.

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event.

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

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

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

Segment result of operations

The segment information provided to the Group Management Committee for the reportable segments for the year ended 31 December 2012 is as follows:

	Commercial Banking group ₦ million	IBAM group ₦ million	Insurance group ₦ million	Other Financial Services group ₦ million	Total ₦ million
At 31 December 2012					
Total segment revenue	338,921	11,805	4,229	5,390	360,345
Inter-segment revenue	326	(70)	(256)	-	-
Revenue from external customers	339,247	11,735	3,973	5,390	360,345
Profit/(loss) before tax	86,177	4,321	642	1,561	92,701
Income tax expense	(14,918)	(1,105)	(177)	(831)	(17,031)
Profit for the year	71,259	3,216	465	730	75,670
Impairment charge on credit losses	(13,165)			(61)	(16,790)
Impairment charge on doubtful receivables	-	543	(28)		515
Share of profit/(loss) from associates	1,008	-	-	(1,602)	(594)
Depreciation	(9,894)	(195)	(78)	(79)	(10,246)
Total assets	3,101,230	31,267	6,652	46,979	3,186,128
Other measures of assets:					
Loans and advances to customers	1,563,005	-	-	1,508	1,564,513
Investment in associates	5,609	-	-	712	6,321
Expenditure on non-current assets	18,634	281	90	226	19,231
Premium debtors	-	-	495	-	495
Investment securities	-	26,464	-	-	26,464
Total liabilities	2,725,847	16,833	3,069	1,533	2,747,282

Notes to the annual financial statements
At 31 December 2012

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

Geographical information

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Non-current asset			
Nigeria	**74,955**	66,540	64,019
Outside Nigeria	**3,953**	342	109
Total	**78,908**	66,882	64,128
Revenues			
Nigeria	**333,045**	257,029	
Outside Nigeria	**27,300**	16,782	
Total	**360,345**	273,811	

6 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 Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

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

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

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Bank's impairment charge on financial assets are set out in the Risk management section on pages 47 to 54.

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 3.2.7 for more information.

(b) Fair value of financial instruments

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

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

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

(c) Held-to-maturity investments

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

(d) Retirement benefit obligation

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

7 Interest income

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Investment securities	**78,303**	40,746
Financial assets at fair value through profit or loss	**40**	665
Loans and advances to banks	**8,730**	20,183
Loans and advances to customers	**200,201**	151,381
	287,274	212,975

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

8 Interest expense

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Customer deposits	**54,347**	26,905
Deposit from banks	**6,451**	5,514
Borrowings	**1,284**	4,365
	62,082	36,784

9 Impairment charge for credit losses

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Loans and advances to customers		
Increase/(decrease) in collective impairment (refer Note 24)	**2,064**	(6,014)
Increase in specific impairment (refer Note 24)	**14,567**	44,141
Income received on claims previously written off	**(3,817)**	(3,812)
Other assets (refer Note 37)		
Increase in impairment	**1**	3,696
Reversal of impairment	**(516)**	-
	12,299	38,011

The credit impairment charge for the Group declined from ₦38.1 billion in the financial year ended December 2011 to ₦16.6 billion in December 2012 financial year. The significant decline is attributable to a number of initiatives by the Group, which include proactive management of the loan portfolio, strengthening of monitoring function and culture including prompt identification and active remedial or recovery steps on delinquent loans and adoption of more rigorous credit appraisal process.

10 Fee and commission income

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Credit-related fees	**2,556**	4,406
Commission on turnover	**28,935**	18,477
Letters of credit commissions and fees	**4,748**	5,719
Account maintenance fees	**3,531**	2,119
Electronic banking fees	**4,517**	2,552
Commission on bonds and guarantees	**1,394**	1,229
Funds transfer and intermediation fees	**2,680**	2,048
Commission on collection	**4,787**	4,688
Other fees and commissions	**6,816**	6,346
	59,964	47,584

11 Net insurance premium

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Premium revenue arising from insurance contracts issued	**1,664**	1,295
Premium revenue ceded to reinsurers from insurance contracts issued	**(120)**	(31)
Net insurance premium	**1,544**	1,264

12 Foreign exchange (FX) income

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Foreign exchange income	**2,448**	7,497

This income relates to margins earned from FX trading.

13 Net gains/(losses) on investment securities

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Net results on disposal of financial assets	**(327)**	1,046
Others	**544**	568
Impairment of available-for-sale financial assets	**822**	(944)
	1,039	670

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

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Equity securities	**8**	762
Derivatives	**1,717**	(470)
Debt securities	**35**	(1,288)
	1,760	(996)

15 Other operating income

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Other income	**5,487**	417
	5,487	417

16 Insurance claims

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Current year claims and loss adjustment expenses	**574**	65
Increase in expected cost of claims for unexpired risks	**48**	16
Claims expense recovered from reinsurers	**(124)**	-
Total claims and loss adjustment expenses	**498**	81

17 Operating expenses

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

(a) Personnel expenses

	Group		Company
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million
Wages and salaries	**47,916**	48,655	1
Pension costs:			
Defined contribution plans	**2,508**	3,737	-
Defined benefit plans (Note 43)	**18,380**	5,152	-
	68,804	57,544	1

(b) Operating lease rentals:

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

	Group		Company
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million
Within one year	**224**	216	-
Between two and five years	**552**	729	-
	776	945	-

18 Taxation

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

Reconciliation of effective tax rate

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Profit before income tax	**92,701**	35,863
Tax calculated using the domestic corporation tax rate of 30% (2012: 30%, 2011: 30%)	**27,810**	10,759
Effect of tax rates in foreign jurisdictions		
Non-deductible expenses	**7,488**	10,328
Effect of education tax levy	**535**	236
Effect of information technology	**839**	537
Effect of capital gains tax	**524**	
Effect of minimum tax	**-**	2,188
Effect of contingent tax	**9,577**	5,644
Tax-exempt income	**(28,407)**	(20,899)
Effect of disposal of subsidiary	**(1,047)**	-
Effect of change in PBT due to IFRS conversion	**-**	5,317
Tax incentives	**(265)**	(159)
Tax loss effect	**1**	3,921
(Over)/under provided in prior years	**(23)**	(645)
Total income tax expense in income statement	**17,031**	17,227
The movement in the current income tax liability is as follows:		
At start of the period	**24,254**	20,052
Tax paid	**(22,439)**	(6,614)
Tax effect of translation	**-**	-
Reclassifications	**(11)**	-
Withholding tax credit utilised	**-**	(10)
AFS securities revaluation tax charge/(credit)	**690**	
Prior period over provision	**2,543**	-
Tax payable on excess dividend paid	**-**	-
Income tax charge	**18,192**	10,827
At 31 December	**23,228**	24,254
Current	**23,228**	24,254

19 Loss on sale of loan to AMCON

During 2011, the Asset Management Company of Nigeria purchased eligible bank assets (EBA) from First Bank of Nigeria and issued bonds at a discount in exchange for value. Of the EBA sold, ₦99 million was in respect of performing loans of Seawolf Oilfield services with a discounted value of ₦88 billion, resulting in a loss of ₦11 billion.

	31 Dec 2011 ₦ million
Face value of AMCON bonds	189,469
Unearned income	(56,145)
Discounted value	133,324
Net value of loans sold	(148,825)
Total loss on loans sold	(15,501)

20 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares. The group had 71 million units of treasury shares as at 31 December 2012 (December 2011: 86 million).

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 2012	31 Dec 2011	31 Dec 2012
Profit from continuing operations attributable to owners of the parent (₦ million)	**75,890**	19,520	(819)
Weighted average number of ordinary shares in issue (in million)	**32,561**	32,546	32,632
Basic/diluted earnings per share (expressed in Kobo per share)	**2.33**	0.60	(0.03)

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

21 Cash and balances with Central Banks

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Cash	**55,391**	45,293	33,155
Balances with Central Banks excluding mandatory reserve deposits	**53,431**	50,038	31,231
	108,822	95,331	64,386
Mandatory reserve deposits with the Central Bank of Nigeria	**191,709**	103,897	11,131
	300,531	199,228	75,517

22 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with other banks and other short-term highly liquid investments with original maturities less than three months.

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Cash (Note 21)	**55,391**	45,293	33,155
Balances with Central Banks other than mandatory reserve deposits (Note 21)	**53,431**	50,038	31,231
Loans and advances to banks excluding long-term placements (Note 23)	**410,723**	462,856	575,467
Treasury Bills included in financial assets at FVTPL (Note 25)	**680**	1,316	496
Treasury Bills and eligible bills excluding pledged Treasury Bills (Note 26.1 and 26.2)	**121,347**	149,489	10,365
	641,572	708,992	650,714

23 Loans and advances to banks

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

Balances with banks outside Nigeria include ₦48.9 billion (December 2011: ₦61 billion, 1 January 2011: ₦41.9 billion) which represents the naira value of foreign currency bank balance held on behalf of customers in respect of Letters of Credit transactions. The corresponding liability is included in other liabilities (see Note 44). The amount is not available for the day-to-day operations of the Group.

Included in loans to banks is a non-current placement of ₦706 million (2011: Nil, 2010: Nil) which does not qualify as cash and cash equivalent. All other loans to banks are due within three months.

24 Loans and advances to customers

24.1 Analysis of loans and advances to customers

	Gross amount ₦ million	Specific impairment ₦ million	Collective impairment ₦ million	Total impairment ₦ million	Carrying amount ₦ million
31 December 2012					
Overdrafts	**276,839**	**6,882**	**3,402**	**10,284**	**266,555**
Term loans	**1,107,756**	**10,372**	**16,216**	**26,588**	**1,081,168**
Staff loans	**5,974**	**-**	**600**	**600**	**5,373**
Commercial papers (CP)	**126,916**	**-**	**1,033**	**1,033**	**125,883**
Project finance	**59,746**	**-**	**732**	**732**	**59,014**
	1,577,230	**17,254**	**21,983**	**39,237**	**1,538,193**
Advances under finance lease	**3,781**	**-**	**87**	**87**	**3,694**
	1,581,011	**17,254**	**22,070**	**39,324**	**1,541,687**
31 December 2011					
Overdrafts	178,410	1,671	3,148	4,819	173,591
Term loans	896,997	11,263	13,871	25,134	871,863
Staff loans	6,575	-	232	232	6,343
Commercial papers (CP)	186,170	-	2,197	2,197	183,973
Project finance	12,555	-	474	474	12,081
	1,280,707	12,934	19,922	32,856	1,247,851
Advances under finance lease	4,697		86	86	4,611
	1,285,404	12,934	20,008	32,942	1,252,462
1 January 2011					
Overdrafts	169,370	12,294	5,898	18,192	151,178
Term loans	807,990	12,680	15,776	28,456	779,534
Staff loans	6,887	-	580	580	6,307
Commercial papers (CP)	114,522	-	2,194	2,194	112,328
Project finance	105,045	423	999	1,422	103,623
	1,203,814	25,397	25,447	50,844	1,152,970
Advances under finance lease	8,282	634	325	959	7,323
	1,212,096	26,031	25,772	51,803	1,160,293

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Current	**392,238**	357,564	263,506
Non-current	**1,149,449**	894,898	896,787
	1,541,687	1,252,462	1,160,293

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

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

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

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

24.4 Nature of security in respect of loans and advances:

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

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

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

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

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Treasury Bills included in cash equivalents	**680**	1,316	496
Government bonds	**-**	242	9,027
Total debt securities	**680**	1,558	9,523
Listed equity securities	**712**	3,282	5,151
Total equity securities	**712**	3,282	5,151
Derivative assets	**2,219**	1,124	1,962
Total assets held for trading	**3,611**	5,964	16,636

The Group uses the following derivative strategies:

Economic hedges

The Group use of derivative instrument is very nascent and has been limited to hedging of risk exposures resulting from adverse movement in market risk factors. The Group's derivative transactions are principally in:

i Interest rate swaps to hedge against interest rate risks in its banking book; and

ii Forward FX contracts entered into to hedge against foreign exchange risks arising from cross-currency exposures.

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

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

Customers' risk hedge needs

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

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

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

	31 Dec 2011		
	Notional contract amount ₦ million	Fair values	
		Asset ₦ million	Liability ₦ million
Interest rate derivatives			
Interest rate swaps	68,728	665	439
Foreign exchange derivatives			
Forward FX contract	10,636	165	1,728
Currency swap	7,915	137	690
Put options	14,839	157	-
	102,118	1,124	2,857
Current	10,636	165	1,728
Non-current	91,482	959	1,129
	102,118	1,124	2,857

	1 Jan 2011		
	Notional contract amount ₦ million	Fair values	
		Asset ₦ million	Liability ₦ million
Interest rate derivatives			
Interest rate swaps	69,875	1,927	(1,187)
Foreign exchange derivatives			
Forward FX contract	1,516	35	(13)
Currency swap	5,992	-	(439)
	77,383	1,962	(1,639)
Current	1,516	35	(13)
Non-current	75,867	1,927	(1,626)
	77,383	1,962	(1,639)

26 Investment securities

	Group			Company
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million
26.1 Securities available for sale				
Debt securities – at fair value:				
Treasury Bills	**121,347**	149,489	3,368	-
Government bonds	**183,706**	155,351	136,578	-
Unlisted	**4,055**	-	-	-
Equity securities – at fair value: listed	**7,319**	4,417	6,196	-
Equity securities – at fair value: unlisted	**52,970**	47,676	76,680	2,307
	369,397	356,933	222,822	2,307
Assets pledged as collateral				
Debt securities – at fair value				
Treasury Bills	**17,531**	22,195	-	-
Government bonds	**1,515**	10,191	109,100	-
	19,046	32,386	109,100	-
Total securities classified as available for sale	**388,443**	389,319	331,922	2,307
26.2 Securities held to maturity				
Debt securities – at amortised cost:				
Government bonds and Treasury Bills	**161,152**	337,336	6,997	-
Unlisted	**176,126**	-	24,889	2,450
	337,278	337,336	31,886	2,450
Assets pledged as collateral				
Debt securities – at amortised cost				
Treasury Bills	**-**	-	12,909	-
Government bonds	**31,063**	39,743	-	-
	31,063	39,743	12,909	-
Total securities classified as held to maturity	**368,341**	377,079	44,795	2,450
26.3 Loans and receivables				
Intercompany loans	**-**	-	-	10,270
Others	**-**	-	-	744
	-	-	-	11,014
Total investment securities	**756,784**	766,398	376,717	15,771

27 Assets pledged as collateral

The assets pledged by the Group are strictly for the purpose of providing collateral to the counterparty. To the extent that the counterparty is 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:

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Available-for-sale debt securities (Note 26.1)	**19,046**	32,386	109,100
Held-to-maturity debt securities (Note 26.2)	**31,063**	39,743	12,909
	50,109	72,129	122,009
Current	**19,046**	32,386	109,100
Non-current	**31,063**	39,743	12,909
	50,109	72,129	122,009

28 Acquisition of subsidiary

In October 2011, First Bank of Nigeria Plc paid for the acquisition of a 75% interest in Thorens Limited, which owns 99.9% interest in Banque Internationale de Crédit (BIC) in Democratic Republic of Congo (DRC). The transaction was approved by the Central Banks in Nigeria and the DRC, subject to subsequent restructuring of the investment by the Bank to achieve direct ownership of BIC. As part of the restructuring, the Bank gained effective control of BIC on 31 March 2012 by controlling 75% of its shares and voting interest and thus accounted for the acquisition on that date. The consideration transferred by the Bank in October 2011 was ₦5.5 billion.

The acquired company contributed interest income of ₦2,123 million and fee commission of ₦2,251 to the Group for the period 1 April 2012 to 31 December 2012 as well as profit of ₦671 million. If the acquisition had occurred on 1 January 2012, the Group interest income would show ₦277,705 million, Group fee and commission would be ₦54,123 and Group profit before tax would have been ₦86,400.

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

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

	31 March 2012 ₦ million
Consideration	
Cash	**5,503**
Contingent consideration	**-**
	5,503
	Provisional fair value ₦ million
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	**16,922**
Treasury Bills	**44**
Loans and advances to customers	**16,046**
Inventory	**146**
Deferred tax asset	**1,045**
Other assets	**1,975**
Property, plant and equipment	**2,669**
Deposits	**(27,522)**
Other liabilities	**(6,182)**
Total identifiable net assets	**5,142**
Non-controlling interest	**(1,286)**
Goodwill	**1,646**

	31 March 2012 ₦ million
Cash and cash equivalents acquired from the subsidiary are made up of the following:	
Cash and balances with Central Banks	10,081
Treasury Bills	44
Loans and advances to banks	6,841
	16,966

The goodwill of ₦1,646 million arises from a number of factors such as expected synergies through combining a highly skilled workforce and obtaining economies of scale and unrecognised assets such as customer listing, brand and workforce.

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

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

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

The net contractual amount for loans and advances to customers is ₦16.05 billion which is net of a loan loss provision of ₦2.2 billion.

The value of the other assets is ₦1.97 billion, this includes an account receivable of ₦0.987 billion. This full amount is deemed recoverable. No provision has been made on the other assets.

The value of the acquired property plant and equipment of ₦2.669 billion is provisional, pending receipt of the final valuations for the assets.

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

29 Transactions with non-controlling interests

Acquisition of interest in a subsidiary

In February 2010, NAICOM granted an operating licence to First Bank of Nigeria Plc (FirstBank) to establish a life insurance business in partnership with Sanlam Group of South Africa. Consequently, FirstBank incorporated a subsidiary, FBN Life Assurance Company Limited. In line with the shareholder agreement, FirstBank has a holding of 65% in the equity of FBN Life Assurance Company Ltd with the remaining 35% held by Sanlam Emerging Markets. During the year ended 2011, both shareholders made their capital contributions to FBN Life in line with the shareholding ratio of 65:35. Due to regulatory restrictions, of the ₦1.2 billion capital injected by Sanlam, ₦700 million was approved by the regulators in 2011 and ₦518 million was approved in 2012. There was no gain or loss on the transaction with non-controlling interest.

30 Assets held for sale

The assets and liabilities relate to the property development portfolio of First Mortgages Limited which is being presented as held for sale following the commitment to its sale by the Group's management in compliance with the Central Bank of Nigeria's (CBN) Regulation on the Scope of Banking Activities and Ancillary Matters No 3, 2010, which requires banks in Nigeria to concentrate on banking businesses. Shareholders approved the proposal to dispose of the Company in May 2011.

The carrying amount of the assets and liabilities of the disposed group classified as held for sale are as listed below.

	31 Dec 2012 ₦ million
Inventory	5,637
Accounts receivable	7,341
Total assets	**12,978**
Liabilities classified as held for sale	
Accounts payable – deposit for property	2,836
Net asset	**10,142**

31 Investment in associates (equity method)

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

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

Seawolf is a company incorporated in Nigeria and is involved in the oil and gas sector. The company is not publicly traded and there is no published price information.

	Group		Company
	2012 ₦ million	**2011 ₦ million**	**2012 ₦ million**
Balance at beginning of period	**7,489**	8,996	-
Share of profit/(loss)	**(594)**	(1,003)	-
Transferred from First Bank of Nigeria Plc	-	-	11,875
Dividend	**(574)**	(504)	-
At end of period	**6,321**	7,489	11,875

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

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

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

32 Investment properties

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

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

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

The fair value of investment properties is ₦4,339 million in 2012 which has been determined based on valuations performed by external valuers. The fair value of the properties have been determined using on transactions observable in the market.

33 Inventory

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Work in progress	**8,366**	11,807	14,881
Interest capitalised	**9,301**	5,459	5,165
Stock of properties	**9,646**	8,343	3,035
Transfer to assets held for sale	**(5,637)**		
At 31 December	**21,676**	25,609	23,081
Current	**9,646**	8,343	3,035
Non-current	**12,030**	17,266	20,046
	21,676	25,609	23,081

Inventory relates to properties under development by FBN Mortgages Limited as well the real estate development of Rainbow Town Development Limited. This FBN Mortgages property development portfolio was classified as asset held for sale during the period. See Note 27 for a detailed note.

34 Property, plant and equipment

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

35 Intangible assets

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

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

Impairment tests for goodwill

Goodwill is allocated to cash generating units at a level that represents the smallest identifiable group of assets that generate largely independent cash flows.

Goodwill of ₦1.6 billion (31 December 2011: nil) relates to the acquisition of BIC.

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

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

Cash flow forecasts

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

Growth rates

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

Discount rate

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

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

36. Deferred tax

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

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

	1 Jan 2012 ₦ million	Recognised in profit and loss ₦ million	Recognised other comprehensive income ₦ million	31 Dec 2012 ₦ million
Movements in deferred tax assets during the year:				
Property and equipment	**9,178**	77		**9,255**
Allowance for loan losses	**1,741**	1,430		**3,171**
Tax losses carried forward	**927**	(926)		**1**
Other assets	**1,126**	(374)	-	**752**
Other liabilities	**(10,420)**	134	-	**(10,286)**
Defined benefit obligation	**4,402**	760	146	**5,308**
	6,954	1,101	146	**8,201**

	1 Jan 2011 ₦ million	Recognised in profit and loss ₦ million	Recognised other comprehensive income ₦ million	31 Dec 2011 ₦ million
Movements in deferred tax assets during the year:				
Property and equipment	5,187	3,991	-	9,178
Allowance for loan losses	128	1,613	-	1,741
Tax losses carried forward	3,688	(2,761)	-	927
Other assets	-	1,126		1,126
Other liabilities	-	(10,420)		(10,420)
Defined benefit obligation	3,271	218	913	4,402
	12,274	(6,233)	913	6,954

	1 Jan 2012 ₦ million	Recognised in profit and loss ₦ million	Recognised other comprehensive income ₦ million	31 Dec 2012 ₦ million
Movements in deferred tax liabilities during the year:				
Other liabilities	**1,067**	(845)	-	**222**

	1 Jan 2011 ₦ million	Recognised in profit and loss ₦ million	Recognised other comprehensive income ₦ million	31 Dec 2011 ₦ million
Movements in deferred tax liabilities during the year:				
Other liabilities	901	166	-	1,067

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

37 Other assets

	Group			Company
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million	31 Dec 2012 ₦ million
Insurance receivables	**695**	111	-	-
Prepayments	**11,889**	9,276	8,583	236
Accounts receivable	**30,032**	32,802	34,145	-
Other receivables	**3,903**	27,118	535	-
	46,519	69,307	43,263	236
Less specific allowances for impairment	**(6,519)**	(7,035)	(3,981)	-
	40,000	62,272	39,282	236

Reconciliation of impairment account

	2012 ₦ million	2011 ₦ million
At start of period	**7,035**	3,981
(Reversal of impairment)/increase in impairment	**(516)**	3,696
Amounts written off	**-**	(693)
Reclassification	**-**	51
At end of period	**6,519**	7,035

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

38 Deposits from banks

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Interbank takings within Nigeria	**66,980**	97,661	148,115
Due to banks outside Nigeria	**21,207**	85,839	237
	88,187	183,500	148,352

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

39 Deposits from customers

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

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

40 Financial liabilities at FVTPL

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Fair value of derivatives held for trading	**1,796**	2,857	1,639
Total	**1,796**	2,857	1,639

Financial liabilities held for trading amounting to ₦1.8 billion (2011: ₦2.9 billion) are due after more than 12 months.

41 Borrowings

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

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

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

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

(iii) Facility represents a medium-term loan (dollar notes) secured from Standard Chartered Bank in February 2010 for a period of three years with a moratorium of 18 months. The interest on the loan is payable half yearly at 4.25% above the LIBOR rate. The loan is secured by ₦27 billion worth of FGN bonds investments as at year end.

(iv) Included in on-lending facilities from financial institutions are disbursements from banks within Nigeria of ₦18.807 million guaranteed by FBN for specific customers. These facilities include the BOI funds and CACS intervention funds.

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

42 Liability on investment contracts

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Long-term clients	**4,524**	38,304	20,804
Short-term clients	**7,797**	11,132	23,693
Guaranteed fixed income	**-**	4	31,949
	12,321	49,440	76,446
Current	**7,797**	11,132	23,693
Non-current	**4,524**	38,308	52,753
	12,321	49,440	76,446

43 Retirement benefit obligations

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Post employment benefits	**132**	-	-
Defined contribution scheme	**239**	391	225
Defined benefits plan			
Gratuity scheme (i)	**14,645**	7,685	6,298
Defined benefits – pension (ii)	**4,364**	7,005	4,903
	19,380	15,081	11,426

Defined contribution scheme

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

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

Gratuity scheme (i)

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

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

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

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

Three-year record from first application of IAS 19

	31 Dec 2012 ₦ million	**31 Dec 2011 ₦ million**	**1 Jan 2011 ₦ million**
Present value of defined benefit obligation	**14,645**	7,685	6,298
Fair value of plan assets	**-**	-	-
Deficit/(surplus) in the plan	**14,645**	7,685	6,298
Experience adjustments on plan liabilities	**(3,022)**	(649)	(213)

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

Defined benefit – pension (ii)

The Group has an old defined benefit scheme, discontinued in March 2001. The funds are placed with fund managers and the Group is under obligation to fund the deficit, and has elected to do this over the next five years commencing January 2010 with an annual contribution of ₦1.2 billion.

Notes to the annual financial statements
At 31 December 2012

	₦ million
The movement in the defined benefit obligation over the year is as follows:	
Defined benefit pension obligations at 1 January 2011	13,550
Interest cost	1,285
Actuarial (losses)/gains (net)	868
Benefits paid (in the year)	(1,410)
Defined benefit pension obligations at 31 December 2011	14,293
Interest cost	1,479
Actuarial (losses)/gains (net)	(536)
Benefits paid (in the year)	(1,640)
Defined benefit pension obligations at 31 December 2012	13,596
The movement in the fair value of plan assets of the year is as follows:	
Plan assets	
Fair value of plan assets at 1 January 2011	8,647
Expected return on plan assets	804
Actuarial gains/(losses)	(1,953)
Employer contributions	1,200
Benefits paid	(1,410)
Closing fair value of plan assets at 31 December 2011	7,288
Expected return on plan assets	660
Actuarial gains/(losses)	1,915
Employer contributions	1,010
Benefits paid	(1,640)
Closing fair value of plan assets at 31 December 2012	9,233
Net obligations at 1 January 2011	4,903
Net obligations at 31 December 2011	7,005
Net obligations at 31 December 2012	**4,363**

Amounts recognised in the income statement are as follows:

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

The actual return on plan assets was ₦2,575 million (2011: ₦789 million).

Amount recognised in other comprehensive income is as follows:

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Actuarial gains/(losses) (obligations)	**536**	(868)
Actuarial gains/(losses) (plan assets)	**1,915**	(1,953)
Total actuarial gains/(losses)	**2,451**	(2,821)

Composition of plan assets

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Quoted stock	**3,625**	3,020	5,610
Money market investments	**2,093**	234	566
Government securities	**3,103**	1,857	862
Money on call	**303**	749	373
Guaranteed commercial papers	**-**	1,061	1,230
Others	**108**	367	7
Total	**9,232**	7,288	8,648
Three-year record from first application of IAS 19			
Present value of defined benefit obligation	**13,596**	14,293	13,550
Fair value of plan assets	**(9,232)**	(7,288)	(8,648)
Deficit/(surplus) in the plan	**4,364**	7,005	4,902
Experience adjustments on plan liabilities	**536**	1,835	538
Experience adjustments on plan assets	**1,915**	(1,953)	(153)

The principal actuarial assumptions were as follows:

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

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

	Assumption	Defined benefit obligation ₦ million	Impact on liability
Discount rate	13%	13,793	0.0%
	12.5%	14,333	3.9%
	13.5%	13,285	(3.7%)
Inflation rate	10%	13,793	0.0%
	9.5%	13,793	0.0%
	10.5%	13,793	0.0%
Salary growth rate	12%	13,793	0.0%
	11.5%	13,249	(3.9%)
	12.5%	14,378	4.2%
Life expectancy	Base	13,793	0.0%
	Improved by 1 year	13,932	1.0%
	Decreased by 1 year	13,643	(1.1%)

44 Other liabilities

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

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

45 Share capital

	31 Dec 2012 ₦ million
Authorised	
50 billion ordinary shares of 50k each	**25,000**
Issued and fully paid	

	Number of shares	Ordinary shares ₦ million
Movements during the period:		
Issued during the period	32,632	16,316
At 31 December 2012	32,632	16,316

46 Share premium and reserves

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

Share premium: Premiums from the issue of shares are reported in share premium. A share capital reserve reduction scheme was approved by shareholders and regulators during the period. This led to a reduction in share premium by ₦65 billion.

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

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

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

SSI reserve: This reserve is maintained to comply with the Central Bank of Nigeria (CBN) requirement that all licensed banks set aside a portion of the profit after tax in a fund to be used to finance equity investments in qualifying small and medium 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 industries equity investment scheme reserves are non-distributable.

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

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

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

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

47 Reconciliation of profit before tax to cash generated from operations

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

48 Contingent liabilities and commitments

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
48.1 Capital commitments			
Authorised and contracted			
Group	1,300	2,600	3,300

The expenditure will be funded from the Group's internal resources.

48.2 Litigation

The Group is a party to legal actions arising out of its normal business operations.

The Directors believe that, based on currently available information and advice of counsel, none of the outcomes that result from such proceedings will have a material adverse effect on the financial position of the Group, either individually or in the aggregate.

48.3 Other contingent commitments

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

	The Group		Company	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Performance bonds and guarantees	**344,079**	230,200	**-**	-
Letters of credit	**220,388**	228,880	**-**	-
	564,467	459,080	**-**	-

48.4 Loan commitments

	The Group		Company	
	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Undrawn irrevocable loan commitments	**27,111**	13,481	**-**	-

49 Related-party transactions

The Group is controlled by FBN Holdings Plc, whose shares are widely held. The parent company is a non-operational holding company. In 2012, there were no related-party transactions with the parent company, other than a loan granted to a director.

A number of transactions are entered into with related parties in the normal course of business. These include loans and deposits.

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

49.1 Loans and advances to related parties

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

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

No provision has been recognised in respect of loans given to related parties.

The loans to directors and other key management personnel are repayable from various cycles ranging from monthly to annually over the tenor and have average interest rates of 18%.

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

49.2 Deposits from related parties

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

The Company had no deposits from related parties in 2012.

49.3 Other transactions with related parties

	Directors and other key management personnel (and close family members)	Associates	Subsidiaries
31 December 2011			
Interest income	-	-	2,480
Interest expense	-	-	(455)
Fee and commission income	-	-	25
Other operating income	-	-	-
Operating expenses	-	-	(705)

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

49.4 Key management compensation

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Salaries and other short-term employee benefits	**33**	383
Other long-term benefits	**1**	161
Termination benefits	**-**	1,472
	34	2,016

50 Employees

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

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

See Note 17 for compensation for the above staff.

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

	31 Dec 2012	31 Dec 2011
₦300,000–₦2,000,000	**213**	393
₦2,000,001–₦2,800,000	**216**	664
₦2,800,001–₦3,500,000	**577**	202
₦3,500,001–₦4,000,000	**72**	39
₦4,000,001–₦5,500,000	**2,938**	2,629
₦5,500,001–₦6,500,000	**1,546**	1,327
₦6,500,000–₦7,800,000	**950**	209
₦7,800,001–₦9,000,000	**222**	871
₦9,000,001 and above	**2,096**	2,087
	8,830	8,421

51 Directors' emoluments

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

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

Fees and other emoluments disclosed above include amounts paid to:

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million
Chairman	**-**	19
Highest-paid director	**22**	71

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

	31 Dec 2012 Number	31 Dec 2011 Number
Below ₦1,000,000	**-**	3
₦1,000,000–₦2,000,000	**-**	-
₦2,000,001–₦3,000,000	**-**	16
₦5,500,001 and above	**1**	36
	1	55

52 Events after statement of financial position date

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

53 Principal subsidiary undertakings

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Direct subsidiaries of FBN Holdings Plc			
First Bank of Nigeria Limited (Note 53 i)	**205,557**	-	-
FBN Capital Limited (Note 53 ii)	**4,300**	4,300	4,300
FBN Life Assurance (Note 53 iii)	**2,000**	2,000	-
FBN Insurance Brokers Limited (Note 53 iv)	**15**	15	15
FBN Microfinance Bank Limited (Note 53 v)	**1,000**	1,000	1,000
New Villa Limited (Rainbow Town Development Limited)	**100**	100	100
	212,972	7,415	5,315

	31 Dec 2012 ₦ million	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Indirect subsidiaries of FBN Holdings Plc			
FBN Bank (UK) Limited (Note 53 vi)	**30,695**	18,441	18,441
First Pension Custodian Limited (Note 53 vii)	**2,000**	2,000	2,000
First Trustees Nigeria Limited (Note 53 viii)	**23**	23	23
FBN Mortgages Limited (Note 53 ix)	**2,100**	2,100	2,100
First Registrars Nigeria Limited (Note 54)	**-**	10	10
FBN Bureau de Change Limited (Note 53 x)	**50**	500	500
First Funds Limited (Note 53 xi)	**2,050**	2,050	2,050
Banque Internationale de Crédit (Note 53 xii)	**5,503**	-	-
	42,421	25,124	25,124
Impairment of investments in subsidiaries	**-**	(23)	(23)
	42,421	25,101	25,101

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

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

i First Bank of Nigeria Limited

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

ii FBN Capital Limited

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

iii FBN Life Assurance Limited

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

iv FBN Insurance Brokers Limited

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

v FBN Microfinance Bank Limited

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

vi FBN Bank (UK) Limited

FBN Bank (UK) Ltd (FBN UK) is a company incorporated in the United Kingdom under the Companies Act 1985 as a UK-registered bank authorised by the Financial Services Authority to accept deposits and undertake banking business.

FBN UK was incorporated in November 2002. It is a wholly owned subsidiary of First Bank of Nigeria Plc. The Bank has a branch in Paris.

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

vii First Pension Custodian Nigeria Limited

First Pension Custodian Nigeria Limited was incorporated on 12 August 2005 and granted an approval in principle by the National Pension Commission on 1 August 2005 while the operating licence was obtained on 7 December 2005. The principal activity of the company is to act as a custodian of pension fund assets in accordance with the Pension Reform Act, 2004.

viii First Trustees Nigeria Limited

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

ix FBN Mortgages Limited

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

x FBN Bureau de Change Limited

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

xi First Funds Limited

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

xii Banque Internationale de Crédit

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

xiii FBN Securities Limited

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

xiv New Villa Limited (Rainbow Town Development Limited)

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

54 Disposal of subsidiary

On 28 December 2012, First Bank of Nigeria Limited disposed of 100% of the share capital of its subsidiary – First Registrars. The company contributed profit of ₦1.5 billion to the Group from 1 January 2012 to 28 December 2012 (₦986 million for prior year).

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

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

55 Condensed results of consolidated entities

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

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

First Bank of Nigeria Limited
FBN Bank (UK) Limited
Banque Internationale de Crédit
FBN Mortgages Limited
First Pension Custodian Nigeria Limited
FBN Bureau de Change Limited

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

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

Notes to the annual financial statements
At 31 December 2012

31 December 2012	Banking group ₦'m	HoldCo ₦'m	FBN Capital ₦'m	Trustees ₦'m	First Funds ₦'m	FBN Securities ₦'m	Microfinance bank ₦'m	Insurance brokers ₦'m	FBN life ₦'m	Rainbow ₦'m	Others ₦'m	Total ₦'m	Adjustments ₦'m	Group ₦'m
Condensed income statement														
Operating income	280,410	1	3,802	1,599	179	480	1,181	794	2,079	54	77	290,656	7,607	298,263
Operating expenses	(182,844)	(820)	(2,931)	(581)	(244)	(196)	(813)	(578)	(1,653)	(386)	(41)	(191,087)	(1,582)	(192,669)
Provision expense	(12,397)	-	-	-	-	-	(61)	-	-	-	-	(12,458)	159	(12,299)
Profit before tax	85,169	(819)	871	1,018	(65)	284	307	216	426	(332)	36	87,111	6,184	93,295
Associate	1,008	-	-	-	-	-	-	-	-	-		1,008	(1,602)	(594)
Tax	(14,918)	-	(188)	(895)	(8)	(13)	-	(123)	(54)	-	(1)	(16,200)	(831)	(17,031)
Profit for the year from discontinued operations	3,838	-	-	-	-	-	-	-	-	-	-	3,550	(3,550)	-
Profit/(loss) for the year	**75,097**	**(819)**	**683**	**123**	**(73)**	**271**	**307**	**93**	**372**	**(332)**	**(35)**	**75,469**	**201**	**75,670**
Condensed financial position														
Assets														
Cash and balances with Central Banks	298,024	-	2	0	-	168	62	-	288	1,139	848	300,531	-	300,531
Due from other banks	393,125	-	931	13,353	336	2,239	3,579	929	1,901	-	1,470	417,863	(6,433)	411,429
Loans and advances	1,563,005	-	-	-	-	-	1,508	-	-	-	-	1,564,513	(22,826)	1,541,687
Financial assets held for trading (HFT)	2,565	-	19	-	335	-	-	-	-	-	692	3,611	-	3,611
Investment securities	737,952	270,711	37,948	6,715	4,636	10	101	155	2,695	-	4,445	1,065,368	(302,262)	763,105
Investment properties	-	-	-	-	-	-	-	-	-	-	4,833	4,833	(830)	4,003
Inventory	-	-	-	-	-	-	-	-	-	20,086	-	20,086	1,590	21,676
Other assets	33,733	236	1,655	278	300	13	161	237	635	3,092	524	40,864	(864)	40,000
Deferred tax	7,955	-	192	1	-	-	-	53	-	-	-	8,201	-	8,201
Intangible assets	3,417	-	44	-	-	2	-	1	47	11	-	3,522	-	3,522
Property and equipment	74,454	30	372	36	14	10	261	45	114	50	-	75,386	-	75,386
Assets held for sale	12,978	-	-	-	-	-	-	-	-	-	-	12,978	-	12,978
	3,127,208	**270,977**	**41,162**	**20,383**	**5,621**	**2,442**	**5,672**	**1,420**	**5,680**	**24,378**	**12,812**	**3,517,756**	**(331,625)**	**3,186,129**

Notes to the annual financial statements
At 31 December 2012

31 December 2012	Banking group ₦'m	HoldCo ₦'m	FBN Capital ₦'m	Trustees ₦'m	First Funds ₦'m	FBN Securities ₦'m	Microfinance bank ₦'m	Insurance brokers ₦'m	FBN life ₦'m	Rainbow ₦'m	Others ₦'m	Total ₦'m	Adjustments ₦'m	Group ₦'m
Financed by														
Customer deposits	2,405,858	-	-	-	-	529	821	-	-	-	9	2,407,216	(6,357)	2,400,860
Due to other banks	87,551	-	-	-	-	-	1,112	-	-	-	-	88,663	(476)	88,187
Financial liabilities held for trading	1,796	-	-	-	-	-	-	-	-	-	-	1,796	-	1,796
Liabilities on investment contracts	-	-	-	18,331	-	-	-	-	-	-	-	18,331	(6,010)	12,321
Liabilities on insurance contracts	-	-	-	-	-	-	-	-	2,127	-	-	2,127	-	2,127
Borrowed funds	75,541	-	-	6,600	3,494	-	-	-	-	22,910	7,551	116,096	(39,929)	76,168
Tax payable	22,374	-	1,045	38	83	16	-	276	75	10	16	23,934	(706)	23,228
Other liabilities	118,065	1,085	1,541	580	45	461	2,332	363	334	1,459	4,356	130,620	(10,463)	120,158
Retirement benefit obligations	18,648	-	637	-	1	56	-	37	-	-	2	19,380	-	19,380
Deferred income tax liabilities	6	-	-	5	2	162	47	-	-	-	-	222	-	222
Liabilities held for sale	2,836	-	-	-	-	-	-	-	-	-	-	2,836	-	2,836
Equity and reserves	394,533	269,892	37,939	(5,171)	1,996	1,218	1,360	744	3,144	(1)	879	706,533	(267,687)	438,846
	3,127,208	**270,977**	**41,162**	**20,383**	**5,621**	**2,442**	**5,672**	**1,420**	**5,680**	**24,378**	**12,813**	**3,517,754**	**(331,628)**	**3,186,129**
Condensed cash flows														
Net cash from operating activities	(28,954)	-	(1,564)	(194)	193	(7,062)	196	190	929	(2,885)	24,371			(8,738)
Net cash from financing activities	(53,890)	-	(550)	(26)	-	-	(3)	-	518	3,172	(6,125)			(53,264)
Net cash from investing activities	(5,286)	-	824	306	(1,676)	(10)	(40)	139	435	25	(34)			(5,416)
At year start	708,991	-	2,222	66	1,818	9,479	333	596	2,802	828	18,117			708,991
Movement in cash and cash equivalent	(88,130)	-	(1,290)	86	(1,483)	(7,072)	153	330	1,882	312	18,212			(67,418)
At year end	620,861	-	932	152	334	2,407	486	926	4,684	1,140	36,329			641,573

56 Compliance with regulations

A penalty of ₦2.1 million was paid by the Company for publishing a notice of the Court-Ordered Extraordinary General Meeting in respect of the business restructuring without prior consent from the Securities and Exchange Commission (SEC) in accordance with section 14(a) of the general undertaking.

Note 57: transition to IFRS

Explanation of transition to IFRS

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

In preparing its opening statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with Statements of Accounting Standards issued by the Nigerian Accounting Standards Board ('previous GAAP' or 'NGAAP'). An explanation of how the transition from previous GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

In preparing these financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions from full retrospective application of IFRS. The optional exemptions from full retrospective application selected by the Group are summarised below.

Exceptions from full retrospective application – followed by the Group

The Group applied the following mandatory exceptions from retrospective application:

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

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

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

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

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

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

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

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

The Group applied the following optional exemptions from retrospective application:

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

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

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

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

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

Note 57: transition to IFRS

Reconciliation of profit for the year

		31 Dec 2012		
	Note	NGAAP ₦ million	Adjustments ₦ million	IFRS ₦ million
Continuing operations				
Interest income	(b),(c),(k)	220,397	(7,422)	212,975
Interest expense	(n)	(36,950)	166	(36,784)
Net interest income		**183,447**	**(7,256)**	**176,191**
Impairment charge for credit losses	(c)	(44,814)	6,803	(38,011)
Net interest income after impairment charge for credit losses		**138,633**	**(453)**	**138,180**
Insurance premium revenue	(b)	-	1,295	1,295
Insurance premium revenue ceded to insurers	(b)	-	(31)	(31)
Net insurance premium revenue		-	1,264	1,264
Net fee and commission income	(b)	61,721	(14,137)	47,584
Net loss from investment securities	(g)	-	670	670
Net gains/(losses) from financial assets at fair value through profit or loss	(g)	-	(996)	(996)
Foreign exchange income		7,549	(52)	7,497
Dividend income	(n)	4,950	(550)	4,400
(Loss)/profit on sale of investments	(g)	(2,245)	2,245	-
Other income		3,812	(3,395)	417
Loss on sale of assets to AMCON	(d)	-	(15,501)	(15,501)
Insurance claims		-	(81)	(81)
Other operating expenses	(k), (m)	(147,358)	1,294	(146,064)
Operating profit		67,062	(29,692)	37,370
Exceptional items	(d)	(15,489)	15,489	-
Share of (loss)/profit of associates	(p)	(1,507)	-	(1,507)
Profit before tax		50,066	(14,203)	35,863
Income tax expense		(5,281)	(11,946)	(17,227)
Profit for the year		44,785	(26,149)	18,636
Other comprehensive income				
Foreign currency translation differences		-	606	606
Unrealised net gains on AFS financial assets	(g)	-	(38,509)	(38,509)
Actuarial gains/(losses) on retired benefit obligation	(m)	-	(3,042)	(3,042)
Share of other comprehensive income of associates		-	-	-
Tax effect of other comprehensive income		-	913	913
Other comprehensive income for the period net of income tax		-	(40,032)	(40,032)
Total comprehensive income for the year		**44,785**	**66,181**	**21,395**

Notes to the reconciliation of equity and profit

Index

(a) Effective interest rate – interest payable and receivable
(b) Effective interest rate – fee and commission income
(c) Impairment – loan loss provisioning
(d) Financial statement presentation
(e) Loans and advances to customers
(f) Treasury Bills
(g) Financial instrument classification and measurement
(h) Property plant and equipment
(i) IFRS 1 – foreign exchange translation reserve
(j) Inventory
(k) Employee benefits
(l) Treasury shares
(m) Retirement benefit obligation
(n) Other correctional adjustments
(o) Deferred tax
(p) Investment in associates

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

	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Investment securities	8,023	113
Loans and advances to customers	1,370	-
Loans and advances to banks	45,818	482
	55,211	595
In addition interest relating to accrued interest payable was transferred from other liabilities to:		
Deposits from customers	3,517	2,495
Deposits from banks	55	66
Borrowings	11,190	1,478
	14,762	4,039

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

	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Investments	12,563	(2,270)

(b) The effective interest rate calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate. Under NGAAP, interest income and expense are recognised in accordance with terms of the related instrument on an accrual basis and the related fees are earned in one period. The effect of applying the effective interest method resulted in a reclassification of ₦7.8 billion for the Bank and ₦12.4 billion for the Group (which represents a reasonable estimate of earned portion) from fees and commission income for the year ended 31 December 2011 (1 January 2011: ₦0.544 billion) to interest income for the income that has been earned. The unearned portion of the fee and commission income of ₦4.6 billion is deferred and released as and when due.

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

Note 57: transition to IFRS

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

	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Interest in suspense	4,487	24,982

Under the previous GAAP, loans and advances are measured at cost net of impairment losses. A specific provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. This provision is made for each account that is not performing in accordance with the terms of the Prudential Guideline. Also, a general reserve of at least 1% is made for all performing accounts to recognise losses in respect of risks inherent in any credit portfolio. Under IFRS incurred loss model, an impairment loss can only be recognised if there is objective evidence that a loss has occurred after the initial recognition but before the reporting date.

The difference in the measurement basis of impairment loss between IFRS incurred loss model and the previous GAAP Prudential Guideline (provisions and interest in suspense) resulted in a net transfer of ₦1.06 billion for 31 December 2011 (1 January 2011: ₦23.54 billion). In line with the regulatory requirement, this reduction in impairment loss was transferred from retained earnings to a non-distributable reserve called the Statutory Credit Reserve (Central Bank of Nigeria Prudential Guideline 2011). These amounts relate to the Bank and the Group.

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

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

	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Exceptional items	15,489	226

(e) Advances under finance lease are reported separately in the statement of financial position under Nigerian GAAP. Given the nature of this portfolio, management has reclassified the total balance of ₦4.697 billion at 31 December 2011 (1 January 2011: ₦8.282 billion) from advances under finance lease to loans and advances to customers.

Under the previous GAAP, foreign currency loans (clean lines) were reported as off balance sheet loans. For the year ended 31 December 2011, a total balance of ₦11.22 billion (1 January 2011: Nil) was reclassified to loans and advances to customers.

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

Additionally, an amount of ₦72.13 billion as at 31 December 2011 (1 January 2011: ₦122.01 billion) have been reclassified as assets pledged as collateral from investment securities and Treasury Bills. Under the previous GAAP, this amount was not separately disclosed as a line item on the face of the statement of financial position.

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

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

(h) Under the previous GAAP, revaluation was carried out for some items of property plants and equipment (PPE) which resulted in a revaluation surplus in reserves. On transitioning to IFRS, the Group elected the cost model to account for its items of PPE and the revaluation reserve was reclassified to retained earnings. This resulted in an amount of ₦2.37 billion being transferred from revaluation reserve to retained earnings as at 1 January 2011. No amount existed for subsequent periods.

Under the previous GAAP, some items of PPE that are available for use in their present location and condition were recognised as deferred acquisition cost in other assets. Under IFRS, items of PPE must be recognised once the item is available for management use. The amount of ₦8.07 billion for 31 December 2011 (1 January 2011: ₦9.64 billion) was reclassified from other assets to form part of PPE. These amounts relate to Group and Bank.

Note 57: transition to IFRS

(i) IFRS 1 adjustments – The foreign currency translation reserve in respect of its subsidiary (FBN Bank (UK) Limited) was set to zero. As a result of this exemption the opening balance of the foreign currency translation reserve of ₦2.3 billion was reclassified to retained earnings as shown in the table below.

	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
Foreign currency translation reserves	4,203	3,597
Revaluation reserve	2,379	2,379

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

	31 Dec 2011 ₦ million	1 Jan 2011 ₦ million
	25,609	23,081

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

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

(l) Under the previous GAAP, some of the entities within the FirstBank Group had shares of FirstBank Plc as part of their investment portfolio. These are Treasury shares under IFRS. Under IFRS, when an entity purchases its own shares (either directly or indirectly), the amount paid for the Treasury shares is deducted from equity as Treasury shares. The amount of ₦1.94 billion for 31 December 2011 (1 January 2011: ₦27.77 billion) was debited to equity as Treasury shares.

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

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

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

(o) The effect of deferred tax on financial instruments per IFRS.

(p) The effect of equity accounting for associates per IFRS.

Explanation of material adjustments to the consolidated cash flow statements

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

Note 57: transition to IFRS

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

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

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

Note 57: transition to IFRS

		31 Dec 2011			1 Jan 2011		
	Note	NGAAP ₦ million	Adjustments ₦ million	IFRS ₦ million	NGAAP ₦ million	Adjustments ₦ million	IFRS ₦ million
EQUITY							
Share capital		16,316	-	16,316	16,316	-	16,316
Share premium		254,524	-	254,524	254,524	-	254,524
Retained earnings	(h)	42,322	7,969	50,291	23,540	28,442	51,982
Other reserves							
Statutory reserve		35,804	(3,660)	32,144	28,508	-	28,508
SMEEIS reserve		8,960	(2,884)	6,076	9,193	(2,884)	6,309
Contingency reserve	(h)	13	-	13			-
Revaluation reserve	(i)	2,379	(2,379)	-	2,379	(2,379)	-
Treasury reserve		-	(1,941)	(1,941)	-	(27,767)	(27,767)
Statutory credit reserve	(c)	-	1,062	1,062	-	23,542	23,542
Foreign currency translation reserve	(i)	4,203	(3,597)	606	3,597	(3,597)	-
AFS reserve		-	8,525	8,525	-	47,033	47,033
Non-controlling interest		964	-	964	1,148	-	1,148
Total equity		**365,485**	**3,095**	**368,580**	**339,205**	**62,390**	**401,595**
Total equity and liabilities		**2,839,374**	**20,794**	**2,860,169**	**2,304,686**	**61,664**	**2,366,350**

Value added statement

	Group				Company	
	31 Dec 2012 ₦ million	**%**	**31 Dec 2011 ₦ million**	**%**	**31 Dec 2012 ₦ million**	**%**
Gross income	**359,253**		256,803		**1**	
Interest expense	**(62,082)**		(36,784)		**-**	
	297,171		220,019		**1**	
Administrative overheads:						
Local	**(106,598)**		(80,908)		**(107)**	
Foreign	**(5,911)**		(1,793)		**-**	
Value added	**184,662**	**100**	137,318	100	**(106)**	**100**
Distribution						
Employees						
Salaries and benefits	**68,804**	**37**	53,072	39	**1**	**0**
Government						
Taxation	**17,031**	**9**	17,227	13	**-**	**-**
The future						
Asset replacement (depreciation)						
– Local	**9,721**	**5**	8,923	6	**-**	**-**
– Foreign	**461**	**0**	52	0	**-**	**-**
Asset replacement (amortisation)						
– Local	**607**	**0**	1,130	1	**-**	**-**
– Foreign	**68**	**0**	68	0	**-**	**-**
Asset replacement (provision for losses)	**12,299**	**7**	38,209	28	**-**	**-**
Expansion (transfers to reserves)	**75,670**	**41**	18,637	14	**(819)**	**100**
	184,662	**100**	137,318	100	**(818)**	**100**

Five-year financial summary – Group

Statement of financial position

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

Five-year financial summary – Group

Income statement

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

Five-year financial summary – Company

Statement of financial position

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

Income statement

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

Shareholder information

In this section

Resources for shareholders including a glossary of ratios, a summary of abbreviations and Group contact details.

Shareholder resources 302

Glossary of ratios 309

Contact information 314

Shareholder resources

Global depositary receipts (GDR) programme

FirstBank commenced a USD100 million GDR programme in May 2007.

A 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 an exchange of another country. GDRs are quoted, traded and dividends paid in US dollars. GDRs facilitate the trading and holding of non-US securities by foreign investors.

At inception of the programme 7,700,400 units were created, with each unit represented by 50 units of FirstBank ordinary shares. Over the years, several investors in the programme have converted their holdings in GDR to nominal FirstBank shares for the purpose of trading in the Nigerian equity capital market. Currently, there are 20,980 units outstanding.

On 26 November 2012, FBN Holdings was listed on the Nigerian Stock Exchange, replacing FirstBank, and the existing shareholders in FirstBank exchanged ordinary shares in FBN Holdings equal to the number of shares held in FirstBank.

As at 31 December 2012, the closing price of the GDR at the Over the Counter market was USD5.03.

Share statistics

	2012	2011
Market indicators		
NSE all share index	28,078.81	20,730.63
Share statistics[1]		
Share price		
High for the year ₦	17.12	16.12
Low for the year ₦	8.57	7.95
Closing ₦	15.72	8.90
Shares traded		
Number of shares (million)	5,071	5,995
Value of shares (₦ million)	63,051	72,944

1 The shares of the then First Bank of Nigeria Plc were delisted during the year and replaced with FBN Holdings Plc.

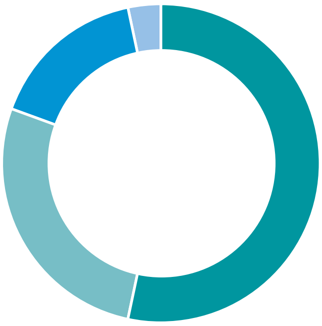
Dividend history

Pyt no	Year end	Div type	Date declared	Total net div amt (₦)	Div per share	Net div amt unclaimed as at Dec 2012	% net div amt unclaimed
46	31 Mar 2003	final	4 Aug 2003	3,811,263,675.00	1.50	119,480,887.78	3.13
47	31 Mar 2004	final	23 Aug 2004	5,513,901,111.80	1.55	116,805,769.66	2.12
48	31 Mar 2005	final	29 Aug 2005	6,403,122,540.00	1.60	106,112,770.27	1.66
49	31 Mar 2006	final	28 Aug 2006	5,239,237,558.00	1.00	109,934,066.50	2.10
50	31 Mar 2007	final	3 Sept 2007	10,479,845,385.00	1.00	492,512,976.08	4.70
51	31 Mar 2008	final	25 Aug 2008	21,481,234,960.68	1.20	536,731,814.84	2.50
52	31 Mar 2009	final	24 Aug 2009	30,207,986,658.90	1.35	753,899,738.03	2.50
53	31 Dec 2009	final	31 May 2010	2,610,566,748.54	0.10	414,972,613.15	15.90
54	31 Dec 2010	final	6 Jun 2011	17,621,325,552.24	0.60	1,450,626,311.10	8.23
55	31 Dec 2011	final	4 Jun 2012	23,495,100,736.32	0.80	4,466,691,654.96	19.01

Shareholder resources

Shareholder analysis as at 31 December 2012

Type of shareholding	Percentage held
Retail	53.46
Institutional	27.35
Foreign	16.02
Government related holdings	3.17
	100.00



2013 FBN Holdings financial reporting calendar

Date	Event
Tuesday 30 April	Release of FY 2012 results on the floor of the NSE
Wednesday 1 May	Publication of FY 2012 results in dailies
Thursday 2 May	Release of Q1 2013 results on the floor of the NSE
Friday 3 May	Publication of Q1 2013 results in dailies
Friday 17 May	FY 2012 and Q1 2013 results conference call
Friday 31 May	Annual General Meeting, Lagos
Tuesday 27 August	Release of H1 2013 results on the floor of the NSE
Wednesday 28 August	Publication of H1 2013 results in the dailies
Wednesday 28 August	H1 2013 results conference call
Tuesday 3 December	Release of 9M 2013 results on the floor of the NSE
Wednesday 4 December	Publication of 9M 2013 results in dailies
Wednesday 4 December	9M 2013 results conference call

This calendar could be subject to change. Please refer to the Investor relations website regularly for update.

Share capitalisation history

Year	Authorised Increase (₦)	Authorised Cumulative (₦)	Paid up Increase (₦)	Paid up 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 Jul 1976	-	15,000,000	2,328,000	13,968,000	13,968,000	Bonus
28 Jul 1977	10,000,000	25,000,000	6,984,000	20,952,000	20,952,000	Bonus
27 Jul 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 Jul 1979	10,000,000	50,000,000	14,666,200	43,999,200	43,999,200	Bonus
24 Jul 1980	-	70,000,000	9,262,990	55,577,937	55,577,937	Bonus
26 Jul 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 Jul 1998	-	1,000,000,000	130,077,034	650,385,171	1,300,770,342	Bonus
27 Jul 2000	-	1,000,000,000	162,596,292	812,981,463	1,625,962,926	Bonus
26 Jul 2001	2,000,000,000	3,000,000,000	203,245,365	1,016,226,828	2,032,453,656	Bonus
31 Jul 2002	-	3,000,000,000	254,056,705	1,270,283,533	2,540,567,066	Bonus
31 Jul 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 Jul 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 first Annual General Meeting of members of FBN HOLDINGS PLC will be held at the Zinnia Hall, Eko Hotel & Suites, Adetokunbo Ademola Street, Victoria Island, Lagos on Friday 31 May 2013 at 10.00am to transact the following:

Ordinary business:

1. To receive the audited accounts for the year ended 31 December 2012 together with the reports of the Directors and Auditors thereon;
2. To declare a dividend;
3. To elect Directors;
4. To approve the remuneration of Directors;
5. To authorise the Directors to fix the remuneration of the Joint Auditors; and
6. To elect members of the Audit Committee.

Proxy

A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a Proxy to attend and vote in his stead. A Proxy need not also be a member. A proxy form is at the end of the financial statements. All instruments of proxy should be duly stamped at the Stamp Duties Office and deposited at the registered office of the Company or the Office of the Registrar, Plot 2, Abebe Village Road, Iganmu, Lagos not later than 48 hours before the time for holding the meeting.

Dividend warrants

If the dividend recommended by the Directors is approved by members at the Annual General Meeting, the dividend warrants will be posted on 3 June 2013 to members whose names appear in the register of members at the close of business on Friday 10 May 2013.

Closure of register of members

The register of members and transfer books of the Company will be closed from 13 May to 17 May 2013 (both dates inclusive) for the purpose of payment of dividend.

Notes on Audit Committee

In accordance with section 359(5) of the Companies and Allied Matters Act Cap C20 Laws of the Federation of Nigeria 2004 any shareholder may nominate another shareholder for appointment to the Audit Committee. Such nomination should be in writing and must reach the Company Secretary not less than 21 days before the Annual General Meeting. The Central Bank of Nigeria's Code of Corporate Governance has indicated that some of the members of the Audit Committee should be knowledgeable in internal control processes. We would therefore request that nominations be accompanied by a copy of the nominee's Curriculum Vitae.

BY ORDER OF THE BOARD

Tijjani Borodo
Company Secretary
35 MARINA, LAGOS

Dated this 15th day of March 2013

Proxy form

FBN Holdings Plc (RC 916455)

First Annual General Meeting to be held at the Zinnia Hall, Eko Hotel & Suites, Adetokunbo Ademola Street, Victoria Island, Lagos on Friday 31 May 2013 at 10.00am or soon thereafter.

*'I/We ....

(Name of Shareholder in block letters)

The undersigned, being a member/members of the above named Company hereby appoint the Chairman of the meeting or failing him

.... as my/our Proxy to vote

for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 31 May 2013 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 2013

Signature ....

Notes:

1. This form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarial certified copy thereof must reach the Registrar, **First Registrars Nigeria Limited, Plot 2, Abebe Village Road, Iganmu, Lagos**, not later than 48 hours before the time for holding the meeting.
2. Where the appointor is a corporation, this form may be under seal or under the hand of any officer or attorney duly authorised.
3. This proxy will be used only in the event of poll being directed, or demanded.
4. In the case of joint holders, the signature of any one of them will suffice, but the names of all joint holders should be shown.
5. It is a legal requirement that all instruments of proxy must bear appropriate stamp duty (currently ₦500.00) from the Stamp Duties Office, and not adhesive postage stamps.

I/We desire this proxy to be used in favour of/or against the resolution as indicated below.

Resolution	For	Against
1) To receive the audited accounts, Directors' and Auditors' Reports		
2) To approve dividends		
3) To elect Directors		
4) To approve the remuneration of Directors		
5) To authorise the Directors to fix the remuneration of the Joint Auditors		
6) To elect members of the Audit Committee		

Please indicate with 'X' in the appropriate box how you wish your vote to be cast on the resolutions set out above. Unless otherwise instructed, the Proxy will vote or abstain from voting at his/her discretion.

Before posting the above form please tear off this part and retain it for admission to the meeting.

Admission form

FBN Holdings Plc (RC 916455)

First Annual General Meeting to be held at the Zinnia Hall, Eko Hotel & Suites, Adetokunbo Ademola Street, Victoria Island, Lagos on Friday 31 May 2013 at 10.00am or soon thereafter.

*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/her. 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

First Registrars

E-products

1. Complete, sign and date the form
2. Fill out all compulsory (*) fields
3. Fill out in CAPITAL LETTERS

You need not worry about the safety of your shares anymore, simply stay aboard with our e-products and services.

E-share notifier SMS alert on transactions that occur on your share account (AGM and EGM, dividend payments, bonuses, debits/credits etc.)

Online access Online access to your share account statements. You can view and print your account statement, make a change of address and access dividend info etc.

M-access Smart way to access your stock balances, dividend amount etc. via SMS on your mobile phone. Simply send your assigned PIN to 6591. The service is available only in Nigeria and attracts N20/SMS by network operator.

Instruction

Please fill in the form and return to the address below:

The Registrars
First Registrars Nigeria Ltd, 2 Abebe Village Road, Iganmu, PMB 12692, Lagos, Nigeria.

Shareholder account information

Surname* First name* Other names

Address line 1*

Address line 2

City State* Country

GSM no (Mobile)* GSM no (Telephone)*

Email address*

Signature(s)* Corporate stamp/seal*

Charges:

Individual: ₦1,000 per annum/product
Corporate bodies: ₦2,000 per annum/product

Please tick (✓) the product(s) you are activating.
All payments should be made into each product's account number respectively:

- [ ] E-share Notifier activation Account No. 2013302579
- [ ] Online access activation Account No. 2013798370
- [ ] M-access activation Account No. 2011760908

in any FirstBank branch nationwide and a copy of the payment slip attached to this form upon submission.

Stockbroker e-lodgement activation form (FBN Holdings Plc)

First Registrars

To:
The Registrar
First Registrars Nigeria Limited
Plot 2, Abebe Village Road
Iganmu, PMB 12692
Marina, Lagos
Nigeria

Seamless access to all lodgements to First Registrars and those items verified and sent to CSCS.

For Stockbrokers only

Important! The form should be completed in CAPITAL LETTERS using a black or dark blue ballpoint/fountain pen. Characters and numbers should be similar in style to the following:

A B C D E F G H I J K L M N O P Q R S T U V W X Y Z 0 1 2 3 4 5

Please fill in the form and return to the address above.

Name of Stockbroker ....

Address ....

....

....

....

Mobile phone ....

Email ....

Authorised signatory/seal ....

Activation fee:

₦25,000 per annum

Note

All payments should be made to account no. 1912030017727 in any FirstBank branch nationwide and a copy of the payment slip attached to this form upon submission.

Glossary of ratios

Ratio		Basis of computation	
Average cost of deposits	=	Interest expense (on deposits) / Average deposit (i.e. opening + closing balance)/2	
Basic earnings per share	=	Profit attributable to ordinary shareholders (after deduction of debenture interest and tax) / Weighted average no of shares in issue	
Cost of borrowed funds	=	Expense on borrowed funds / Average borrowed funds (opening + closing)/2	
Cost of funds	=	Interest expense / Average interest bearing liabilities (opening + closing)/2	
Cost of interbank takings	=	Interest expense on interbank takings / Average interbank takings (opening + closing)/2	
Cost of managed funds	=	Expense on managed funds / Liabilities on investment contracts	
Cost of risk	=	Loan loss expense / Average loans	
Cost to income ratio (1)	=	Total cost (interest expense, operating cost before loan loss expense) / Gross earnings	
Cost to income ratio (2)	=	Total overhead cost (operating cost before loan loss expense) / Total net revenue	
Debt to capital	=	Long-term debt / Long-term debt + equity	
Debt to EBITDA	=	Long-term debt / Operating income	
Gearing ratio	=	Long-term debt / Total shareholders' funds	
Interest earning assets	=	Due from other banks + Treasury Bills + trading securities (bonds) + loans and advances	
Leverage ratio	=	Total assets / Total shareholders' funds	
Liquidity ratio	=	Liquid assets / Deposit liabilities (as prescribed by the CBN)	
Loan to deposit ratio	=	Total loans / Total deposit	
Marginal cost of fund	=	Increase in interest expense during the month / Increase in average deposits during the same month (annualised)	
Net interest margin (1)	=	Net interest income / Average interest-earning assets (i.e. opening + closing)	
Net interest margin (2)	=	Net interest income / Total interest income	
Net loans	=	Gross loans – loan loss provision	
Net revenue	=	Net interest income + net fee and commission income + other income	
Net revenue from funds	=	Interest income – (interest expense + loan expense)	
NPL coverage	=	Loan loss provision (including interest in suspense) / Gross NPLs	
NPL ratio	=	Non-performing loans / Gross loans	
Operating profit margin	=	Operating profit / Gross earnings	
Pre-provision operating profit	=	Operating profit + impairment charge on credit losses / Impairment charge on credit losses	
Provisioning level (Non-performing loans coverage)	=	Total provision / Total NPL	
Return on average assets	=	PAT / Average total assets	x 100
Return on equity	=	PAT / Shareholders' fund	x 100

Glossary of ratios

Ratio		Basis of computation
Risk asset ratio	=	Total loans / Total assets
Risk-weighted assets*	=	Assets x weight of risks x 100
Tier 1 ratio	=	Total tier 1 capital / Risk weighted assets
Tier 2 ratio	=	Total tier 2 capital / Risk weighted assets
Total capital adequacy ratio	=	Total qualifying capital / Risk weighted assets
Yield on interest earning assets	=	Interest income / Average interest earning assets

*Risk asset is computed using risk weights supplied by CBN/Basel.

Abbreviations

AC	Audit Committee
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 and General Purpose Committee
BGC	Board Governance Committee
BGCI	Board Governance Committee (in attendance)
BIC	Banque Internationale de Crédit SARL
BOD	Board of Directors
BOFIA	Bank and Other Financial Institutions Act
BOM	Branch Operations Manager
BPC	Board Promotions and Disciplinary Committee
BRCC	Business Risk and Compliance Committee
BT	Board Tenders Committee
BU	Business Units
CAAP	Control Administrative and Accounting Procedure
CACS	Commercial Agriculture Credit Scheme
CAGR	Cumulative Annual Growth Rate
CAM	Classified Assets Management
CAMA	Companies and Allied Matters Act
CAP	Credit Analysis & Processing
CAR	Capital adequacy ratio
CASA	Current and savings accounts
CBG	Corporate Banking Group
CBN	Central Bank of Nigeria
CCO	Chief Compliance Officer
CCTV	Closed-circuit television
CEO	Chief Executive Officer
CFP	Contingency funding plan
CFT	Countering the Financing of Terrorism
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
DRCe	Disaster Recovery Centre
DNFBPs	Designated non-financial businesses and professionals
DRC	Democratic Republic of Congo
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
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 MB	FBN Microfinance Bank Ltd
FBN UK	FBN Bank (UK) Ltd
FCT	Federal Capital Territory
FFL	First Funds Ltd
FGN	Federal Government of Nigeria
FIRS	Federal Inland Revenue Service
FMAN	Fund Managers Association of Nigeria
FMCG	Fast-moving consumer goods
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

Abbreviations

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
IRS	Internal Revenue Service
ISF	Information Security Forum
ISMD	Information Security Management Department
ISMS	Information Security Management System
ISO	International Organization for Standardization
IR	Investor Relations
IT	Information technology
ITF	Industrial Training Fund
JAMB	Joint Admissions and Matriculation Board
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
NBFS	Non-banking financial services
NBS	National Bureau of Statistics
NDDC	Niger Delta Development Commission
NDIC	Nigeria Deposit Insurance Corporation
NED	Non-Executive Directors
NESG	Nigeria Economic Summit Group
NFIU	Non-Financial Institutions Unit
NGN	Nigerian naira
NGO	Non-governmental organisation
NIM	Net interest margins
NLI	Nigeria Leadership Initiative
NPL	Non-performing loan
NSE	Nigerian Stock Exchange
OECD	Organisation for Economic Cooperation and Development
OFR	Officer of the Federal Republic
OPEX	Operating expenditure
OPL	Open Position Limit
ORM	Operational Risk Management
ORMC	Operational Risk Management Committee
ORR	Obligor risk rating
OTC	Over The Counter
P&L	Profit and Loss Account
PAT	Profit after tax
PBOC	People's Bank of China
PBT	Profit before tax
PCI DSS	Payment Card Industry Data Security Standard
PD	Probability of Default
PDCA	Plan–Do–Check–Act
PE	Private equity
PFA	Pension fund administrator
PFMS	People First Management System
PFP	Pay for Performance
PFR	Pay for Role
POS	Point of sale
PPP	Public Private Partnership
PSQA	Process and service quality assurance
QSP	Quick service points
RBS	Risk Based Supervision
RCSA	Risk and control self-assessment
RDAS	Retail Dutch Auction System
RICO	Resident Internal Control Officer
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

Abbreviations

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
TRAP	Triggers for Accrual Portfolios
UAT	User acceptance testing
VaR	Value-at-risk
WARR	Weighted Risk Rating

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Appendix

First Bank of Nigeria Audit Committee statement

In compliance with section 359(6) of the Companies and Allied Matters Act 1990, we have reviewed the Audit Report for the year ended 31 December 2012 and hereby state as follows:

1. The scope and planning of the audit were adequate in our opinion.
2. The accounting and reporting policies of the Company conformed to statutory requirements and agreed ethical practices.
3. The internal control was being constantly and effectively monitored.
4. The external auditors' management report received satisfactory response from Management.
5. The Committee reviewed the Audit Report on insider-related party transactions and is satisfied with their status as required by Central Bank of Nigeria (CBN).

Peter Asu
Chairman, Audit Committee
28 February 2013

Members of the Committee
Peter Asu
Ibiai Ani
Lawal Ibrahim
Ibukun Awosika
Adamu Kiyawa
Raphael Attu

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RC - 916455

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