IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) THAT ARE ALSO QPS (AS DEFINED BELOW) OR (2) NON U.S. PERSONS (AS DEFINED BELOW) LOCATED OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the prospectus following this page (the "**Prospectus**") and you are therefore advised to read this page carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them, any time you receive any information from FBN Finance Company B.V. (the "**Issuer**"), First Bank of Nigeria Limited (the "**Bank**" or "**First Bank**"), or Citigroup Global Markets Limited and Goldman Sachs International (each a "**Joint Lead Manager**" and together the "**Joint Lead Managers**") as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE ATTACHED PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED ELECTRONICALLY OR OTHERWISE TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED TO ACCESS THE ATTACHED DOCUMENT.

Confirmation of your representation: In order to be eligible to view the attached Prospectus or make an investment decision with respect to the Notes being offered, prospective investors must be either (1) Qualified Institutional Buyers ("**QIBs**") (within the meaning of Rule 144A ("**Rule 144A**") under the Securities Act) who are also qualified purchasers ("**QPs**") (within the meaning of Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended) or (2) non U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) located outside the United States. This Prospectus is being sent to you at your request, and by accessing this Prospectus you shall be deemed to have represented to the Issuer, the Bank, the Joint Lead Managers and FBN Capital Limited (the "**Financial Advisor**") that (1) either (a) you and any customers you represent are QIBs who are also QPs or (b) you and any customers you represent are outside of the United States as defined in Regulation S under the Securities Act and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) any State of the United States or the District of Columbia and (2) you consent to delivery of such Prospectus and any amendments or supplements thereto by electronic transmission.

You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person. If you receive the attached document by e-mail, you should not reply by e-mail to this announcement. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected. If you receive the attached document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The materials relating to this offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. No action has been or will be taken in any jurisdiction by any of the Issuer, the Bank or the Joint Lead Managers that would or is intended to, permit a public offering of the Notes, or possession or distribution of the attached document (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the offering be made by a licensed broker or dealer, and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

The attached Prospectus may only be distributed to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents.

The attached document is only addressed to and directed at persons in member states of the European Economic Area that have implemented Directive 2003/71/EC, as amended (the "**Prospectus Directive**") who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive ("**Qualified Investors**") and must not be acted on or relied on (i) in the United Kingdom, by persons who are not relevant persons, and (ii) in any member state of the European Economic Area other than the United Kingdom, by persons who are not Qualified Investors. Any investment or investment activity to which the attached document relates is available only to (i) in the United Kingdom, relevant persons, and (ii) in any member state of the European Economic Area other than the United Kingdom, Qualified Investors, and will be engaged in only with such persons.

The attached Prospectus has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Bank or the Joint Lead Managers, any person who controls them or any director, officer, employee or agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

U.S.$300,000,000 Fixed Rate Subordinated Note Participation Notes due 2020

to be issued by, but with limited recourse to,

FBN Finance Company B.V.

(incorporated with limited liability in The Netherlands)

for the sole purpose of financing the purchase of a Subordinated Note to be issued by

First Bank of Nigeria Limited

(incorporated with limited liability in the Federal Republic of Nigeria, registration number RC 6290)

Issue Price: 98.999 per cent.

FBN Finance Company B.V. (the "**Issuer**") incorporated with limited liability under the laws of The Netherlands, having its registered office at De Entree 99 – 197, 1101 HE Amsterdam, The Netherlands, is issuing an aggregate principal amount of U.S.$300,000,000 Fixed Rate Subordinated Note Participation Notes due 2020 (the "**Notes**") to be issued by, but with limited recourse to the Issuer for the sole purpose of financing the purchase by the Issuer of a subordinated note (the "**Subordinated Note**") to be issued by First Bank of Nigeria Limited (the "**Bank**" or "**First Bank**") on the issue date of the Notes. The Notes are constituted by, are subject to, and have the benefit of, a trust deed to be dated on or around 7 August 2013 (the "**Trust Deed**") between the Issuer and Citibank, N.A., London Branch as trustee (the "**Trustee**") for the benefit of the Noteholders (as defined in the "*Terms and Conditions of the Notes*"). Under the Trust Deed, the Issuer will charge, in favour of the Trustee, by way of a first fixed charge as security for its payment obligations in respect of the Notes and under the Trust Deed, certain of its rights and interests under the Subordinated Note and the Account (as defined in the Trust Deed). In addition, the Issuer will assign absolutely certain of its administrative rights under the Subordinated Note to the Trustee.

The Notes are limited recourse obligations of the Issuer. In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received and retained (net of tax) from the Bank by, or for the account of, the Issuer pursuant to the Subordinated Note. The Issuer will have no other financial obligation under the Notes.

Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions in the Subordinated Note or have direct recourse to the Bank except through action by the Trustee under any of the Security Interests (as defined in the "*Terms and Conditions of the Notes*").

The Prospectus has been approved by the Central Bank of Ireland (the "**CBI**"), as competent authority under Directive 2003/71/EC as amended by Directive 2010/73/EU (together, the "**Prospectus Directive**"). The CBI only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on the regulated market (the "**Main Securities Market**") of the Irish Stock Exchange Limited (the "**Irish Stock Exchange**") or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange (the "**Official List**") and trading on its regulated market. This Prospectus constitutes a "prospectus" for the purposes of the Prospectus (Directive 2003/71/EC) Regulations 2005, as amended (the "**Prospectus Regulations**") which implement the Prospectus Directive in Ireland. Reference in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Main Securities Market of the Irish Stock Exchange.

Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 9. Interest on the Notes is payable semi-annually in arrear on 7 February and 7 August in each year. Payments on the Notes will be made free and clear of any withholding taxes in The Netherlands or Nigeria provided however that the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained by or for the account of the Issuer pursuant to the Subordinated Note, which interest is equal to (a) for the period from, and including, the Issue Date to, but excluding, 7 August 2018 (the "**Bank Call Date**"), 8.250 per cent. per annum and (b) for the period from, and including, the Bank Call Date to, but excluding, the Maturity Date, a fixed rate per annum based on the prevailing mid-swap rate for United States Dollar swap transactions with a maturity of two years plus a margin of 6.875 per cent., as further described under "*Subordinated Note*" and the definition of "Rate of Interest" therein.

Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in a permanent global Note (the "**Unrestricted Global Note**") in registered form, without interest coupons attached, which will be registered in the name of Citibank Europe plc as nominee for, and shall be deposited on or about the Closing Date with a common depository for, and in respect of interests held through Euroclear Bank SA/NA ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in a permanent global Note (the "**Restricted Global Note**" and, together with the Unrestricted Global Note, the "**Global Notes**") in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with a custodian for, and registered in the name of, Cede & Co. as nominee for The Depository Trust Company ("**DTC**"). Notes will be issued in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. See "*Terms and Conditions of the Notes—Form and Denomination*". Interests in the Restricted Global Note will be subject to certain restrictions on transfer. See "*Transfer Restrictions*". Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants. Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

NEITHER THE NOTES NOR THE SUBORDINATED NOTE HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAWS. ACCORDINGLY, THE NOTES ARE BEING OFFERED AND SOLD ONLY TO (I) QUALIFIED INSTITUTIONAL BUYERS ("QIBS") IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") WHO ARE ALSO QUALIFIED PURCHASERS ("QPS") (WITHIN THE MEANING OF SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED) OR PURSUANT TO ANOTHER EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND (II) NON U.S. PERSONS LOCATED OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT ("REGULATION S"). SEE "*TRANSFER RESTRICTIONS*".

The Notes are expected to be rated B by Standard & Poor's Credit Market Services Europe Limited, a division of The McGraw Hill Companies Inc. ("**S&P**"), and B- by Fitch Ratings Ltd. ("**Fitch**"). The Bank's current long term rating by S&P is BB- (outlook stable) and its current long-term rating by Fitch is B+ (outlook stable). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Fitch and S&P are established in the European Union and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**"). In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation.

Joint Lead Managers

CITIGROUP **GOLDMAN SACHS INTERNATIONAL**

Financial Advisor

FBN CAPITAL

The date of this Prospectus is 1 August 2013

This Prospectus constitutes a prospectus for the purpose of Article 5.3 of Directive 2003/71/EC, as amended (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Bank and its subsidiaries (together, the "**Group**"), the Issuer and the Notes. The Issuer and the Bank (the "**Responsible Persons**") having taken all reasonable care to ensure that such is the case, accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer and the Bank the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Prospectus has been filed with and approved by the CBI as required by the Prospectus Regulations. None of Citigroup Global Markets Limited and Goldman Sachs International (together the "**Joint Lead Managers**") nor any of their directors, affiliates, advisers or agents has made an independent verification of the information contained in this Prospectus in connection with the issue or offering of the Notes and no representation or warranty, express or implied, is made by the Joint Lead Managers or any of their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Joint Lead Managers or any of their respective directors, affiliates, advisers or agents in any respect. The contents of this Prospectus are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

None of the Issuer or the Bank intends to provide any post-issuance transaction information regarding the Notes or the Subordinated Note. No person is authorised to give any information or make any representation not contained in this Prospectus in connection with the issue and offering of the Notes and, any information or representation not so contained must not be relied upon as having been authorised by any of the Issuer, the Bank, Citibank, N.A., London Branch (the "**Trustee**") or the Joint Lead Managers or any of their directors, affiliates, advisers or agents. The delivery of this Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date, and neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no change, or any event reasonably likely to involve any change, in the condition (financial or otherwise), assets and liabilities, financial position, profit and losses and prospects of the Issuer, the Bank or the Group after the date of this Prospectus. Without limitation to the generality of the foregoing, the contents of the Bank's or any other member of the Group's website, in addition to any other websites referred to in this Prospectus, as at the date hereof or as at any other date do not form any part of this Prospectus (and, in particular, are not incorporated by reference herein).

This Prospectus does not constitute an offer to sell or a solicitation of an offer to subscribe for or purchase any Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful.

In particular, this Prospectus, the Notes and the Subordinated Note has not been and will not be registered with the Nigerian Securities and Exchange Commission (the "**Nigerian SEC**") or under the Nigerian Investment and Securities Act, No. 29 of 2007 (the "**Nigerian ISA**") and the Nigerian SEC has not approved or recommended an investment in the Notes or the Subordinated Note. This Prospectus may not be utilised in connection with any offering to the public within the Federal Republic of Nigeria ("**Nigeria**"). The Notes may, however, be offered and sold in Nigeria in certain transactions exempt from the registration requirements of the Nigerian ISA. Accordingly, this Prospectus is not directed to, and the Notes are not available for subscription by, any persons within Nigeria, other than the selected investors to whom the Prospectus has been addressed as a private sale, or domestic concern, within the exemption and meaning of Section 69(2) of the Nigerian ISA.

In addition, this Prospectus does not constitute an offer of securities to the public in the United Kingdom. Consequently this document is being distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents. Persons into whose possession this Prospectus may come are required by the Issuer, the Bank and the Joint Lead Managers to inform themselves about and to observe such restrictions. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The

Bank, the Issuer and the Joint Lead Managers are not responsible for compliance with these legal requirements. The appropriate characterisation of any Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase such Notes, is subject to significant interpretative uncertainties. None of the Issuer, the Bank, the Trustee, the Group or the Joint Lead Managers or any of their respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under relevant legal investment or similar laws. Such investors should consult their legal advisers regarding such matters. The Notes have not been and will not be registered under the Securities Act. The Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold outside the United States to non U.S. persons in reliance on Regulation S and within the United States to QIBs that are also QPs in reliance on the exemption from registration under the Securities Act provided by Rule 144A. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this Prospectus and other offering material relating to the Notes is set out under "*Subscription and Sale*" and "*Transfer Restrictions*".

NOTICE TO PROSPECTIVE UNITED STATES INVESTORS

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission, any state securities commission in the United States or any other regulatory authority in the United States, nor have the foregoing authorities reviewed or passed upon or endorsed the merits of the offering of the Notes or the accuracy or the adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

This offering is being made in the United States in reliance upon an exemption from registration under the Securities Act for an offer and sale of the Notes which does not involve a public offering. Each purchaser or holder of interests in the Notes will be deemed, by its acceptance or purchase of any such Notes, to have made certain acknowledgements, representations and agreements as set out in "*Subscription and Sale*" and "*Transfer Restrictions*".

This Prospectus is being furnished on a confidential basis in the United States to a limited number of QIBs that are also QPs for informational use solely in connection with the consideration of the purchase of the Notes. This Prospectus is being furnished only (1) to a limited number of investors in the United States reasonably believed to be QIBs that are also QPs and (2) to non U.S. persons located outside the United States. Any reproduction or distribution of this Prospectus, in whole or in part, in the United States and any disclosure of their contents or use of any information herein or therein in the United States for any purpose, other than in considering an investment by the recipient in the Notes, is prohibited. Each potential investor in the Notes, by accepting delivery of this Prospectus agrees to the foregoing.

AVAILABLE INFORMATION

Neither the Issuer nor the Bank is currently required to file periodic reports under Sections 13 or 15 of the Exchange Act with the U.S. Securities and Exchange Commission. To permit compliance with Rule 144A in connection with resales and transfers of Notes, the Issuer and the Bank have agreed that, for so long as any of the Notes are "**restricted securities**" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer and the Bank will provide to any holder or beneficial owner of such restricted securities, or to any prospective purchaser of such restricted securities designated by a holder or beneficial owner, upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the Securities Act, if at the time of such request the Issuer or the Bank, as the case may be, is not a reporting company under Section 13 or Section 15(d) of the Exchange Act or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. See "*Terms and Conditions of the Notes—Provision of Information*".

INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

Pursuant to Internal Revenue Service Circular 230, the Bank hereby informs you that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the marketing of the Notes. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

CERTAIN ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") imposes certain requirements on "**employee benefit plans**" (as defined in ERISA) subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "**ERISA Plans**") and on those persons who are fiduciaries with respect to ERISA Plans.

Section 406 of ERISA and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), prohibit certain transactions involving the assets of an ERISA Plan (Section 4975 of the Code also imposes prohibitions for certain plans that are not subject to Title I of ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "**Plans**")) and certain persons (referred to as "**parties in interest**" or "**disqualified persons**") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code. Accordingly, each original or subsequent purchaser or transferee of a Note that is or may become a Plan is responsible for determining that its purchase and holding of such Note will not constitute a prohibited transaction under ERISA or Section 4975 of the Code.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN ERISA IMPLICATIONS OF AN INVESTMENT IN THE NOTES AND DOES NOT PURPORT TO BE COMPLETE. PROSPECTIVE INVESTORS SHOULD CONSULT WITH THEIR OWN LEGAL, TAX, FINANCIAL AND OTHER ADVISORS PRIOR TO INVESTING IN THE NOTES TO REVIEW THESE IMPLICATIONS IN LIGHT OF SUCH INVESTOR'S PARTICULAR CIRCUMSTANCES.

STABILISATION

IN CONNECTION WITH THE ISSUE OF THE NOTES, CITIGROUP GLOBAL MARKETS LIMITED (THE "STABILISING MANAGER") (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE CLOSING DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

FORWARD LOOKING STATEMENTS

Certain statements included herein may constitute forward looking statements that involve a number of risks and uncertainties. They may also constitute "forward looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"); however, this Prospectus is not entitled to the benefit of the safe harbour created thereby. Such statements, certain of which can be identified by the use of forward looking terminology such as "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "could", "would be", "seeks", "approximately", "estimates", "predicts", "projects", "aims" or "anticipates", or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions, involve a number of risks and uncertainties. Such forward looking statements include all matters that are not historical facts and are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised. They appear in a number of places throughout this Prospectus and include statements regarding the Group's intentions, beliefs or current expectations concerning, amongst other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which it operates. By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. See "*Risk Factors*".

Prospective investors should be aware that forward looking statements are not guarantees of future performance and that the Group's actual results of operations, financial condition and liquidity, and the development of the industry in which it operates may differ materially from those made in or suggested by the forward looking statements contained in this Prospectus. In addition, even if the Group's results of operations, financial condition and liquidity and the development of the industry in which it operates are consistent with the forward looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause those differences include, but are not limited to:

- overall political, economic and business conditions in Nigeria, including oil revenue;
- the Group's ability to successfully pursue its strategies;
- the uncertain regulatory environment of the Nigerian banking sector;
- the Group's highly concentrated loan portfolios and deposit base;
- the Group's ability to grow its loan portfolio in line with previously achieved rates, or at all;
- the Group's significant off-balance sheet credit-related commitments;
- the demand for the Group's services;
- competitive factors in the industries in which the Group and its customers compete;
- the Group's dependency on key management and internal control policies and procedures;
- the Group's ability to prevent corrupt behaviour and comply with anti-money laundering regulations;
- the effectiveness of the Group's risk management and internal control policies and procedures;
- changes in government regulations applicable to the Group's activities;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- interest rate fluctuations and other capital market conditions;
- interest rate and exchange rate fluctuations and other capital market conditions;
- effects of the global financial crisis;
- the Group's ability to manage liquidity risk;
- economic and political conditions in international markets, including governmental changes;
- restrictions on the ability to transfer capital across borders; and
- the timing, impact and other uncertainties of future actions.

The sections of this Prospectus entitled "*Risk Factors*", "*Management's Discussion and Analysis of Results of Operations and Financial Condition*", "*Business Description*" and "*Selected Statistical and Other Information*" contain a more complete discussion of the factors that could affect the Group's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward looking events described in this Prospectus may not occur.

These forward-looking statements speak only as at the date of this Prospectus. Accordingly, neither the Issuer nor the Bank undertake any obligation to update or revise any forward looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward looking statements attributable to the Issuer or the Bank, or to persons acting on their behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward looking statements.

ENFORCEMENT OF FOREIGN JUDGMENTS

The Issuer and its managing director and its supervisory directors are residents of The Netherlands. A substantial portion of the assets of the Issuer are located in The Netherlands. As a result, save as provided below it may not be possible for investors to (a) effect service of process upon the Issuer or any such person outside The Netherlands, (b) enforce against any of them, in courts of jurisdictions other than The Netherlands, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or c) enforce against any of them, in the courts of The Netherlands, judgments obtained in jurisdictions other than The Netherlands.

First Bank is incorporated under the laws of Nigeria and most of its operations are located in Nigeria. In addition, substantially all of the assets of First Bank's directors and executive officers are located in Nigeria. As a result, it may not be possible for investors to effect service of process within the United States or the United Kingdom upon First Bank or its Directors and executive officers, or to enforce United States or United Kingdom court judgments obtained against First Bank or its respective Directors and executive officers in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of United States securities laws. In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon United States or the United Kingdom securities laws.

There are two regimes for the enforcement of foreign judgments in Nigeria: the Reciprocal Enforcement of Judgment Ordinance Cap 175, Laws of the Federation of Nigeria and Lagos, 1958 (the "**Reciprocal Enforcement Ordinance**") and the Foreign Judgments (Reciprocal Enforcement) Act, Cap F35 Laws of the Federation of Nigeria 2004 (the "**Reciprocal Enforcement Act**").

The Reciprocal Enforcement Ordinance applies to judgments obtained in the High Court in England or Ireland, or in the Court Session in Scotland or in any territory under Her Majesty's protection to which the Reciprocal Enforcement Ordinance is extended by proclamation. Subject to certain exceptions, judgments obtained in these jurisdictions are enforceable by registration under the Reciprocal Enforcement Ordinance. To be enforceable, such judgments must be registered within 12 months after the date of the judgment or such longer period as may be allowed by the courts. The judgment must derive from civil proceedings. However, such judgments are not registrable or enforceable in Nigeria where (i) the foreign court acted without jurisdiction; (ii) the judgment debtor, being a person who was neither carrying on business nor ordinarily resident within the jurisdiction of the foreign court, did not voluntarily appear or otherwise submit or agree to submit to the jurisdiction of that court; (iii) the judgment debtor was not duly served with the process of the foreign court; (iv) the judgment was obtained by fraud; (v) the judgment debtor satisfies the registering court that an appeal is pending against the judgment or that he is entitled to and intends to appeal against the judgment; or (vi) the judgment was in respect of a cause of action which could not have been entertained by the registering court for reasons of public policy or for some other similar reason. In this regard, notwithstanding that a judgment emanates from a jurisdiction to which the Reciprocal Enforcement Ordinance applies, such judgment will not be registrable or enforceable in Nigeria if the judgment falls within any of the exceptions enumerated in (i) to (vi) above.

Therefore, subject to the above conditions, foreign judgments against First Bank are registrable and enforceable in Nigeria if such judgments are obtained in the High Courts of England or Ireland or in the Court of Session in Scotland or in any territory under Her Majesty's protection to which the Reciprocal Enforcement Ordinance is extended by proclamation.

Furthermore, in the event that in the future the Minister of Justice of the Federal Republic of Nigeria orders or directs that the Reciprocal Enforcement Act shall apply to judgments from the High Court in England or Ireland, or in the Court of Session in Scotland or in any territory under Her Majesty's protection, then enforcement of such judgments will be governed by the Reciprocal Enforcement Act.

The second regime for the enforcement of foreign judgments in Nigeria, the Reciprocal Enforcement Act, applies to judgments obtained in the superior courts of any country (other than Nigeria) subject to the satisfaction of the following two conditions: (i) Nigerian judgments must be accorded substantial reciprocity of treatment in courts of the relevant foreign jurisdiction, and (ii) the Minister of Justice must have made an order extending the applicability of the Reciprocal Enforcement Act to judgments obtained in such foreign jurisdiction. Where the above two conditions are satisfied in respect of any jurisdiction (whether or not covered by the Reciprocal Enforcement Ordinance), the Reciprocal Enforcement Act shall apply to those jurisdictions. To be enforceable, judgments from such jurisdictions must be registered within six years after the date of the judgment, or where the proceedings have been by way of appeal, within six years after the date of the last judgment given in those proceedings. Such judgments are only registrable where the judgment would have been enforceable by execution in the jurisdiction of the original court and have not been wholly satisfied.

To date, the Minister of Justice has not issued any order extending the application of the Reciprocal Enforcement Act to judgments of superior courts of any country, and until such order is made, there is no restriction on Nigerian courts to register and enforce foreign judgments which come under the purview of the Reciprocal Enforcement Ordinance in foreign currency.

Judgments which are not covered by the Reciprocal Enforcement Ordinance or the Reciprocal Enforcement Act (because they were delivered in countries to which these statutes do not apply; essentially countries which do not offer reciprocal treatment to the judgments of Nigerian courts) may only be enforced under common law, which allows such judgments obtained in foreign courts to be used as evidence in new legal proceedings instituted in a Nigerian court against a judgment debtor.

Based on the common law and the provisions of the Reciprocal Enforcement Ordinance, foreign judgments can be enforced and recovered in foreign currency. In contrast, the Reciprocal Enforcement Act provides that a foreign judgment to which the Reciprocal Enforcement Act applies may only be enforceable in Nigeria in the local currency. However, the relevant provision of the Reciprocal Enforcement Act will only become effective if the Minister of Justice directs that the Reciprocal Enforcement Act shall apply to judgments of superior courts of a particular country that accords reciprocal treatment to judgments of superior courts of Nigeria. In that event, judgments of superior courts of that country (whether or not previously covered by the Reciprocal Enforcement Ordinance), when registered and enforced in Nigeria, will be enforced only in Naira. One challenge presented by this is that the judgment creditor may be faced with significant exchange rate losses given that the judgment sum will be converted into the local currency on the basis of the rate of exchange on the date the original judgment was obtained. To date, the Minister of Justice has not issued any order extending the application of the Reciprocal Enforcement Act to judgments of superior courts of any country, and until such order is made, there is no restriction on Nigerian courts to register and enforce foreign judgments which come under the purview of the Reciprocal Enforcement Ordinance in foreign currency.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Financial Statements

Unless otherwise stated in this Prospectus, financial information set forth herein related to the Group has been derived from the Group's (i) audited consolidated financial statements as at and for the year ended 31 December 2012, including comparative information as at 31 December 2011 and 1 January 2011 and for the year ended 31 December 2011 ("**Annual IFRS Financial Statements**") and (ii) unaudited interim consolidated financial statements as at and for the three-month period ended 31 March 2013, including comparative information as at and for the three-month period ended 31 March 2012 (the "**Interim IFRS Financial Statements**" and, together with the Annual IFRS Financial Statements, the "**Financial Statements**").

The Financial Statements were prepared in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board ("**IFRS**"). The Annual IFRS Financial Statements are the Group's first consolidated financial statements prepared in accordance with IFRS, and IFRS 1 *First-time adoption of International Financial Reporting Standards* has been applied. IFRS 1 requires that an entity develop accounting policies based on the standards and related interpretations effective at the reporting date of its first Annual IFRS Financial Statements (i.e. for the Group, 31 December 2012). The application of IFRS 1 also entails the preparation of IFRS compliant comparative information, and the full retrospective application of all IFRS accounting standards effective at the first IFRS reporting date (31 December 2012) to the beginning of the comparative period presented under IFRS (i.e. for the Group, 1 January 2011, such date referred to as the date of transition to IFRS).

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 51 to the Annual IFRS Financial Statements. This note includes reconciliations of equity as of 31 December 2011 and 1 January 2011 and profit and comprehensive income for the year ended 31 December 2011 reported under Nigerian GAAP (as defined below) to such items reported as of or for the same period under IFRS. IFRS 1 contains mandatory exemptions and permits certain optional exemptions from full retroactive application of IFRS. See note 51 to the Annual IFRS Financial Statements for further information on the exemptions from full retroactive application of IFRS that the Group has applied.

The Financial Statements were also prepared in accordance with the provisions of the Companies and Allied Matters Act, CAP C20 Laws of the Federation of Nigeria 2004 ("**CAMA**"), Banks and Other Financial Institutions Act, CAP B3 Laws of the Federation of Nigeria 2004 ("**BOFIA**"), the Financial Reporting Council Act No. 6, 2011 and relevant Central Bank of Nigeria ("**CBN**") circulars and guidelines, which requirements are in addition to, and do not conflict with the requirements under IFRS.

Historically, the Bank was required to prepare unconsolidated and consolidated financial information in accordance with BOFIA, relevant Statements of Accounting Standards in Nigeria, the CBN circulars and CAMA (together, the "**Nigerian GAAP**"). With effect from 1 January 2012, the Group adopted IFRS in the preparation of its financial statements.

On 3 September 2010, the Nigerian Accounting Standards Board announced a staged implementation for IFRS reporting by Nigerian companies and set 1 January 2012 as the effective date for convergence of accounting standards in Nigeria with IFRS for all public listed Nigerian companies. As a result, beginning 1 January 2012, Nigerian public listed companies and Nigerian deposit banks, including the Group, have been required to prepare all of their financial statements in accordance with IFRS. From 1 January 2012, the CBN has begun assessing compliance with the CBN's capital requirements and the CBN's Prudential Guidelines for Licensed Banks (the "**CBN Prudential Guidelines**") based on financial information prepared in accordance with IFRS instead of Nigerian GAAP. Information in the Prospectus relating to the Group's compliance with the CBN Prudential Guidelines and capital requirements has been prepared in accordance with IFRS. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Capital adequacy*".

Investors should note that certain other financial information and data set forth herein (including the financial information in "*Selected Statistical and Other Information*"), including daily average financial information and data, has been derived from the unaudited management accounts of the Bank, which have historically been maintained in accordance with Nigerian GAAP; where relevant, a statement is included stating where such Nigerian GAAP information or data is presented. There are significant differences between Nigerian GAAP and IFRS, including differences in relation to provisioning. See "*Annex A—Summary of Significant Differences between Nigerian GAAP and IFRS*". Certain other information relating to the maturity of deposits and other liabilities has been derived from the Bank's management information systems.

The Annual IFRS Financial Statements, including the joint audit report of PricewaterhouseCoopers, Nigeria ("**PwC**") and PKF Professional Services ("**PKF**") thereon, and the Interim IFRS Financial Statements are set forth elsewhere in this Prospectus, commencing on pages F-39 and F-2, respectively. The Annual IFRS Financial Statements were jointly audited by PwC, located at 252E Muri Okunola Street, Victoria Island, P O Box 2419, Lagos, Nigeria, and PKF, located at PKF House, 205A, Ikorodu Road, Obanikoro, Lagos, Nigeria, in accordance with International Standards on Auditing ("**ISA**"). Each of PwC and PKF are independent auditors in accordance with ISA. The Interim IFRS Financial Statements were reviewed by PwC.

Whilst the audit report in respect of the Annual IFRS Financial Statements is unmodified, it included an emphasis of matter, drawing the attention of readers to the fact that the accounting policies applied in the preparation of the 2011 IFRS financial statements (which were prepared as comparative financial information in the Annual IFRS Financial Statements) are the same as those used to prepare the 2012 IFRS financial statements in the Annual IFRS Financial Statements, and that the 2011 IFRS financial statements should be read in conjunction with the 2012 financial statements.

Third party information

The Issuer and the Bank have obtained statistical and market information that is presented in this Prospectus in respect of the Nigerian banking sector, the Nigerian economy and the Nigerian political landscape in general. This third party information is presented in the following sections of the Prospectus: "*Overview*", "*Risk Factors*", "*Management's Discussion and Analysis of Results of Operations and Financial Condition*", "*Business Description*", "*Nigeria*" and "*The Nigerian Banking Sector*" and has been extracted from official and industry sources and other third-party sources that the Company believes to be reliable, such as the following:

- the Central Bank of Nigeria ("**CBN**");
- the International Monetary Fund ("**IMF**");
- the Nigerian Debt Management Office ("**DMO**");
- the National Bureau for Statistics of Nigeria ("**NBS**");
- the Nigerian Federal Ministry of Finance ("**FMF**"); and
- the U.S. Central Intelligence Agency ("**CIA**").

The Issuer and the Bank have accurately reproduced such information and, so far as the Issuer and the Bank are aware and are able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. The Bank and the Issuer have accurately reproduced such information and, as far as the Bank and the Issuer are aware and are able to ascertain from information published by such third-party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. Prospective investors should note that some of the Issuer's and the Bank's estimates are based on such third party information. Neither the Issuer, the Bank, nor any of the Joint Lead Managers have independently verified the figures, market data or other information on which third parties have based their studies.

The Bank has derived substantially all of the information contained in this Prospectus concerning its competitors (see "*Business Description—Market Position and Competition*") from publicly available information, such as annual reports and other published financial information, and has accurately reproduced such information and, so far as the Issuer is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. The Bank has relied on the accuracy of this information without independent verification.

Information under the heading "*Book-Entry Clearance Systems*" has been extracted from information provided by the clearing systems referred to therein. The Issuer and the Bank confirm that such information has been accurately reproduced and that, so far as each of them is aware, and is able to ascertain from information published by the relevant clearing systems, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Most Nigerian banks have historically prepared their financial statements in accordance with Nigerian GAAP prior to 2012. Therefore, information included in this Prospectus on the business, financial condition and operating results of other banks in Nigeria may not be directly comparable to the business, financial condition and operating results of the Group when presented in accordance with IFRS.

Rounding

Certain amounts which appear in this Prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Certain defined terms

In this Prospectus:

"**ALCO**" refers to the Asset and Liability Management Committee of the Group;

"**AMCON**" refers to the Asset Management Corporation of Nigeria;

"**Bank**" or "**First Bank**" refers to First Bank of Nigeria Limited;

"**BARAC**" refers to the Board Audit and Risk Assessment Committee of the Group;

"**BDC**" refers to Bureau de Change;

"**BOFIA**" refers to the Banks and Other Financial Institutions Act of Nigeria (Cap B3 LFN 2004);

"**CAMA**" refers to the Companies and Allied Matters Act of Nigeria (Cap C20 LFN 2004)

"**CBN**" refers to the Central Bank of Nigeria;

"**EIA**" refers to the United States Energy Information Administration;

"**EUR**", "**euro**" or "**€**" refers to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Union, as amended from time to time;

"**GBP**", "**Sterling**" or "**£**" refers to the lawful currency of the United Kingdom;

"**GMD**" refers to the Group Managing Director;

"**Group**" refers to First Bank of Nigeria Limited a bank incorporated in Nigeria on 31 March 1969, and its subsidiaries;

"**ICBs**" refers to initial consideration bonds issued by AMCON for the purchase of the NPLs of eligible financial institutions;

"**ISPOs**" refers to Irrevocable Standing Payment Orders, a financial instrument through which state governments receive funds from the federal government;

"**Issuer**" refers to FBN Finance Company B.V.;

"**MANCO**" refers to the General Management Committee of the Group;

"**MDAs**" refers to the ministries, departments and agencies of the federal government of Nigeria;

"**MPC**" refers to the CBN's monetary policy committee;

"**MPR**" refers to the CBN's monetary policy rate, the benchmark for all other interest rates;

"**NBS**" refers to the National Bureau of Statistics of Nigeria;

"**NPL**" refers to non-performing loans;

"**Naira**" or "**₦**" refers to the Nigerian Naira, being the lawful currency for the time being of Nigeria;

"**NDIC**" refers to the Nigeria Deposit Insurance Corporation;

the "**Netherlands**" refers to the Kingdom of The Netherlands European territory;

"**Nigeria**", "**Federal Government**", "**Federation of Nigeria**" or the "**Government**" refers to the Federal Republic of Nigeria;

"**Nigerian SEC**" refers to the Nigerian Securities and Exchange Commission;

"**NSE**" refers to the Nigerian Stock Exchange;

"**parastatal**" refers to a company that is either partially or completely owned or controlled by the Nigerian government or an instrumentality thereof;

"**PFA**" refers to Pension Fund Administrator;

"**SME**" refers to small and medium enterprises defined to refer to enterprises or companies with a maximum turnover of ₦500 million and assets of ₦250 million (excluding land and working capital);

"**trade financing**" which entails financing customer import activities, petroleum product lifting, invoice discounting and short term warehouse financings;

"**United Kingdom**" or the "**UK**" refers to the United Kingdom of Great Britain and Northern Ireland;

"**United States**" or the "**U.S.**" refers to the United States of America; and

"**U.S. dollars**", "**dollars**", "**U.S.$**" or "**$**" refers to the lawful currency of the United States of America.

Certain foreign language terms

The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

EXCHANGE RATES AND EXCHANGE CONTROLS

Exchange rates

The official currency of Nigeria is the Naira, which was introduced in January 1973. The CBN permits three exchange rates to operate within the Nigerian economy, which are:

- the Dutch Auction System ("**DAS**") rate, which is managed by the CBN and consists of the Wholesale Dutch Auction System ("**WDAS**") rate or the Retail Dutch Auction System ("**RDAS**") rate. The WDAS and RDAS are alternate regimes which do not operate at the same time. The current DAS rate in operation in Nigeria is the WDAS (the "**Official Exchange Rate**");
- the interbank exchange rate which is a rate determined by a two-way quote system of banks trading among themselves with funds obtained from other official sources of foreign exchange outside of the CBN, such as the interbank market, oil companies, non-oil export proceeds and customer inflows; and
- the bureaux de change ("**BDC**") rate, which rate was introduced in 2009 when the CBN issued licences to BDC operators as one of the measures to stabilise the exchange rate and increase access to foreign exchange to small end-users.

The following table sets forth information on the Official Exchange Rate between the Naira and the U.S. dollar for each of the periods specified. The average rate for each period means the average of the exchange rates for each day during that period, as applicable.

	Average(1)	High	Low	Period End
		(Naira per U.S. Dollar)		
July 2013	155.26	155.26	155.25	155.26
June 2013	155.25	155.25	155.24	155.25
May 2013	155.74	155.75	155.74	155.74
April 2013	155.75	155.75	155.74	155.75
March 2013	155.25	155.26	155.25	155.25
February 2013	155.24	155.25	155.24	155.25
January 2013	155.24	155.27	155.22	155.24
2012	155.44	156.55	154.25	155.27
2011	151.83	156.76	148.50	156.20
2010	150.30	151.55	149.08	150.66
2009	147.27	151.37	149.19	149.19
2008	117.78	129.16	116.64	129.16

(1) The average of the closing exchange rates for each day during the year or period, as applicable.
Sources: CBN Statistical Bulletin, CBN Financial Markets Department and CBN Exchange Rates

As at 31 July 2013, the Official Exchange Rate was ₦155.26:U.S.$1.00.

No representation is made that the Naira or U.S. dollar amounts in this Prospectus could have been converted in U.S. dollars or Naira, as the case may be, at any particular rate or at all. In addition, fluctuations in the exchange rate between the Naira and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. See "*Risk Factors—Risks related to the Group—The Group is subject to foreign exchange risk and is affected by changes in the value of the Naira against other currencies*".

Exchange controls

The Exchange Control (Repeal) Act No. 8 of 1995 and the Foreign Exchange (Monitoring and Miscellaneous) Provisions Act, Cap F34 LFN 2004 (the "**Foreign Exchange Act**"), which repealed various pieces of legislation, effectively abolished exchange controls in Nigeria which had been in place since 1982. The Foreign Exchange Act introduced regulatory monitoring provisions on foreign exchange in Nigeria in place of exchange control provisions. The Foreign Exchange Act allows any person to invest foreign currency or capital imported into Nigeria through an authorised dealer in any enterprise or security in Nigeria (except enterprises expressly prohibited by relevant provisions of Nigerian law). Following importation of the investment capital, the authorised dealer shall, within a period of 24 hours, issue to the investor, a Certificate of Capital Importation ("**CCI**") which guarantees unconditional repatriation and/or transferability of yields on investment in freely convertible currency.

The CCI enables foreign investors (through an authorised dealer) to access the Nigerian foreign exchange market for the purpose of converting the proceeds of capital invested in Nigeria into freely convertible currency.

The Issuer intends to use the gross proceeds from the issue of the Notes for the sole purpose of financing the purchase of the Subordinated Note to be issued by the Bank on the issue date of the Notes. The Bank intends to use the proceeds of the Subordinated Note for general banking purposes. See "*Use of Proceeds*".

Therefore, it is not intended that the proceeds of the Subordinated Note will be imported into Nigeria.

As a result of this, the Bank has indicated that it currently does not intend to obtain a CCI in respect of the proceeds of the Subordinated Note as a CCI is only issued in respect of capital imported into Nigeria. The intention of the Bank is to make principal repayment and interest payment on the Subordinated Note to the Issuer from its foreign currency reserves and not to access the Nigerian foreign exchange market for the purpose of making such payments. In the event that the Bank does not have sufficient foreign currency reserves to meet principal and interest payments due in respect of the Subordinated Note, however, the Bank would be required to obtain the approval of the CBN to enable it to access the Nigerian foreign exchange market.

CONTENTS

OVERVIEW

The Issue:	U.S.$300,000,000 Fixed Rate Subordinated Note Participation Notes due 2020.
Notes Issuer:	FBN Finance Company B.V.
Subordinated Note Issuer	First Bank of Nigeria Limited.
Trustee:	Citibank, N.A., London Branch.
Principal Paying and Transfer Agent:	Citibank, N.A., London Branch.
Registrar:	Citigroup Global Markets Deutschland AG.
Issue Price:	98.999 per cent. of the principal amount of the Notes.
Closing Date:	7 August 2013.
Maturity Date:	7 August 2020.
Interest Rate:	The Notes will bear interest at the rate of (a) for the period from, and including, the Issue Date to, but excluding, the Bank Call Date, 8.250 per cent. per annum and (b) for the period from, and including, the Bank Call Date to, but excluding, the Maturity Date, a fixed rate per annum calculated by the Bank equal to the sum of (i) the prevailing mid-swap rate for United States Dollar swap transactions with a maturity of two years as displayed on Reuters screen "ISDAFIX1" (or such other page as may replace it on that information service or on such other equivalent information service as may be nominated by the person providing or sponsoring such information for the purpose of displaying equivalent or comparable rates to United States Dollar swap transactions with a maturity of two years) (the "**Relevant Screen Page**") at 11.00 a.m. New York time on the second Business Day prior to the Bank Call Date and (ii) 6.875 per cent. If the Relevant Screen Page is not available or such rate does not appear on the Relevant Screen Page, the Bank shall request the principal New York office of four major banks in the New York inter-bank market ("**Reference Banks**"), to provide the Bank with their respective mid-swap rate for United States Dollar swap transactions with a maturity of two years at approximately 11.00 a.m. New York time on the second Business Day prior to the Bank Call Date. If two or more of the Reference Banks provide the Bank with such rates, the Bank shall use the arithmetic mean of such rates.
Yield:	8.500 per cent. on an annual basis, calculated at on the basis of the Issue Price up to the Bank Call Date. It is not an indication of future yield.
Interest Payment Dates:	Interest on the Notes will be payable semi-annually in arrear on 7 February and 7 August in each year, commencing on 7 February 2014. The Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Subordinated Note, which interest rate on the Subordinated Note is equal to (a) for the period from, and including, the Issue Date to, but excluding, 7 August 2018 (the "**Bank Call Date**"), 8.250 per cent. per annum and (b) for the period from, and including, the Bank Call Date to, but excluding, the Maturity Date, a fixed rate per annum

calculated by the Bank equal to the sum of (i) the prevailing mid-swap rate for United States Dollar swap transactions with a maturity of two years as displayed on Reuters screen "ISDAFIX1" (or such other page as may replace it on that information service or on such other equivalent information service as may be nominated by the person providing or sponsoring such information for the purpose of displaying equivalent or comparable rates to United States Dollar swap transactions with a maturity of two years) (the "**Relevant Screen Page**") at 11.00 a.m. New York time on the second Business Day prior to the Bank Call Date and (ii) 6.875 per cent., in each case payable semi-annually in arrear. If the Relevant Screen Page is not available or such rate does not appear on the Relevant Screen Page, the Bank shall request the principal New York office of four major banks in the New York inter-bank market ("**Reference Banks**"), to provide the Bank with their respective mid-swap rate for United States Dollar swap transactions with a maturity of two years at approximately 11.00 a.m. New York time on the second Business Day prior to the Bank Call Date. If two or more of the Reference Banks provide the Bank with such rates, the Bank shall use the arithmetic mean of such rates.

Status of the Notes: The Notes constitute direct, general, secured, limited recourse obligations of the Issuer and shall at all times rank rateably, without preference amongst themselves. Recourse in respect of the Notes is limited to the assets securing the Notes. The Notes are secured in the manner described in the Trust Deed and under the "*Terms and Conditions of the Notes*".

Status of the Subordinated Note The Bank's payment obligations under the Subordinated Note will constitute direct, unsecured and subordinated obligations of the Bank and shall, in the case of a Subordination Event and for so long as that Subordination Event subsists, rank:

(a) subordinate in right of payment to the payment of all Senior Obligations;

(b) *pari passu* without any preference among themselves and with all Parity Obligations; and

(c) in priority to all payments in respect of Junior Obligations.

By virtue of such subordination of the Subordinated Note as described herein, no amount will, in the case of a Subordination Event and for so long as that Subordination Event subsists, be paid under the Subordinated Note until all payment obligations in respect of Senior Obligations have been satisfied. The documents do not limit the amount of Senior Obligations of the Bank that may exist at any time.

Limited Recourse The Notes will constitute limited recourse, secured obligations of the Issuer to apply the gross proceeds from the issue of the Notes solely for the purpose of financing the purchase of the Subordinated Note from the Bank pursuant to the terms of the Subordinated Note. The Issuer will only account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received and retained (net of tax) from the Bank under the Subordinated Note or held on deposit in the Account (as defined in the Trust Deed), all as more fully described under "*Terms and Conditions of the Notes*".

All moneys received by the Trustee under the Trust Deed shall be applied in accordance with the priority of payments (as more fully set out in the Trust Deed).

Security:	The Issuer's payment obligations under and in respect of the Notes will be secured by a first fixed charge in favour of the Trustee for the benefit of itself and the Noteholders of certain of the Issuer's rights and interests as holder of the Subordinated Note, as security for its payment obligations in respect of the Notes and under the Trust Deed and has assigned absolutely certain other rights under the Subordinated Note to the Trustee, all as more fully described under "*Terms and Conditions of the Notes*". As long as any of the Notes remain outstanding, the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution, agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Subordinated Note, except as otherwise expressly provided in the Trust Deed or the Subordinated Note.
Covenants:	The Subordinated Note will also contain covenants applicable to the Bank relating to certain capital adequacy and financial reporting requirements and, among other things, restrictions on certain consolidations or mergers, disposals and transactions with affiliates. See condition 10 (*Covenants*) of the Subordinated Note.
Events of Default:	Upon the occurrence of an Event of Default (as set out in condition 11 (*Events of Default*) of the Subordinated Note), the Trustee may, subject as provided in the Trust Deed, institute, or claim or prove in, as applicable, the winding-up, dissolution or liquidation of the Bank for and on behalf of the Noteholders in respect of the resulting amount due and payable by the Bank under the Notes. Upon redemption of the Subordinated Note following an Event of Default, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for such redemption and any additional amounts due and thereupon shall cease to be outstanding, all as more particularly described in the terms and conditions of the Notes (set out under "*Terms and Conditions of the Notes*", the "**Conditions**" and each a "**Condition**").
Early Redemption Options:	The Bank may redeem the Subordinated Note prior to the Maturity Date: (a) at its outstanding principal amount, subject to having obtained the prior approval of the CBN (if required), pursuant to Applicable Banking Regulations (as defined in the Subordinated Note), on the Bank Call Date (as defined in the Subordinated Note), (b) at its outstanding principal amount, subject to having obtained the prior approval of the CBN (if required), if a Capital Disqualification Event (as defined in the Subordinated Note) occurs and (c) at its outstanding principal amount, subject to having obtained the prior approval of the CBN (if required), if a Tax Event (as defined in the Subordinated Note) occurs or Indemnity Amounts (as defined in the Subordinated Note) are payable in certain circumstances, in each case together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof. See condition 9 (*Redemption and Purchase*) of the Subordinated Note.
Withholding Tax:	All payments of principal and interest under the Subordinated Note and in respect of the Notes will be made free and clear of and without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of any Relevant Jurisdiction as provided in Condition 8 (*Taxation*) of the Notes and condition 8(a) (*Additional Amounts and Indemnity Amounts—*

Additional Amounts) of the Subordinated Note. In the event that any such deduction is made, the Issuer or, as the case may be, the Bank will, save in certain limited circumstances provided in condition 8(a) (*Additional Amounts and Indemnity Amounts—Additional Amounts*) and condition 8(b) (*Additional Amounts and Indemnity Amounts—Indemnity Amounts*) of the Subordinated Note, be required to pay additional amounts to cover the amounts so deducted.

Use of Proceeds: An amount equal to the gross proceeds of the issue of the Notes will be used by the Issuer for the sole purpose of financing the purchase of the Subordinated Note to be issued by the Bank on the issue date of the Notes. The proceeds of the Subordinated Note will be used by the Bank for general banking purposes. See "*Use of Proceeds*".

Form of the Notes: Notes which are offered and sold in reliance on Regulation S will be represented by beneficial interests in the Unrestricted Global Note in registered form, without interest coupons attached, which will be registered in the name of Citibank Europe plc as nominee for, and shall be deposited on or about the Closing Date with a common depository for and in respect of interests held through Euroclear and Clearstream, Luxembourg. Notes which are offered and sold in reliance on Rule 144A will be represented by beneficial interests in the Restricted Global Note in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with a custodian for, and registered in the name of, Cede & Co. as nominee for DTC for and in respect of interests held through Euroclear and Clearstream, Luxembourg. Notes sold (i) in offshore transactions in reliance on Regulation S under the Securities Act and (ii) to qualified institutional buyers in reliance on Rule 144A will be issued in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. See "*Terms and Conditions of the Notes—Form and Denomination*".

Interests in the Restricted Global Note will be subject to certain restrictions on transfer. See "*Transfer Restrictions*".

Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their participants.

Note Certificates will only be available in certain circumstances as described herein. See "*Terms and Conditions of the Notes*" and "*The Form of Global Notes*".

Except as described herein, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes.

Listing and Clearing: Application has been made to list the Notes on the Irish Stock Exchange. It is expected that admission to listing will become effective and dealings are expected to commence on or about the Closing Date. The Notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg with the following ISIN, and Common Code and CUSIP:

Unrestricted Notes:

ISIN: XS0957590689.

Common Code: 095759068.

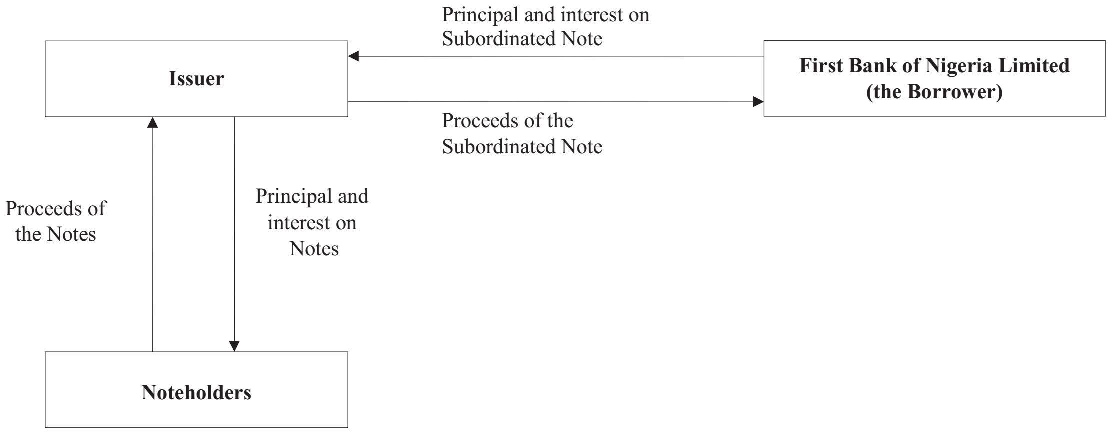
	Restricted Notes:
	ISIN: US302406AA16.
	Common Code: 095811418.
	CUSIP: 302406AA1.
Governing Law:	The Notes, the Agency Agreement and the Trust Deed and any non-contractual obligations arising out of or in connection therewith, will be governed by, and shall be construed in accordance with, English law. The Subordinated Note including any non-contractual obligations arising out of or in connection therewith, will be governed by, and shall be construed in accordance with, English law except for the provisions of condition 5(a) (*Status of the Subordinated Note—Subordination*) of the Subordinated Note which shall be governed by, and construed in accordance with, Nigerian law.
Selling Restrictions:	The Notes have not been and will not be registered under the Securities Act or any state securities laws and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person (as defined in Regulation S under the Securities Act), except to QIBs that are also QPs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The offering and sale of Notes is subject to applicable laws and regulations including, without limitation, those of the United States, the United Kingdom and Nigeria. See "*Subscription and Sale*".
Ratings:	The Notes are expected to be rated B by S&P and B- by Fitch. The Bank's current long term rating by S&P is BB- (outlook stable) and its current long term rating by Fitch is B+ (outlook stable). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Risk Factors:	Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 9.
ERISA:	The Notes may be regarded for ERISA purposes as equity interests in a separate entity whose sole assets are the Subordinated Note. Accordingly, the Notes should not be acquired by any benefit plan investor. Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made certain representations as to its status under ERISA. See "*Transfer Restrictions*".

Description of the Transaction

The following summary description contains basic information about the Notes and the Subordinated Note and should be read in conjunction with, and is qualified in its entirety by, the information set out under "Terms and Conditions of the Notes" and "Subordinated Note" appearing elsewhere in this Prospectus.

The transaction has been structured so as to enable First Bank to raise subordinated debt through the issuance of a Subordinated Note to the Issuer. The Issuer will issue the Notes, which will be limited recourse subordinated note participation notes issued for the sole purpose of funding the acquisition by the Issuer of the Subordinated Note issued by First Bank. The Subordinated Note will have the characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. The Notes will be constituted by, be subject to, and have the benefit of the Trust Deed. The obligations of the Issuer to make payments under the Notes shall constitute an obligation only to account to the Noteholders for an amount equal to the sums of principal, interest and/or additional amounts (if any) the Issuer actually receives and retains (net of tax) by or for its account from First Bank pursuant to the Subordinated Note or that are deposited in the Account.

Set out below is a diagrammatic representation of the structure:



As provided in the Trust Deed, the Issuer shall charge in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes (a) all of its rights interests and benefits in and to principal, interest, additional amounts and indemnity amounts (if any) payable by First Bank to the Issuer under the Subordinated Note, (b) its right to receive all sums which may be or become payable by First Bank under any claim award or judgment relating to the Subordinated Note and (c) its rights, title and interest in and to all sums of money now or in the future deposited in an account with the Principal Paying Agent in the name of the Issuer, together with the debt represented thereby, including accrued interest from time to time on the secured account (the "**Account**") held with the Principal Paying Agent ((a), (b) and (c) collectively, the "**Charged Property**"). The Issuer has assigned absolutely certain administrative rights under the Subordinated Note to the Trustee for the benefit of the Noteholders. First Bank will be obliged to make payments under the Subordinated Note to the Issuer in accordance with the terms of the Subordinated Note to the Account or, following a Relevant Event, as otherwise instructed by the Trustee.

The Issuer will agree in the Trust Deed not to make or consent to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Subordinated Note unless the Trustee has given its prior written consent or an Extraordinary Resolution or Written Resolution. The Issuer will further agree to act at all times in accordance with any instructions of the Trustee from time to time with respect to the Subordinated Note. Any amendments, modifications, waivers or authorisations made with the Trustee's consent, but without the Noteholders consent, shall be notified to the Noteholders in accordance with Condition 14 (*Notices*) of the Notes and will be binding on the Noteholders.

The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as further described in "*Terms and Conditions of the Notes*".

Payments in respect of the Notes will be made without any deduction or withholding for, or on account of, taxes of The Netherlands or the Republic of Nigeria except as required by law. See Condition 8 (*Taxation*) of the Notes. In that event, the Issuer will only be required to pay an additional amount to the extent it receives corresponding amounts from First Bank under the Subordinated Note. The Subordinated Note provides for First Bank to pay such corresponding amounts in these circumstances. In addition, payments under the Subordinated Note will be made without any deduction or withholding for, or on account of, any taxes in Nigeria, except as required by law, in which event First Bank will be obliged to increase the amounts payable under the Subordinated Note. See "*Risk Factors—Risks Related to the Issuer*" and "*Risk Factors—Risks Relating to the Subordinated Note, the Notes and the Trading Market*".

The Issuer will have no other financial obligations under the Notes and no other assets of the Issuer will be available to Noteholders. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the extent of such sums received or recovered and retained (net of tax) by or on behalf of the Issuer or the Trustee from the assets securing the Notes. Noteholders shall look solely to such sums for payments to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets in respect thereof. In the event that the amount due and payable by the Issuer under such notes exceeds the sums so received or recovered and retained (net of tax), the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

First Bank may call the Subordinated Note prior to its maturity only in the limited circumstances set out in condition 9 (*Redemption and Purchase*) of the Subordinated Note. To the extent that the Issuer has actually received the relevant funds from First Bank, the Issuer will redeem the Notes early together with accrued interest and additional amounts (if any) thereon to, and including the date of redemption. See "*Subordinated Note—Condition 9 (Redemption and Purchase*)" and "*Terms and Conditions of the Notes—Condition 6* (*Redemption and Purchase*)".

RISK FACTORS

An investment in the Notes involves a high degree of risk. Accordingly, prospective investors should carefully consider, amongst other things, the risks described below, as well as the detailed information set out elsewhere in this Prospectus, and reach their own views before making an investment decision.

Each of the Issuer and the Bank believes that the following risks, individually or together, could adversely affect its business, results of operations, financial condition and/or prospects and/or its ability to meet its payment obligations under the Subordinated Note and/or the Issuer's ability to make payments under the Notes. Most of these factors are contingencies which may or may not occur and neither the Issuer nor the Bank is in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.

The risks and uncertainties described below are not the only risks and uncertainties the Issuer and/or the Bank faces. Additional risks and uncertainties not presently known to the Issuer or the Bank, or that the Issuer and/or the Bank currently believes are immaterial, could also adversely affect the Issuer or the Bank's business, results of operations, financial condition and/or prospects and/or the Bank's ability to meet its payment obligations under the Subordinated Note and/or the Issuer's ability to make payments under the Notes. If any of the following risks actually materialises, the Issuer's and/or the Bank's business, results of operations, financial condition and/or prospects could be adversely affected. If that were to happen, the trading price of the Notes could decline and the Issuer may be unable to pay interest or principal on the Notes and the Bank may not be able to make any payments under the Subordinated Note, and investors may lose all or part of their investment. Furthermore, the Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily, or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Risks related to the Issuer

The Issuer's principal purpose is to provide funding, through the international capital markets, to the Bank. The Issuer's ability to fulfil its obligations under the Notes is entirely dependent on the performance of the Bank. Therefore, in considering the risks that may affect the Issuer's ability to fulfil such obligations, potential investors should primarily focus on the risk factor analysis set out below in respect of the Bank and its ability to fulfil its obligations under the Subordinated Note, which is crucial to the Issuer's ability to fulfil its obligations under the Notes.

Risks Related to the Group

Substantially all of the Group's operations and assets are based in Nigeria; a slowdown in economic growth in Nigeria could materially and adversely affect the Group's businesses

Substantially all of the Group's business operations and assets are based in Nigeria. As a result, the Group's income, results of operations and the quality and growth of its assets depends, to a large extent, on the performance of the Nigerian economy. In the past, Nigeria has experienced periods of slow or negative growth, high inflation, significant devaluation of the Naira and the imposition of exchange controls.

Any deterioration in economic conditions in Nigeria as a result of these or other factors, including a significant depreciation of the Naira or a significant increase in interest rates, could materially adversely affect the Group's borrowers and contractual counterparties. This, in turn, could materially and adversely affect the Group's results of operations and/or financial condition, including the Group's ability to grow its loan portfolio, the quality of its assets and/or its ability to implement its business strategy.

The profitability of parts of the Group's business is highly dependent on Nigerian oil revenue

The Bank's public sector segment, which comprised 15 per cent. of the Group's net revenues for the three months ended 31 March 2013, provides banking services to the Federal Government, the MDAs of the federal government, state governments, the state governments' MDAs, federal tertiary institutions, the armed forces, police, civil and defence organisations. According to the CBN's economic report for the first half of 2012, oil revenue accounted for 78.1 per cent. of Nigeria's gross federally-collected revenue for the period. Government spending on public sector projects is heavily dependent on crude oil revenue to the extent that federal and several other public sector-related budget appropriations are based on crude oil revenue. As at 31 March 2013, 8.7 per cent. of the Bank's loan portfolio and 27.0 per cent. of its deposit portfolio was comprised of loans or deposits from public sector customers.

Oil prices are subject to wide fluctuations in response to relatively minor changes in the supply of, and demand for, oil, market uncertainty and a variety of additional factors that are beyond the Group's control. These factors include, but are not limited to, political conditions in the Middle East and other regions, internal and political decisions of the Organisation of the Petroleum Exporting Countries ("**OPEC**") and other oil producing nations as to whether to decrease or increase production of crude oil, domestic and foreign supplies of oil, consumer demand, weather conditions, domestic and foreign government regulations, transport costs, the price and availability of alternative fuels and overall economic conditions. In a keynote address at the Nigerian Oil and Gas Conference in June 2013, the Group Managing Director of the Nigerian National Petroleum Corporation also expressed concerns over the rise in production of crude oil in the United States, largely attributable to the introduction of shale-rock drilling technology. According to data from the United States Energy Information Administration ("**EIA**"), exports of Nigerian oil to the United States almost halved between 2011 and 2012. In the late 2000s, Nigeria shipped around one million barrels a day of crude to the United States, but in 2012, that amount decreased to 405,000 barrels a day. In 2011, United States was the largest importer of Nigerian crude oil, accounting for 33 per cent. of total crude oil exports from Nigeria in 2011, according to the EIA.

Nigeria has also in the past suffered significant losses to revenues as a result of oil theft (commonly known as "bunkering" in Nigeria). The theft of oil in Nigeria has caused not only losses in revenues as a result of the oil lost to theft, but also losses due to damages to the oil pipeline and other facilities that has often been severe, resulting in further losses of production and pollution, and has forced oil companies to shut-in production resulting in additional costs for the companies affected. There have been reports that crude oil theft in Nigeria is on the rise. In June 2013, the Trans Niger Pipeline, a major oil pipeline in Nigeria that carries 150,000 barrels a day of oil through the Niger Delta to the Bonny terminal, was shut down for approximately two weeks following an explosion and fire at a location that had been targeted by oil thieves.

Given the significant contribution of Nigerian oil revenues to the Group's growth, any fall in oil prices or decline in the level of Nigeria's oil production could have a material adverse effect on the Group's business, results of operations, financial conditions and/or prospects.

See also "*—Risks related to Nigeria and other regions in which the Group operates—The Nigerian economy is highly dependent on oil production in Nigeria and global prices of oil*", "*—Risks related to Nigeria and other regions in which the Group operates—The continuing depletion of the Excess Crude Account and the uncertainties surrounding the newly established National Sovereign Wealth Fund could have adverse impacts on the Nigerian economy*" and "*—Risks related to Nigeria and other regions in which the Group operates— The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change*" for other risks related to the oil and gas industry.

The Group is exposed to risks because of customer and sector concentration in its loan portfolios and deposit base

The Group is subject to customer and sector concentration risk as a result of its reliance on a relatively small number of industry sectors and institutions for a large portion of its total loans and resulting interest income. As at 31 March 2013, loans to customers operating in the oil and gas industry accounted for 34.2 per cent. of the Group's total loan portfolio. The Bank's ten and twenty largest borrowers collectively accounted for 24.6 per cent. and 36.1 per cent. of the Bank's total outstanding loans as at the same date, respectively.

This concentration of oil and gas customers may increase the Group's overall exposure to credit risk in that customers may be similarly affected by changes in economic and industry conditions. If any industry sector in which the Group has a relatively high concentration of its loans experiences adverse economic or market conditions, the Group's credit risk would increase, which can lead to increased delinquencies, default rates and loan charge-offs in those segments, any or all of which may negatively impact the Group's financial condition and/or results of operations. Furthermore, if for any reason the Bank loses or experiences a decrease in the amount of its business relationships with its largest borrowers, whether as the result of any such customer becoming a party to a merger or as a result of market conditions, competition or otherwise, the Group's financial condition and/or results of operations could be affected negatively.

In addition, as at 31 March 2013, the Bank's ten largest depositors collectively accounted for 19.92 per cent. of its total deposits. The loss of one or more of these large customers would result in a significant decline in the Bank's deposit balances, which could adversely affect the liquidity, financial condition and/or earnings of the Group. Additionally, any material loss of deposit funds could require the Bank to raise deposit rates in an attempt to attract new deposits or borrow funds on a short-term basis at higher rates, which would adversely affect its results of operations. The occurrence of any of the above circumstances could impact the Bank's liquidity and/or cash flow, thereby adversely affecting the Group's business, financial condition, results of operations and/or prospects.

The Group relies on short term deposits as its primary source of funding and is further exposed to liquidity risks due to maturity mismatches, which may result in the Group being unable to meet its liabilities as they fall due.

The Group has historically relied almost exclusively on corporate and retail depositors to meet its funding needs as access to other funding sources, including the capital markets, has been limited. As at 31 March 2013, 31 December 2012 and 31 December 2011, the Group's deposits accounted for 85.7 per cent., 83.8 per cent. and 76.5 per cent. of total funding (which is defined as deposit from banks, deposits from customers, borrowings, share capital, share premium and retained earnings), respectively. The Group is currently trying to diversify its funding sources further and boost its capital ratio through the issuance of capital market instruments and other sources of funding, such as inter–bank loans.

Nigerian depositors usually withdraw their deposits on a frequent basis and are not typically in a position to place significant funds within the banking sector on a long–term basis. The Group's concentration of deposits may exceed such depositors' internal limits, and they may be required to withdraw some or all of their deposits from the Group. No assurance can be given that the Group will be able to maintain its existing level of deposits without increasing its cost of funding, particularly as the Nigerian banking sector becomes more competitive. If a substantial portion of the Group's depositors withdraw their demand deposits or do not roll over their time deposits upon maturity, the Group may need to seek more expensive sources of funding to meet its funding requirements. In addition, there are limited opportunities in the Nigerian market for banks to sell assets other than those that are highly liquid, such as government securities. As such, no assurance can be made that the Group will be able to obtain additional funding on commercially reasonable terms as and when required. There can be no assurance that decreases in corporate deposits and/or unexpected withdrawals of retail deposits will not result in liquidity gaps that the Group will need to cover.

Additionally, the Group has historically funded its risk assets with deposits and shareholders' funds. Deposits from banks and customers represented 92.4 per cent. of total liabilities as at 31 March 2013. As at 31 March 2013, 30.0 per cent. of the Group's deposits were due within ninety days, whilst 75.0 per cent. of the Group's interest earning assets had maturities in excess of ninety days. Although most contractual maturities are rolled over and demand deposits have remained largely stable, the Group could face difficulties in meeting its liabilities as they fall due as a result of, among other things, failure to attract additional medium to long–term financing or a sudden increase in withdrawal of deposits, which currently form a significant portion of the Group's funding.

A deterioration of the Nigerian economy, an inability to access alternative sources of funds in the international capital, syndicated loan and interbank markets, significant withdrawals of corporate and retail deposits and/or continued mismatches between the Group's assets and liabilities may, together or separately, have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

The Group operates in an uncertain regulatory environment and recent changes by the CBN are having a material adverse effect on the Group

Regulators in Nigeria have recently implemented new rules that are having a material adverse effect on the Group's financial condition, results of operations and/or prospects. On 27 March 2013, the CBN released the Revised Guide to Bank Charges, which provides a standard for the application of charges in the banking industry, and took effect from 1 April 2013. The Revised Guide to Bank Charges in part, stipulated that Nigerian savings accounts earn interest at a minimum rate of 30 per cent. of the MPR per annum. At the current MPR of 12 per cent., this translates to a minimum of 3.6 per cent per annum. For the three months ended 31 March 2013 and the years ended 31 December 2012 and 2011, the average interest rate paid by the Bank on its average balance of savings account deposits (calculated in accordance with Nigerian GAAP) was 0.8 per cent.

This increase in interest payable on savings account deposits has already increased the Group's cost of funds. The Group has historically relied heavily on savings deposits as a low cost source of funds. Savings account deposits accounted for 21.9 per cent., 22.8 per cent., 25.4 per cent. and 26.8 per cent. of the Bank's total deposits from customers as at 31 March 2013, 31 December 2012, 31 December 2011 and 1 January 2011, respectively. Therefore, the increase in interest payable on savings account disproportionately impacts the Group more than other banks in Nigeria.

The Revised Guide to Bank Charges also phases out the commission on turnover ("**COT**") charged by banks from 2013 until 2016, at which time customers will no longer be charged for transactions on current accounts. Prior to 1 April 2013, COT that banks were permitted to charge was ₦5 per ₦1,000. This reduction in COT chargeable is expected to reduce the Group's fee and commission income. For the three months ended 31 March 2013, 6.8 per cent. of the Group's gross revenue was comprised of income from COT, compared to 8.6 per cent. and 7.0 per cent. for the years ended 31 December 2012 and 2011, respectively. For the three months ended 31 March 2013, 24.0 per cent. of the Group's profit before tax was comprised of income from COT, compared to 34.0 per cent. and 47.0 per cent. for the years ended 31 December 2012 and 2011, respectively.

These factors, and any future regulatory changes introduced by the CBN, could materially and adversely affect the Nigerian banking industry as a whole and have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

The Group's net interest margin may be under pressure due to government monetary policies

The Bank's net interest margin (defined as net interest income divided by average interest earning assets of the Bank on a stand-alone basis and calculated in accordance with Nigerian GAAP) was 8.5 per cent. for the three months ended 31 March 2013, 8.7 per cent. for the year ended 31 December 2012, 8.0 per cent. for the year ended 31 December 2011 and 7.4 per cent. For the year ended 31 December 2010.

The Nigerian government has put in place several policies that have caused a decrease in interest income of Nigerian banks and improved liquidity. The MPR serves as an anchor rate for transactions in the inter-bank money market as well as other market rates. Increases in the MPR cause increases in the cost of borrowing and therefore may have a negative impact on the net interest rate margin. The MPR was held constant for most of 2010 at 6.0 per cent., but was raised to 6.25 per cent. in September 2010, and was raised six times in 2011, resulting in a rate of 12.0 per cent. in October 2011 where it has remained as of May 2013. In May 2013, the CBN's monetary policy committee ("**MPC**") voted to maintain MPR at 12.0 per cent. with a corridor of +/- 200 basis points. These changes in monetary policy in Nigeria have resulted in increasing pressure on the Group's net interest margins.

In addition, the banking industry in Nigeria has become increasingly competitive, which has resulted in increasing pressure on the loan rates chargeable by the Group, particularly in the corporate segment, as well as interest rates paid on deposits from customers, as the Group competes for business. See "*—Risks related to the Group—The Group faces increased levels of competition in the Nigerian banking industry*" and "*—Risks related to the Nigerian banking sector—Lack of confidence in the Nigerian banking system resulting from the global financial crisis may affect the Group's performance*".

The Group faces increased levels of competition in the Nigerian banking industry

The Nigerian market for banking and financial services is highly competitive and the Group faces competition from different banks in each of the segments and regions where it operates. Foreign banks also compete strongly with Nigerian banks, particularly in the corporate banking and institutional banking business, which accounted for 21.2 per cent. and 50.0 per cent. of the Group's loans to customers, respectively, for the year ended 31 December 2012. Although historically the Group has achieved consistent and profitable growth, it may be unable to maintain or improve its market position. See "*—Risks related to the Nigerian banking sector—The increasingly competitive environment in the Nigerian banking industry may negatively affect the Group's prospects*".

The Nigerian banking sector is undergoing a transformation which is expected to continue over the next few years. In the aftermath of the global economic and financial crisis, sector consolidation aided by AMCON and the CBN has reduced the number of existing banks and changed the Nigerian banking landscape. The concentration of capital among the non-Intervened Banks (as defined below) is increasingly higher, thus increasing the share of the market in the hands of the stronger banks. The Group believes that in order to meet the competition driven by a more concentrated Nigerian banking industry, it will be critical for the Group to increasingly achieve economies of scale and be able to effectively offer the greater reach and financial capacity of the largest banks.

Against this background, the Group's growth depends on its ability to gain market share, extend its distribution network, manage its cost base, access low cost deposits and grow quality risk assets, in order to allow it to maintain strong levels of profitability and returns despite being required to hold higher levels of capital by the

CBN. If the Group is not able to generate the profitability, economies of scale and financial capacity to enable it to compete with the other largest Nigerian banks, the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects may be materially and adversely affected.

The Group is subject to interest rate volatility

Volatility in interest rates will significantly impact the Group's net interest income and may impact the Group's liquidity. Changes in interest rates can influence not only the interest received on loans and the interest that is paid on deposits and borrowings, but such changes could also affect the Group's ability to originate loans and obtain deposits. An increase in interest rates generally will decrease the value of the Group's fixed rate loans and raise the Group's funding costs. Such an increase could also generally decrease the value of fixed rate debt securities in the Group's securities portfolio. As at 31 March 2013, variable interest rate borrowings constituted 100 per cent. of the Group's total short-term borrowings and 100 per cent. of the Group's total long-term borrowings. As at 31 March 2013, a 100 basis point increase in the Group's three-month EURIBOR rates, assuming all other variables remain constant, would have resulted in a EUR125,000 decrease in the Group's earnings. In addition, an increase in interest rates may reduce overall demand for new loans and increase the risk of customer default. If any of the above referenced events happens, the Group's earnings could be adversely affected. This risk could be heightened in the event of sudden large fluctuations or changes in interest rates in response to economic or other conditions, such as the 275 basis points increase in the Monetary Policy Rate in October 2011 following an extraordinary meeting of the MPC.

Interest rates are sensitive to many factors beyond the Group's control, including the policies of central banks, such as the CBN, domestic and international economic conditions and political factors. The Group's continuing strategy is to use hedging instruments as a means to minimise material exposures. However, there can be no assurance that the Group will be able to protect itself from the adverse effects of future interest rate fluctuations. If the Group is unable to monitor such fluctuations so as to respond in a timely and cost effective manner, such fluctuations could lead to a reduction in net interest income and adversely affect the Group's financial condition and/or results of operations.

The steps taken to refocus the Group's operations with a view to lowering operating expenses and increasing efficiencies in the supply chain could disrupt the Group's business

As at October 2010, the Group began its refocusing to optimize the Bank's internal operations and customer service (the "**Refocusing**"). See "*Business—The Refocusing: Realigning Internal Processes*". This Refocusing may be disruptive to the business. Efforts to reduce expenses have resulted in and could result in the recording of additional charges for inventory and technology-related write-offs, workforce reduction costs or other charges relating to the consolidation of facilities. The Group is also engaged in a work force rejuvenation strategy that has resulted in the loss of some experienced personnel. In addition, reductions to the Bank's headcount and other cost saving measures may impair the service provided to customers, may cause financial loss to the business and may damage the Bank's reputation, which may have a materially adverse effect on earnings in such period. If the Bank is unable to effectively manage its cost reduction and restructuring efforts, its business, financial condition, results of operations and cash flow could be negatively affected.

The Group may not be able to sustain the current level of growth in its loan portfolio, and may have difficulty in maintaining the credit quality thereof, which could impact its profitability

The Group's gross loans and advances to customers was ₦1,595 billion as at 31 March 2013, ₦1,602 billion as at 31 December 2012, ₦1,285 billion as at 31 December 2011 and ₦1,212 billion as at 31 December 2010. The increases in 2011 and 2012 were primarily driven by the Group's increased lending to the oil and gas downstream and upstream sectors of the economy, in part attributable to the regulatory framework in Nigeria such as the Nigerian Local Content Act (enacted in April 2010) and the marginal field regime to increase Nigerian participation in the Nigerian oil and gas industry. However, there can be no assurance that the Group will be able to sustain its current levels of growth in the future. The Group, along with other banks in Nigeria, is susceptible to political and economic events in Nigeria and any future disruption as the Government continues to reform the petroleum industry could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects. See also "*—Risks related to the Nigerian banking sector—The banking sector is affected by changes in the Nigerian economy*" and "*—Risks Related to Nigeria and other regions in which the Group operates—The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change*".

An increase in the overall level of lending could increase the credit risk of the Group. In particular, retail and SME commercial banking customers typically have less financial strength than large companies, and as the Group's retail and SME business expands, negative developments in the Nigerian economy could affect these borrowers more significantly than large companies. The Groups is has also identified retail banking as a priority segment in terms of growth for the Group as management believes that the individual retail segment in Nigeria is still largely unpenetrated. This could result in higher levels of classified loans (that is, loans classified by the Group as substandard, doubtful or lost based on CBN Prudential Guidelines) or NPLs for which an impairment is or needs to be made and as a result, requires higher levels of provisioning.

According to data from the CBN, the Nigerian banking industry's NPLs as a proportion of total loans were 36.0 per cent. as at 31 December 2009, compared with 5.6 per cent. in 2008. Subsequent to the AMCON acquisition of NPLs on 31 December 2010, the industry NPL ratio dropped to 16 per cent. of the total loans and dropped further to 4.8 per cent. by the end of 2011. The CBN set a target across the sector for NPL levels of 5 per cent. by 31 December 2011. However, only some banks have achieved this target. Banks which have NPL ratio above 5 per cent. are required to either sell those excess NPLs to AMCON or write off the excess.

The Group's NPL ratio was 7.5 per cent. as at December 2010 due to the impact of the global financial crisis, compared to ₦41.4 billion, representing 2.6 per cent. of total gross loans and advances as at 31 December 2012, ₦33.6 billion representing 2.6 per cent. of total gross loans and advances as at 31 December 2011 and ₦91.5 billion representing 7.5 per cent. of total gross loans and advances as at 31 December 2010. The Group's NPLs as a percentage of total gross loans declined in the period under review due to recovery of bad loans, sale of NPL's to AMCON and growth in the loan book. As at 31 December 2012, the Group's total allowance for impairment was ₦39.3 billion, or 2.5 per cent. of gross loans and advances to customers. (see "*—Risks relating to the Nigerian banking sector—Lack of confidence in the Nigerian banking system resulting from the global financial crisis may affect the Group's performance*"). Although the Group continues to actively manage and monitor its loan portfolio, there can be no assurance that in the future the Group will be able to maintain or improve the NPL ratio recorded in December 2012. Factors which may contribute to an increase in the amount of the Group's NPLs include growth of the Group's loan portfolio, or generally any slowdown in the Nigerian economy. Furthermore, AMCON has also announced that it will not purchase further NPLs from Nigerian banks. As a result, should the Group not be able to effectively manage and monitor its loan portfolio, any increase in NPLs that the Group is not able to recover would need to be written off, and the Group's provisioning levels may increase.

The Bank's NPLs as at 31 March 2013 stood at ₦44.8 billion, representing 3.4 per cent. of total gross loans and advances. In May 2013, the Bank's NPLs increased to ₦50.9 billion with a provision of ₦43.5 billion. A single account contributed 61 per cent. of the incremental NPL over the period from March 2013 to May 2013 which was classified on a subjective basis in view of recent developments in the corporate governance structure of the borrower and the likely adverse impact that such developments may have on the ability of the borrower to obtain new business in the short term. See "*Management's Discussion and Analysis of Results of Operations and Financial Condition—Recent developments-Developments in loan asset quality*". For information on the Group's NPLs, see "*Selected Statistical and Other Information*".

Any significant increase in credit exposure will require continued emphasis by the Group on credit quality, the adequacy of its provisioning levels and the continued development of financial and management control. Due to the size of each loan to corporate customers, a single default by a corporate borrower could significantly impact the Group's loan losses. Failure to successfully manage growth and development and to maintain the quality of its assets could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

The Group's expansion strategy may not continue to be successful

Over the past several years, the Group has implemented a strategy to grow the Group in terms of new customers, beginning with an aggressive strategy to add customers and more recently implementing a strategy to reduce costs effectively. This strategy includes organic growth within Nigeria as well as inorganic growth outside Nigeria through selective acquisitions, and aims to increase the number of customers served by each branch and to increase cross selling and number of products sold to each customer. The Group has implemented an aggressive branch rollout over the last three years, increasing its footprint across Nigeria, focusing on new urban areas and locations that are relatively under banked. Such activities will require a significant allocation of capital and management resources, further development of the Group's financial, internal controls and information technology systems, continued upgrading and streamlining of its risk management systems and additional training and recruitment of management and other key personnel.

The Group cannot be certain that it will be able to successfully continue to implement its growth strategy, manage the resulting business effectively, develop appropriate internal controls or that the implemented growth plans will achieve the benefits that management anticipates. If the Group fails to maintain effective internal controls as the business grows this could result in loss of investor confidence in the Group's business. In respect of inorganic growth strategy to expand geographic coverage, the Group is not certain that it will be able to make acquisitions at favourable prices or on terms that are favourable to the Group. Depending upon the nature, size and timing of potential future acquisitions, the Group may be required to raise additional financing in order to consummate additional acquisitions. Any debt agreements the Group may enter into may not permit it to consummate an acquisition or access the necessary additional financing because of certain covenant restrictions that it may incur. Additional financing may not be available or, if available, that financing may not be on terms acceptable to the Bank's management. If the Bank's growth strategy is not successful or if the Group fails to manage its growth properly, the Group's business, financial condition, results of operations and/or prospects may be materially adversely affected.

The Group's risk management and internal control policies and procedures may leave it exposed to unidentified or unanticipated risks

The Group's risk management policies and procedures may not be fully effective in mitigating its risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. In addition, the Group is subject to political, economic and other risks associated with Nigeria and the other countries in which it operates, which cannot be effectively managed. Any failure in the Group's risk management techniques may have a material adverse effect on its business, results of operations and/or financial condition.

The Group's risk management techniques and internal control policies and procedures may not be fully effective in mitigating its risk exposure in all market environments or against all types of risks, including risks that are unidentified or unanticipated. The Group is vulnerable to various kind of risks which range from, but are not limited to, money transfers fraud, electronic fraud, identity theft, internet and telephone fraud. As the risks posed by these factors constantly change, so does the approach and technique used in managing such risk, which include constant monitoring and risk assessment. Conventional risk management framework focused on credit management, operational risk management, and market risk in the past, but emerging trends in fraud indicate that failures in management of information assets and exposures in this area gives rise to more emphasis being placed on information security risk management. The magnitude of the potential impact of the foregoing risks may be compounded as the Group grows its business in the future. See "*The Group's expansion strategy may not continue to be successful*".

There can be no assurance that the Group's risk management and internal control policies and procedures will adequately control or protect the Group against the risks to which it is subject. Certain risks are unidentified or unforeseeable and could be greater than the Group's empirical data would otherwise indicate. In addition, the Group cannot guarantee that all of its staff will adhere to its policies and procedures. Any material deficiency in the Group's risk management or other internal control policies or procedures may expose the Group to significant credit, liquidity, market and/or operational risk, which may in turn have a material adverse effect on the Group's business, results of operations and/or financial condition.

There is uncertainty regarding sales of loans to AMCON

In 2010 and 2011, the Bank sold certain of its loans to AMCON. These loan sales were made in exchange for Federal Government of Nigeria guaranteed zero coupon bonds. See also "*—Risks relating to the Nigerian banking sector—Lack of confidence in the Nigerian banking system resulting from the global financial crisis may affect the Group's performance*". In December 2010, the Bank sold loans (primarily margin loans, which were loans secured with shares traded on the NSE as collateral, and NPLs) with a gross value of ₦15.5 billion in exchange for AMCON bonds valued at ₦7 billion, and in May 2011, the Bank sold loan with a gross value of ₦31.9 billion in exchange for AMCON bonds valued at ₦27.2 billion. In December 2011, the Group sold loans with a gross value of ₦43.9 billion in exchange for AMCON bonds valued at ₦35.8 billion. In addition, the Group also sold the performing loans of Seawolf Oilfield services with a gross value of ₦99 billion in exchange for AMCON bonds with a discounted value of ₦88 billion, in order to bring its loan exposure back within the single obligor limits for the CBN and the Bank.

As at 31 March 2013, ₦89 billion of the Group's loans sold to AMCON were backed by collateral valued at ₦57 billion. Under the sale agreements, AMCON may require the Group to pay additional amounts or repurchase a loan if the value of the collateral is found to be insufficient, or AMCON cannot otherwise assume ownership of the collateral, free and clear of liens. While the Group believes that the valuation the Group assigned to the relevant collateral backing the loans sold to AMCON reflected their true value and are not subject to encumbrances or liens that would restrict the ability of AMCON to assume full right, title and interest in such collateral, as this process is new, there is no certainty regarding how or whether this right to revalue will be exercised by AMCON. Additionally, the loan sale agreements provide that AMCON can require the Group to repurchase some or all of the loans sold in the event of certain circumstances, including a breach of any of the representations or warranties made by the Group in its agreement with AMCON. In the event that AMCON finds that a material portion of the loans sold by the Group were overvalued, or alleges any breach of representation or warranty by the Group or other event requiring a repurchase of all or part of any loans sold to AMCON, AMCON could require the Group to repay any such excess amount or repurchase such loans, possibly through the returning or redemption of AMCON Bonds, which could, in turn, have an adverse effect on the Group's results of operations and/or financial condition.

If the Group fails to receive or maintain licences required to conduct its operations, or if any existing licences are revoked, its operations may be adversely affected

Banking and other operations performed by Nigerian banks such as dealer and depositary activities in Nigeria require licences from the CBN. The Group has obtained licences in connection with its banking operations, including banking operations involving foreign currencies and its operations as an authorised dealer and primary dealer in federal government instruments. However, there is no assurance that members of the Group will be able to obtain required licences or maintain existing licences in the future. In the event that the Group loses a CBN licence or is required to apply for a new licence, the process could be burdensome and time-consuming. Pursuant to the Regulation on Banking Activities and Ancillary Matters No. 3 of 2010 issued by the CBN (the "**CBN Regulations**"), which repealed the universal banking guidelines, every Nigerian bank that held a universal banking licence was required (not later than 60 days before 14 May 2012) to apply to the CBN to have its universal banking licence exchanged for an appropriate licence to conduct banking business as one of the permitted types of banks in Nigeria (commercial, merchant or specialised). The Bank currently holds an international commercial banking licence. The CBN may, at its discretion, impose additional requirements or deny any request by the Group for licences. Similar actions by the CBN could limit the Group's operations or materially adversely affect its business, financial condition, results of operations and prospects. In particular, the loss of its commercial banking licence, a breach of the terms of its banking licence or a failure to obtain such a licence in the future could result in the Bank being unable to continue some or all of its banking activities, being unable to expand its business internationally and being subject to penalties and fines by the CBN. Any such failure could, in turn, have a material adverse effect on the Group's results of operations, financial condition and/or prospects.

The Group is subject to foreign exchange risk and is affected by changes in the value of the Naira against other currencies

The Group is exposed to foreign exchange risk, as a result of adverse movements in exchange rates, primarily through its loan and deposit portfolios that are denominated in foreign currencies and through acting as an intermediary in foreign exchange transactions between central and commercial banks. Such risk, if material, would have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

As at 31 March 2013, 75.7 per cent. of the Bank's total assets were denominated in Naira, 22.6 per cent. were denominated in U.S. dollars, 0.9 per cent were denominated in GBP and 0.9 per cent. were denominated in Euros.

The Group is subject to translation risk. Monetary assets and liabilities originally denominated in other currencies are translated into Naira at the relevant balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Group's income statement. Having a significant net foreign currency balance sheet position tends to result in foreign exchange translation gains when the Naira depreciates against such foreign currencies and in foreign exchange translation losses when the Naira appreciates against such foreign currencies in nominal terms. Gains and losses arising from such translations are reflected in the Group's income statement as foreign translation gains less losses. As a result, the Group's reported income is affected by changes in the value of the Naira with respect to foreign currencies (primarily the

U.S. dollar). As at 31 March 2013, the gap between the Group's foreign currency assets and liabilities, calculated in Naira, was a loss of U.S.$2.62 million for US dollars and a gain of GBP4.72 million for Sterling. As the Group's revenues are predominantly earned in Naira, a significant decline in the value of the Naira may mean the Group may experience financial loss, which could have a material adverse effect on the Group's business, financial condition, results of operations and/or prospects.

In addition, the Bank's customers may be subject to substantial foreign exchange risk, which indirectly affects the Bank's credit risk profile. As at 31 December 2012 and 31 December 2011, 29.4 per cent. and 23.6 per cent. of the Bank's gross loans and advances to customers, respectively, were denominated in foreign currencies, mainly U.S. dollars, primarily due to its lending to companies in the oil and gas and power sectors and in connection with its trade finance business. Any significant decline in the value of the Naira may result in borrowers being unable to repay foreign-currency denominated loans, and other fluctuations in the value of the Naira against foreign currencies may have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

The Group is also involved in market making, underwriting, investing and certain trading activities undertaken by the Bank. The Group's foreign exchange risks arise from exposures to changes in spot and forward rates and volatilities of the exchange rates on these trading and investment positions. The Group holds open positions (meaning unhedged positions open to the impact of market rate and price fluctuations) in the course of its trading and investment activities.

The Group is subject to risks relating to its information technology systems and its ability to remain competitive depends on its ability to upgrade such systems

The Group depends on its information technology systems to process a large number of transactions on an accurate and timely basis, and to store and process substantially all of the Group's business and operating data. The proper functioning of the Group's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems (such as its electronic fraud monitoring and surveillance systems), as well as the communication networks between its branches and main data processing centres, are critical to the Group's business and ability to compete effectively. Unlike banks in many other countries, the Group is unable to rely wholly on state or utility providers of power and telecommunication services and has to make its own standby arrangements to secure these services. The Group's business activities would be materially disrupted if there is a partial or complete failure of any of the Group's material information technology systems or communications networks. Such failures can be caused by a variety of factors, including natural disasters, extended power outages and computer viruses. In addition, limited national fibre optic coverage makes reliance on technology used to transmit narrowband data mandatory in certain remote areas, which may also be affected by similar interferences. The proper functioning of the Group's information technology systems also depends on accurate and reliable data and other system inputs, which are subject to human errors. Any failure or delay in recording or processing the Group's transaction data could subject it to claims for losses and regulatory fines and penalties.

In particular, the secure transmission of confidential information is a critical element of the Group's operations. The Group's networks and systems may be vulnerable to unauthorised access and other security problems. No assurance can be given that the Group's existing security measures will prevent security breaches, including break-ins and viruses, or other disruptions such as those caused by defects in hardware or software and errors or misconduct of operators. Persons who circumvent the Group's security measures could use the Group's or the Group's clients' confidential information wrongfully. Any material security breach or other disruptions could expose the Group to risk of loss and regulatory actions and harm its reputation.

The Group's ability to remain competitive will, to a certain extent, depend on its ability to upgrade its information technology systems on a timely and cost-effective basis. Whilst the Group has not experienced any material disruptions or security breaches in the past, any material security breach or other disruptions could expose the Group to risk of loss and regulatory actions and harm its reputation. In addition, the information available to and received by the Group through its existing information technology systems may not be timely or sufficient for the Group to manage risks and plan for, and respond to, market changes and other developments in the current operating environment. Any substantial failure to improve or upgrade the Group's information technology systems effectively or on a timely basis or failure to implement more efficient process automation could have a materially adverse effect on the Group's competitiveness, business, results of operations, financial condition and/or prospects.

Difficulty in obtaining and enforcing adequate security as collateral for the Group's loans may adversely affect its loan portfolio

As at December 2012, 93.1 per cent. of the Group's loans and advances to customers were secured. If the Group enforces the security, for various reasons the realisable value from the security may be less than the outstanding loan. Some secured loans, particularly in the Retail Banking unit, have lower recovery rates on the collateral following a default in the loan, due to the types of collateral involved—generally consumer products, such as appliances and cars, which are difficult to recover. Additionally, certain types of security are difficult to perfect such as mortgages, due to government bureaucracy, perfection costs and incomplete documentation.

Under relevant Nigerian land laws, the Group is required to obtain the consent of the Governor of the relevant state in which real property collateral is situated in order to perfect its security in the property. The process of perfecting title to land is bureaucratic and may prolong the Group's ability to realise security for loans advanced. In addition, the Nigerian judicial system is still developing and faces a number of challenges, which often results in delays in the judicial process. Accordingly, there is a possibility that the Group's loan portfolio may be affected by challenges in realising security for loans due to inefficiencies in the judicial system.

Failure to obtain security with sufficient value, to adequately perfect security interests or to recover collateral held for loans could have a material adverse effect on the Group's business, results of operations and/or financial condition.

A decline in the value or the illiquidity of the collateral securing the Group's loans may adversely affect its loan portfolio

Whilst there are limitations on securing effective collateral over certain assets, including land, a substantial portion of the Group's loans to corporate customers and individuals is secured by collateral such as real property, land leasing rights, production equipment, vehicles and securities. Downturns in the relevant markets, a lack of an existing market for the collateral within Nigeria or a general deterioration of economic conditions may result in declines in the value of collateral securing a number of loans to levels below the amounts of the outstanding principal and accrued interest on those loans. If collateral values decline, they may not be sufficient to cover unpaid amounts on the Group's secured loans, which may require the Group to reclassify the relevant loans, establish additional loan loss provisions and increase reserve requirements. A failure to recover the expected value of collateral may expose the Group to losses, which may materially adversely affect the Group's financial condition and/or results of operations.

The Group has only recently adopted the IFRS reporting standards, and historical financial statements of the Group will not be comparable with the Group's future financial statements

The Financial Reporting Council of Nigeria and the CBN established 1 January 2012 as the effective date by which all Nigerian banks were required to begin preparing their quarterly, semi-annual and annual financial statements in accordance with IFRS. In accordance with requirements of the CBN, the Group is required to publish quarterly financial information no later than six weeks after the end of each quarter. While the annual financial statements are required to be audited, the quarterly and semi-annual information that is published pursuant to these requirements will be derived from management accounts and therefore, not audited or reviewed by the Group's external auditors. Prior to 2012, such financial information was not prepared in accordance with IFRS and there are significant differences between Nigerian GAAP and IFRS. See "*Annex A—Summary of Significant Differences between Nigerian GAAP and IFRS*". In addition, certain other financial information and data set out herein (including in "*Selected Statistical and Other Information*") relating to daily average financial information and data has been derived from the management accounts of the Group, which were maintained in accordance with Nigerian GAAP. Accordingly the trends reflected in such accounts may not be indicative of the performance or condition of the Group as reflected in future financial statements produced under IFRS.

Furthermore, IFRS 1 (*First time adoption of International Financial Reporting Standards*), contains mandatory exemptions and permits certain optional exemptions from a full retroactive application of IFRS. See note 51 to the Consolidated Financial Statements for further information on the exemptions applied by the Group from a full retroactive application of IFRS.

The Group's management accounts are not prepared on a basis consistent with IFRS, and there are significant differences between IFRS and Nigerian GAAP

Since 1 January 2012, the Group has been required to, and has, prepared its quarterly, semi-annual and annual financial statements in accordance with IFRS (each, a "**Quarterly IFRS Financial Statement**"). However, as of the date of this Prospectus, the Group's interim management accounts are prepared in accordance with Nigerian GAAP and not IFRS. Such accounts are expressly converted from Nigerian GAAP to IFRS on a quarterly basis for the preparation of the Quarterly IFRS Financial Statements. Accordingly, to date, the financial information available to management between its Quarterly IFRS Financial Statements may not be indicative of the content of the next Quarterly IFRS Financial Statement. These differences are attributable to the significant differences between IFRS and Nigerian GAAP. See "*Annex A—Summary of Significant Differences between Nigerian GAAP and IFRS*".

The Group may not be able to fully comply with anti-money laundering regulations, which could result in governmental fines and a damaged reputation

The Group is required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations in Nigeria and other jurisdictions where it has operations. External analysts have identified corruption and money laundering as significant problems in Nigeria. In the past several years, the Federal Government has taken steps to confront this challenge, including by enactment of the Money Laundering (Prohibition) Act of 2011, as amended by the Money Laundering (Prohibition) (Amendment) Act of 2012, as well as the Terrorism (Prevention) Act of 2012 as amended by the Terrorism (Prevention) (Amendment) Act of 2013, which require financial institutions to monitor certain financial transactions of their customers more closely for evidence of money laundering and increases the reporting requirements of financial transactions by financial institutions. In addition, the CBN now requires banks to ensure that their customers who are "designated non-financial institutions" (which include dealers in jewellery, cars and luxury goods, supermarkets, hotels and casinos) are registered with the Special Control Unit on Money Laundering of the Federal Ministry of Trade and Investments prior to establishing a business relationship with them. The Nigerian Government also established the Economic and Financial Crimes Commission (the "**EFCC**") in 2004, whose purpose is to investigate all financial crimes including, among others, advance fee fraud money laundering, counterfeiting and futures market fraud.

The Group is required to comply with a variety of anti-money laundering, anti-terrorism laws and other regulations in Nigeria. However its policies and procedures aimed at detecting and preventing the use of its banking network for money laundering and terrorist activities may not eliminate instances where the Group may be used by other parties to engage in money laundering and other illegal or improper activities. In common with other banks in Nigeria, the Group continues to face ongoing risks relating to corruption and potential money laundering schemes perpetrated by individuals and companies in Nigeria. To the extent the Group fails to fully comply with applicable laws and regulations, the relevant government agencies to whom it reports have the power and authority to impose fines and other penalties on the Group, including the suspension or removal of its banking licence. The Group's business and reputation could also suffer as a result of the imposition of any such penalties or any allegations relating thereto, which could, in turn, have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

The Group's reputation and its ability to do business may be impaired by corrupt behaviour of any of its employees or agents

The Group operates in countries and sectors known to experience corruption. The Group has experienced incidents of fraud committed by its employees in the past, and detecting and limiting wrongdoing by employees remains an area of priority and focus for the management of the Group. While the Group is committed to conducting business in a legal and ethical manner, there is a risk that its employees or agents may take actions that would be prohibited by the US Foreign Corrupt Practices Act of 1977, the United Kingdom Bribery Act 2010 (the "**UK Bribery Act**"), legislation promulgated pursuant to the 1997 Organisation for Economic Co-Operation and Development Convention on Combating Bribery of Foreign Public Officials in International Business Transactions or other applicable anti-corruption rules or regulations, and the Nigerian Corrupt Practices and Other Related Offences Act No 5 of 2000. The UK Bribery Act is broader in scope than other such anti-corruption laws, such as the US Foreign Corrupt Practices Act, and applies to public and private corruption and contains no exception for facilitating payments. Despite the Group's training and compliance programs, there can be no assurance that the internal control policies and procedures will protect the Group from reckless or criminal acts committed by those of the Group's employees or agents who violate the Group's policies. Any investigation of any potential violations of the UK Bribery Act or other anti-corruption laws by UK or foreign authorities could also adversely affect the Group's reputation and, therefore, it's ability to do business. If the Group is found not to be in compliance with the UK Bribery Act and other laws governing the conduct of business with government entities (including local laws), the Group may be subject to criminal and civil penalties and other remedial measures, which could have a material adverse effect on the Group's business, financial condition and/ or results of operations.

The Group may be subject to operational risk and fraud and may not have adequate insurance to cover losses

The Group's business activities require accurate recording and processing of a very large number of transactions on a daily basis. The Group's recording and processing of transactions are potentially subject to human and technological error or a breakdown in the Group's internal processes or controls relating to the authorisation of transactions, either centrally or within its branch network. Given the high and increasing volume of transactions, errors may be repeated or compounded before they are discovered and rectified. Any failure or delay in recording or processing of transactions, or other material breakdown in internal controls, could subject the Group to claims for losses and regulatory fines and penalties.

In addition, the Group is at risk from fraud or other criminal acts committed by its employees and board of directors of the Group (the "**Board**"). Misconduct by these individuals could include binding the Group to transactions that exceed authorised limits or present unacceptable risks, or concealing unauthorised or unsuccessful activities, which in either case may result in unknown and unmanaged risks or losses. The Group also manages its operational risk by obtaining insurance from external providers. The Group does not carry insurance coverage at levels comparable to those customary in other countries. Consequently, the inadequacy or a failure of the Group's internal processes or systems may result in unauthorised transactions and errors which may not be detected and the Group's insurance may not be sufficient to cover the Group's losses from such transactions or errors, which may have a material adverse effect on the Group's business, financial condition and/or results of operations.

The Group may not be able to recruit and retain qualified personnel

The Group is dependent on members of its Board and other key members of the management teams for the development and implementation of its strategy. Should members of the management team leave the Group, then the operational efficiency of the management team may be compromised, which in turn may have an adverse effect on the Group's efficiency.

The Group's success will depend, in part, on its ability to retain, motivate, and attract, qualified and experienced banking and management personnel. Competition in the Nigerian banking industry for personnel is considerable. Whilst the Group believes that it has effective staff recruitment, training and incentive programmes in place, there can be no assurance that these will be sufficient to allow the Group to recruit, train and retain an adequate number of qualified personnel to run its business and to execute its focused branch expansion strategy. The Group's failure to recruit, train and/or retain necessary personnel could have a material adverse effect on its business, results of operations, financial condition, cash flows, liquidity and/or prospects. Therefore, maintaining employee morale, training, and retaining and incentivising employees is key to the Group's business strategy.

If the Group continues to grow at its current pace, it will need to increase its number of employees. Competition in the Nigerian banking industry for personnel is considerable. No assurance can be given that these measures will allow the Group to recruit, train and retain sufficient numbers of qualified personnel. The Group's failure to recruit, train and/or retain necessary personnel could have a material adverse effect on its business, financial condition, results of operations and/or prospects.

A significant percentage of the Group's workforce in the bank branches is unionised, resulting in a risk of labour relations problems, including the incurrence of additional employment costs as a result of industry collective bargaining agreements

Approximately 71.0 per cent. of the Bank's employees are unionised under the Association of Senior Staff of Bank, Insurance and Financial Institutions ("**ASSBIFI**"). If the Bank is unable to successfully negotiate acceptable terms with the union when the current agreement expires, or if it fails to reach an agreement with the union, operations could be disrupted. No assurance can be given that the Bank will be able to successfully extend or renegotiate this agreement as it expires. Also, if the agreement is not extended or renegotiated and significant disputes with union arise, or if unionised workers engage in a work stoppage, the Bank could incur higher ongoing labour costs or experience a significant disruption of operations, which could have a material adverse effect on the Bank's business. In addition, a significant increase in the number of employees that unionise could increase operating costs and therefore have a material adverse effect on its business, financial condition, results of operations and/or prospects.

The unsuccessful introduction of new products could result in the Group not being able to achieve its intended results

Expansion of the Group's business activities (into new geographies or new market segments), or the introduction of new products (e.g. mobile banking, franchised products or additional e-banking products) exposes the Group to a number of risks and challenges, including the following:

- the Group may have limited or no experience in certain new business activities and may not compete effectively in these areas;
- there is no guarantee that the Group's new business activities will meet expectations for profitability;
- the Group will need to hire or retrain personnel who are able to conduct new business activities; and
- the Group must continually add to the capability of its risk management and information technology systems to support a broader range of activities.

If the Group is not able to achieve the intended results in these new business areas or products, its business, results of operations and/or financial condition may be materially and adversely affected. In addition, if the Group fails to promptly identify and expand into new areas of business to meet the increasing demand for certain products and services, the Group may fail to maintain its market share or lose some of its existing customers to its competitors.

The Group has significant off-balance sheet credit-related commitments that may lead to potential losses

The Group conducts business involving acceptances, performance bonds and indemnities. Contingent liabilities and commitments comprise acceptances, endorsements, guarantees and letters of credit. All such credit-related commitments are classified as off-balance sheet items in the Group's consolidated financial statements. The Group had ₦817,475 million in off-balance sheet liabilities as at 31 March 2013, ₦564,467 million as at 31 December 2012 and ₦459,080 million as at 31 December 2011.

The Group does not create provisions for off-balance sheet liabilities so long as they are performing. However in the event that an off-balance sheet liability becomes non-performing the Group will take it on balance sheet and create a provision, which may have an adverse effect on the Group's business, financial condition, results of operations and/or prospects.

The Group may not realise benefits of mergers, acquisitions, joint ventures, strategic alliances or divestitures

As part of the Group strategy, it is considering selective acquisition opportunities in Nigeria and in regional countries, where the scale of opportunity is appropriate and the quality and performance criteria of the Group are also met. Acquisitions and other business combination transactions are inherently risky because of difficulties that can arise when integrating acquired entities, businesses, personnel, operations, technologies and products, and whether the Group realises the anticipated benefits from acquisitions and related activities will depend on many factors. In addition, expected business growth opportunities, revenue and cost synergies, operational efficiencies and other benefits may also not materialise as expected, in part because the assumptions upon which a transaction is premised may prove to be incorrect. Furthermore, there can be no assurance that the due diligence conducted by the Group in relation to a transaction is sufficient to uncover all material risk-related issues, and no assurance can be given that the procedures that the Group adopts to mitigate the risks relating to acquisitions and other business combinations will be adequate or that these transactions will be successful. If management is unable to integrate an acquired business or entity successfully, or if anticipated synergies or other benefits of a proposed transaction are not achieved or are significantly delayed, this could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

The Group is bound by certain covenants in its various financing documents

The Group, in its ordinary course of business, has entered into various loan agreements. The Group's loan agreements contain covenants that, among other things, require the Group to maintain a minimum capital adequacy ratio; a maximum NPL ratio; a maximum related party lending ratio; a minimum liquidity ratio; and minimum provisions for NPLs.

In addition, the Group's loan agreements contain certain customary representations and warranties, affirmative covenants and events of default. If an event of default occurs, the lenders under the loan agreements will be entitled to take various actions, including the acceleration of amounts due under the loan agreements and all actions permitted to be taken by a secured creditor which would have a material adverse effect on the Bank's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

Risks related to the Nigerian banking sector

The banking sector is affected by changes in the Nigerian economy.

The financial results and condition of Nigerian banks depend to a significant extent on the performance of the Nigerian economy. In the past, Nigeria has experienced periods of slow or negative growth, high inflation and fluctuations in the value of the Naira.

The global financial crisis has impacted Nigeria, particularly through the consequent fluctuations in oil prices and limited availability of capital. According to the National Bureau of Statistics (the "**NBS**"), Nigeria's real GDP grew by 6.6 per cent. in 2012, 7.4 per cent. in 2011 and 7.9 per cent. in 2010. In November 2011, NBS announced its intention to change the base year for determining GDP to 2010. However, due to difficulties in gathering data, the release of the updated data has been postponed, first to the third quarter of 2013 and now to 2014. According to the UN Statistics Division, a country should rebase GDP every five years, whereas Nigeria has not done so since 1990. Following the rebasing, it is expected that Nigeria's GDP will significantly increase because new activities (that were not included in 1990) will be added to the estimation of GDP.

The Nigerian economy is highly influenced by oil prices and by the country's level of oil and gas production. According to the NBS, the oil sector contributed 14.75 per cent. and 13.76 per cent. of Nigeria's GDP (in real terms at 1990 base price) in the first quarter of 2013 and in 2012, respectively. In nominal terms, the oil sector contributed 38.77 per cent. and 37.01 per cent. of Nigeria's GDP in the first quarter of 2013 and in 2012, respectively. Non-oil real GDP growth was 7.9 per cent. in 2012, a decrease from 8.8 per cent. in 2011.

Crude oil prices increased from U.S.$93.03 per barrel in December 2010 to U.S.$111.41 in December 2011 and increased further in 2012 to U.S.$113.13 per barrel in December 2012. Average crude oil prices remained unchanged in the first quarter of 2013 and amounted to U.S.$112.84 per barrel in March 2013.

Nigeria's oil production in 2009 and 2008 averaged 2.1 million barrels per day ("**mbd**"), compared to 2.5 mbd in 2005. However, in 2010, oil production levels increased to an average of 2.5 mbd as a result of the amnesty programme extended to the militants in the Niger Delta region of the country. In 2011, oil production levels decreased slightly to an average of 2.4 mbd due to temporary facility shutdowns and sabotage leakages in the fourth quarter of 2011. According to the CBN, oil production in the last quarter of 2012 declined to 2.0 mbd due to natural disasters, oil theft and sabotage to oil infrastructure. As at January 2012, Nigeria's crude oil reserves, as estimated by the Nigerian Department of Petroleum Resources, stood at 36 billion barrels.

Nigeria's annual inflation rate for 2012 as measured by the consumer price index ("**CPI**") was 12.0 per cent., compared to 10.3 per cent. in 2011 and 11.8 per cent. in 2010. The inflation rate was 8.6 per cent. in March 2013 year on year, 9.5 per cent. in February 2013 and 9.0 per cent. in January 2013. In June 2010, the NBS changed its base year from May 2003 to November 2009 and re–weighted the CPI, reducing the weight of food in the inflation basket from 63.8 per cent. to 50.7 per cent. The intention was to provide for a more precise and accurate measure of inflation and is expected to result in an overall reduction in the inflation rate, given the impact of food prices when measuring the rate of inflation.

The exchange rate of the Naira against the U.S. dollar is significantly affected by international oil prices. The sharp decline in international oil prices from over U.S.$145 per barrel in July 2008 to below U.S.$40.00 per barrel in January 2009 contributed to the depreciation of the Naira against the U.S. dollar during that period. In late 2008 and early 2009, the Naira depreciated against the U.S. dollar from a low of ₦116.64 in 2008 to a high of ₦151.37 in 2009. In the last quarter of 2008, the CBN took measures to address the instability, including drawing from Nigeria's external reserves and intervening in the currency markets. The average exchange rate was ₦150.30 for the year ended 31 December 2010, ₦153.86 for the year ended 31 December 2011 and was ₦157.50 for the year ended 31 December 2012. The substantial decline in international oil prices and the exchange rate in the last half of 2008 and the first quarter of 2009 had a significant impact on the import contracts of importers, most of which were unhedged, particularly in the downstream oil and gas sector and the banks, including the Group, which had extended credit to them.

The MPR, which serves as an anchor rate for transactions in the interbank money market as well as other market rates, have also increased in recent years as a result of the CBN's tightening of monetary policy in response to increasing inflationary pressures and to support the Naira. The MPR was held constant for most of 2010 at 6.0 per cent., but was raised to 6.25 per cent. in September 2010, and was raised six times in 2011, resulting in a rate of 12.0 per cent. in October 2011 where it has remained as of May 2013. Increases in the MPR cause increases in the cost of borrowing and therefore may have a negative impact on the net interest rate margin.

Any deterioration in economic conditions in Nigeria as a result of these or other factors, or any significant fluctuation in GDP, oil prices, inflation, the value of the Naira or interest rates could adversely affect Nigerian banks, including the Group.

Lack of confidence in the Nigerian banking system resulting from the global financial crisis may affect the Group's performance

The global financial crisis and the resulting decline in the Nigerian equities market in 2009 resulted in significant provisions at a number of Nigerian banks and the CBN decided in 2009 to intervene and examine all the banks in Nigeria.

Following a special examination and investigation (the "**Special Examination**") conducted by the CBN, together with the NDIC in 2009 of the 24 banks that comprised the Nigerian banking system at the time, the CBN found significant irregularities (including, in certain cases, weaknesses in corporate governance) and capital adequacy and liquidity deficiencies at 10 of the 24 banks. Out of these 10 banks, two banks (being Wema Bank and Unity Bank) were required to (and successfully undertook) a recapitalisation exercise, while the other 8 banks (the "**Intervened Banks**") (among which the Bank was not included) were ultimately subject to intervention (including a requirement to recapitalise before 30 September 2011) by the CBN. AMCON was established as a key stabilising and re-vitalising tool to revive the financial system by resolving the NPL assets of banks operating in Nigeria. In December 2010, AMCON issued ₦866.2 billion of consideration bonds (the "**AMCON Bonds**") to purchase eligible bank assets ("**EBAs**") from eligible financial institutions ("**EFIs**") with 21 Nigerian banks including the Intervened Banks participated in the AMCON scheme in the first round. (Citibank Nigeria Limited ("**Citibank Nigeria**"), Equitorial Trust Bank Plc ("**ETB**") and Standard Chartered Bank Nigeria Limited ("**Standard Chartered Nigeria**") elected not to participate.) .

Additional EBAs were purchased by AMCON in April 2011 at a purchase price of ₦377.8 billion, in December 2011 at a purchase price of ₦515.2 billion, and in December 2012 at a purchase price of ₦75.9 billion. The EBAs were paid through either AMCON Bonds or for cash. According to AMCON, by December 2012, it had acquired over 12,500 banking sector NPLs worth ₦1.845 trillion (with discounted value of U.S.$11.6 billion) representing over 95 per cent. of NPLs in the banking industry, which resulted in banking sector NPLs falling to below 5 per cent.

The sales of EBAs to AMCON were made pursuant to agreements entered into with AMCON which generally provide that any loans subject to the agreement would be transferred in full to, and thereafter beneficially owned by, AMCON. However, the loan agreements also provide that following the loan sale, AMCON has the right, for a reasonable period after the date of the purchase of the relevant NPLs, to conduct an independent verification and review of the valuation assigned to the relevant collateral backing the NPLs sold by each bank. To the extent that such independent review assigns a lower value to the collateral and consequently the NPLs (that is, on the basis that the loans sold to AMCON were initially overvalued) or ownership of such collateral cannot be assumed by AMCON free and clear of encumbrances or liens having priority over the security interest of the relevant bank in such collateral, then the relevant bank is obligated to make up the difference to AMCON or repurchase the relevant NPLs (expected to be undertaken by a return or cancellation of AMCON Bonds).

Furthermore, in exchange for equity, AMCON injected over ₦1.5 trillion into 5 of the Intervened Banks to restore their net assets values to zero in order to facilitate the acquisition and or merger of these banks.

On 5 August 2011, the NDIC, after due consultation with the CBN and the Federal Ministry of Finance, and with the full support of the Federal Government, determined that Afribank Plc, Bank PHB Plc and Spring Bank Plc had not shown the necessary capacity and ability to recapitalize by the 30 September 2011 deadline set by the CBN, and sought to resolve the problems of the three banks through the "bridge bank mechanism" pursuant to the NDIC Act No. 16 of 2006. The CBN subsequently revoked the banking licenses of the three banks and issued new banking licenses to three bridge banks established by the NDIC to assume the assets and business of the three banks (the "**Bridge Banks**"). On 6 August 2011, AMCON purchased the Bridge Banks from the NDIC thereby terminating their bridge bank status and appointed new boards of directors and chief executive officers to manage the three banks. AMCON has announced that it will appoint advisers to manage the sale of the three Bridge Banks.

The Government expects that AMCON, which has a proposed ten-year timeframe in which to conduct its activities, will help rejuvenate the domestic economy and stimulate the recovery of the financial system by providing liquidity to the banks through the purchase of their NPLs, recapitalisation of the Intervened Banks, increasing access to refinancing opportunities for borrowers, increasing confidence in banks' balance sheets and encouraging a return of confidence to the capital markets. Given the size of the maturing bonds, and that approximately ₦1.7 trillion of AMCON Bonds need to be refinanced in 2013, and a further ₦737.7 billion in 2014, it is likely that AMCON will need to issue new bonds to refinance the existing bonds. AMCON, in consultation with the CBN, recently announced a plan for the refinancing of its initial ₦5.7 trillion zero coupon bonds maturing from 31 December 2013 to 31 October 2014 and indicated that banks holding AMCON Bonds may receive Treasury Bills in exchange for AMCON Bonds as part of the refinancing. AMCON will now retire approximately ₦2.0 trillion of its bonds during 2013 and refinance approximately ₦3.6 trillion which are due to mature in 2014. This refinancing may create liquidity challenges for the Bank and other banks that may want to redeem their holdings of AMCON Bonds for cash and this may have an adverse effect on investment and confidence in, and the performance of, the Nigerian economy and, as a result, may have a material adverse effect on the Bank's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

AMCON's audited accounts reflected that it incurred ₦2.4 trillion before-tax loss at the end of the December 2011 financial year and ₦707 billion before-tax loss at the end of December 2012. AMCON has attributed this loss to the financial accommodation it gave to some of the Intervened Banks and its investment in the Bridge Banks.

If AMCON and other initiatives introduced by the CBN fail to achieve the desired results, the continued weakness in the banking sector may continue to have an adverse effect on investment and confidence in, and the performance of, the Nigerian economy and, as a result, may have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

Although the Bank is not one of the Intervened Banks, it is nonetheless affected by these developments in the Nigerian banking sector, including the risk of deterioration of the commercial soundness and/or perceived soundness of the Nigerian banking sector. Continued systemic weakness in the banking sector, notwithstanding the reforms, may continue to have an adverse effect on investment in, and the performance of, the Nigerian economy and the banking sector, and in turn the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

The Nigerian banking sector is affected by global financial conditions as well as the soundness and perceived soundness of financial institutions outside of Nigeria

Since 2007, the global financial crisis has affected financial markets and generally reduced the availability of capital to governments, financial institutions and other companies. Many financial institutions have needed to seek additional capital or to merge with larger and stronger institutions and some financial institutions, including large and established ones such as Lehman Brothers, have failed. Reflecting concerns about the stability of the financial markets in general and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases, have ceased to provide, funding to borrowers, including other financial institutions. Nigerian banks are subject to the risk of deterioration in global financial conditions, as well as the soundness and perceived soundness of financial institutions outside of Nigeria, primarily as it affects the availability of international financing and access to capital markets for Nigerian banks, which may have a material adverse effect on the Group's business, results of operations and/or financial condition.

The bank regulatory system in Nigeria is still developing and may change in a manner that has an adverse effect on the Group

The Nigerian banking sector is at a relatively early stage of development compared with more developed countries. Nigeria's banking industry has historically been characterised as highly fragmented, poorly capitalised and weak in banking regulations, and it is unclear how legal and regulatory developments may affect the competitive banking landscape in Nigeria. In addition, the Nigerian banking sector has experienced rapid credit growth over the past few years without necessarily having the appropriate regulatory structure, risk management practices and controls in place to protect asset quality. There may also be an increased risk of smaller banks failing to adapt to regulatory changes and the new, more competitive environment.

Weaknesses in the Nigerian financial system and banking sector prompted the CBN, in 2010, to implement additional initiatives to reform the Nigerian financial system and, in particular, the banking sector, through the "Project Alpha Initiative", predicated on a 4-pillar policy framework of: enhancing the quality of banks, establishing financial stability, allowing for a healthy financial sector evolution and ensuring that the financial sector contributes to the real economy. Key interventions under the fourth pillar have been the ₦200 billion Commercial and Agricultural Credit Scheme and the ₦300 billion Power and Aviation Intervention Fund.

The CBN also released a circular in May 2012 which, among other things, restricts the use of capital of Nigerian banks to augment the capital needs of foreign subsidiaries.

To support the CBN's cashless policy in Nigeria and to encourage wider adoption and use of the electronic payments channel in Nigeria, the CBN is also pushing to strengthen the legal framework to protect consumers against fraud, losses and undue charges. The CBN intends to pursue the enactment of several bills by the National Assembly to tighten financial sector regulations. The Electronic Transaction Bill would give effect to the admission in evidence of all electronically-generated statements of account. The Financial Ombudsman Bill aims to facilitate faster resolution of financial disputes, while the Alternative Dispute Resolution ("**ADR**") Regulatory Commission Bill is proposed to create an ADR Commission to promote and regulate the practice and use of ADR in Nigeria.

In addition, the tenure of the current Governor of the CBN will expire in June 2014, and it is not certain that the current Governor will be reappointed or if the successor governor will continue with the policies of the current Governor. No assurance can be given that the regulatory environment in which the Group operates in Nigeria will not change in the future and in a manner that will not have a material adverse effect on the Group's ability to compete and thus on its business, results of operations, financial condition, cash flows, liquidity and/or prospects. Regulatory standards applicable to banks in Nigeria and the oversight and enforcement thereof by regulators may differ from those applicable to banking operations in countries with highly developed regulatory regimes. As a result, investors may not have the benefit of all of the protections available in such other countries.

No assurance can be given that the regulatory environment in which the Group operates in Nigeria will not change in the future and in a manner that will have a material adverse effect on the Group's ability to compete and thus on its business, financial condition, results of operations and/or prospects. Notwithstanding regulatory standards in Nigeria, prospective investors should understand that regulatory standards applicable to banks in Nigeria and the oversight and enforcement thereof by regulators may differ from those applicable to banking operations in countries with highly developed regulatory regimes. As a result, investors may not have the benefit of all of the protections available in such other countries.

Capital adequacy requirements in Nigeria differ from international standards and the Group may face difficulties meeting capital adequacy requirements

The capital adequacy requirements in Nigeria differ from those in more developed regulatory jurisdictions and the requirements are not as stringent as the guidelines from the Bank for International Settlements. See "*The Nigerian Banking Sector—Prudential Guidelines*". Moreover, the CBN is focused on paid-up capital levels, rather than setting more stringent minimum levels of capital to risk-weighted assets than the current 15.0 per cent. stipulation for Nigerian banks with international operations (including the Bank).

Under the CBN Prudential Guidelines, key regulations were passed such as the separation of non-core business lines from money-deposit commercial banking and maintenance of a minimum paid-up share capital of ₦25 billion for institutions granted a national banking licence and ₦50 billion for institutions granted an international banking licence.

In 2004, the Basel Committee on Banking Supervision (the "**Basel Committee**") issued a revised capital adequacy framework ("**Basel II**") to replace the previous Capital Accord issued in 1988 ("**Basel I**"). With regard to the risk weightings to be applied to exposures to sovereign states, Basel II replaced the previous approach by a system that uses both external and internal credit assessments for determining risk weightings. However, implementation of a Basel II framework as part of a Nigerian bank's capital management strategies is discretionary to each bank, and it is also widely believed that most of the banks operating in the Nigerian banking industry have not yet achieved compliance with Basel I. Furthermore, prudential guidelines applicable to banks in Nigeria may differ in material respects from the capital requirements contained in Basel I, as adopted by the Basel Committee. For instance, under the CBN Prudential Guidelines mortgages carry a risk weighting of 100.0 per cent. of the value of the mortgage, compared to 50.0 per cent. under Basel I. Therefore, the Group's risk management system may not be in line with Basel I or Basel II principles.

In December 2010 and January 2011, the Basel Committee issued its final guidance on a new capital adequacy framework ("**Basel III**"). The reforms under Basel III include increasing the minimum common equity (or equivalent) requirement and applying stricter regulatory adjustments. In addition, banks will be required to maintain, in the form of common equity (or equivalent), a capital conservation buffer. A countercyclical buffer may also be implemented if there is excess credit growth in any given country resulting in a system wide build up of risk.

The CBN has indicated its intention to start implementing Basel II during 2013 and, potentially, Basel III standards in Nigeria from 2014, with the aim for the new standards to apply across the Nigerian banking industry. However, the CBN has not yet issued guidelines for their implementation in Nigeria. In addition, the CBN in April 2013 issued a new circular reviewing the risk weight on certain industry exposures for the purposes of computing capital adequacy ratios. One of the measures introduced in the circular, which is effective from January 2014, is that where a bank's exposure to a particular industry within a sector (as defined by the International Standard Industrial Classification of Economic Sectors issued by the CBN) is in excess of 20 per cent. of total credit facilities of a bank, the risk weight of the entire portfolio in that industry shall be 150 per cent.

There can be no assurance that the CBN will not further amend or raise the capital requirements applicable to the Group and if the Group requires additional capital in the future, there can be no assurance that it will be able to obtain this capital on favourable terms, in a timely manner or at all. Accordingly, it may face difficulties in meeting these requirements in the future. As at 31 December 2012, the Group's total capital to risk weighted assets ratio was 19.38 per cent. (calculated on the basis of IFRS), the CBN minimum requirement being 15 per cent. for banks in Nigeria with international activities. If the Group fails to meet the capital adequacy requirements, the CBN may take certain actions, including restricting its asset growth, suspending all but its low risk activities and imposing restrictions on the payment of dividends. Failure of the Group to comply with capital adequacy or other ratios may also result in the revocation of the Group's licence and breach of loan covenants. These actions could materially and adversely affect the Group's business, results of operations, financial condition, ability to grow its loans to customers and other risk assets and/or prospects.

The increasingly competitive environment in the Nigerian banking industry may negatively affect the Group's prospects

The Nigerian market for financial services is highly competitive in the sphere of standard commercial banking activities. The Group principally competes with a number of other nationwide banks, some of which have a broader geographic reach and greater capital resources than the Group. As at the date of this Prospectus, there are a total of 22 commercial deposit-taking banks registered in Nigeria. The Group's most significant competitors include Guaranty Trust Bank ("**GTBank**"), Zenith Bank and United Bank for Africa ("**UBA**"). In addition, further consolidation in the Nigerian banking sector could increase competition among these banks and, increasingly, in the retail banking business. Additionally, international banks, including Ecobank Nigeria Plc (a subsidiary of Ecobank Transnational Incorporated), Standard Chartered Nigeria (a wholly-owned subsidiary of Standard Chartered Bank U.K.), Stanbic IBTC Bank Plc (a subsidiary of The Standard Bank of South Africa) and Citibank Nigeria (a subsidiary of Citigroup) are increasing their presence in Nigeria and competing with the Group for its high net worth and corporate clients. Furthermore, Societe Generale Bank, which regained its operating license about three years ago, re-commenced business under the new name Heritage Bank in March 2013. This may further increase competition in the Nigerian banking industry.

Some of the Group's competitors in Nigeria, in particular with respect to corporate lending activities, are international banks which have the support of foreign parents and have greater capital resources available to them. The Group expects the Nigerian corporate and commercial banking market to become even more competitive, which is likely to result in a further narrowing of spreads between deposit and loan rates and have an adverse impact on the Group's profitability. Additionally, the CBN has restricted exposure to certain investments by Nigerian banks, such as equity investments, to 20.0 per cent. of paid-up capital and statutory reserves, and loans to any single borrower are limited to 20.0 per cent. of shareholders' funds, thus making it potentially difficult for the Group to make future loans or investments in Nigeria compared to banks with larger capital bases. In addition commercial banks like the Group are now restricted to only those equity investments permitted under the BOFIA and the CBN Regulations. The Group's inability to continue to compete successfully in the competitive markets in which it operates would have a material adverse effect on its business, financial condition, results of operations and/or prospects.

Against this background, the Group's growth depends on its ability to gain market share, extend its distribution network, manage its cost base, access low cost deposits and grow quality risk assets, in order to allow it to maintain strong levels of profitability and returns despite being required to hold higher levels of capital by the CBN. If the Group is not able to generate the profitability, economies of scale and financial capacity to enable it to compete with the largest Nigerian banks, the Group's business, financial condition, results of operations and/or prospects may be materially and adversely affected.

The high credit risk of Nigerian borrowers and the lack of a fully-developed central credit bureau in Nigeria may adversely affect the Group's retail loan portfolio

As the bulk of its activities and services are conducted in Nigeria, the Group, like most Nigerian banks, is subject to the credit risk that Nigerian borrowers may not make payments of principal and interest on loans in a timely manner, if at all, and that upon any such failure to pay, the Group may not be able to enforce any security interest or guarantee that it may have against such borrowers. The credit risk of Nigerian borrowers is relatively high when compared to borrowers from developed markets due to the stage of maturity of the Nigerian market and uncertainties inherent in the political, economic, legal and regulatory environment and the higher risk of fraud. Additionally, the current legal and administrative framework for ownership and transfer of land in Nigeria makes it difficult and expensive for landowners to register land rights and therefore it is difficult for them to pledge their land ownership rights as collateral for a mortgage or other loan.

The risk inherent to Nigerian borrowers negatively affects the Group as it exposes the Group to higher risks and creates higher potential losses through its loan portfolio which banks in more developed countries may be immune to. Such losses, if material, could have a material adverse effect on the Group's financial condition, liquidity and/or results of operations.

The CBN has established a Credit Risk Management System ("**CRMS**"), which operates as a public credit registry. The CBN has also licensed some private credit bureaux to provide credit information to banks and other entities that are registered with the bureau. The bureaux are, however, facing challenges of a dearth of information on individuals and poor data gathering techniques, as well as a lack of a universal unique identifier which therefore facilitates identity theft. In addition, international rating agencies do not have sufficiently wide coverage of Nigerian borrowers. Furthermore, Nigeria's system for gathering and publishing statistical information relating to the Nigerian economy generally, or specific economic sectors and companies within it, is not as comprehensive as those of many countries with established market economies. Thus, the statistical, corporate and financial information available to the Group relating to some of its prospective borrowers, particularly middle tier companies, makes the assessment of credit risk, including the valuation of collateral, more challenging. Although the Group ordinarily makes provisions for loans and advances in line with the CBN Prudential Guidelines, the absence of additional statistical, corporate and financial information may decrease the accuracy of the Group's assessments of credit risk. This may increase the risk of borrower default and decrease the likelihood that the Group will be able to enforce any security in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured on it. This could, in turn, have an adverse effect on the Group's business, financial condition, results of operations and/or prospects.

Delay or failure to effectively implement industry reforms may adversely affect the growth prospects of Nigerian banks, including the Group

The Government is in the process of implementing reforms in the oil and gas, power and shipping sectors. Legislative initiatives behind these reforms include the Nigerian Oil and Gas Industry Content Development Act 2010 (the "**Nigerian Content Act**"), the proposed Petroleum Industry Bill (the "**PIB**"), and the Coastal and Inland Shipping (Cabotage) Act No. 5 of 2003 ("**Cabotage Act**"). A bill which seeks to amend the Cabotage Act is currently before the House of Representatives (the "**House**"). Having passed through second reading, the bill has been referred to the House Committees on marine transport and justice. Amongst other things, this bill seeks to expand the jurisdiction of the Cabotage Act to all off-shore operators in the Nigerian coastal and inland waters. Certain of these reforms promote the use of domestic banks for financing, and the retention of profits in Nigerian banks. The Group believes that such reforms will generate new business opportunities (including increased lending opportunities) for Nigerian banks. However, there is a risk that the PIB may not be enacted into law or that the Nigerian Content Act, the Cabotage Act (including the proposed bill if enacted), the PIB (if enacted) and other expected reforms may not be implemented, or, if implemented, may not provide the expected benefits to the banking sector. Further, any uncertainty or turbulence caused as a result of the implementation (or lack of implementation) of these reforms could have a material impact on the banking sector as it did in the first quarter of 2012, when the Government partially removed petroleum subsidies, which caused market disruptions that adversely affected the Group's lending to downstream oil and gas sector, a key sector for the Group's corporate banking business. See "*—Risks Relating to Nigeria and other regions in which the Group operates—Certain proposed legal and regulatory reforms in Nigeria may not be successfully implemented*" below.

Risks related to Nigeria and other regions in which the Group operates

Substantially all of the Group's operations are conducted, and most of its customers are located, in Nigeria. Accordingly, the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects, and the ability to recover on its loans and other assets, significantly could depend on the economic and political conditions prevailing in Nigeria.

Emerging markets such as Nigeria are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt the Group's business, as well as cause the price of the Notes to decrease.

Investing in securities of issuers in emerging markets, such as Nigeria, generally involves a higher degree of risk than investments in securities of corporate or sovereign issuers from more developed countries and carries risks that are not typically associated with investing in more mature markets. These risks include, but are not limited to, the following:

- higher volatility and less liquidity in respect of the Notes;
- greater political risk, and changes in, and instability of, the political and economic environment;
- civil strife, acts of war, guerrilla activities and insurrection;
- government interventions and protectionism;
- potential adverse changes in laws and regulatory practices, including import and export licence requirements, tariffs, legal structures and tax laws;
- trade barriers;
- difficulties in staffing and managing operations;
- import and export restrictions;
- adverse tax consequences;
- lack of well-developed legal systems, which could make it difficult for the Group to enforce its contractual rights and intellectual property;
- security and safety of employees;
- risk of uncollectible accounts and long collection cycles;
- currency fluctuations;
- indigenisation and empowerment programmes
- consequences of corrupt practices on the economy;
- logistical and communications challenges; and
- changes in labour conditions.

Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in securities of issuers in emerging markets, such as Nigeria, is only suitable for sophisticated investors who fully appreciate the significance of the risks involved and investors are urged to consult their own legal and financial advisers before making an investment in the Notes. Investors should also note that emerging markets such as Nigeria are subject to rapid change and that the information set forth in this Prospectus may become outdated relatively quickly.

Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity markets of other emerging market countries, as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Nigeria and adversely affect the Nigerian economy. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Nigerian economy remains relatively stable, financial turmoil in any emerging market country could adversely affect the Group's business, as well as result in a decrease in the price of the Notes.

The disruptions experienced in 2009 in the international capital markets have also led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in financing being unavailable for certain entities. Companies located in emerging market countries may be particularly susceptible to disruptions in the capital markets and the reduced availability of credit or the increased cost of debt, which could result in them experiencing financial difficulty. In addition, the availability of credit to entities operating within emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention) could affect the price or availability of funding for entities within any of these markets.

General elections may result in political instability or changes in policies in Nigeria

The results of general elections in Nigeria have, in the past, been subject to criticism or led to civil unrest and political tension. For example, on the completion of the April 2011 general elections and in particular the presidential elections, some losing candidates criticised the decision of the polls, and post-election violence initially spread in northern Nigeria, as a result of the dissatisfaction with the results of the elections of supporters of an opposition party. Although such unrest and violence subsequently subsided, there can be no assurance that results of the 2015 general elections will not be subject to challenge or result in further outbreaks of violence and discontent, nor how long this may last. The outcome of elections may have a significant impact on Nigeria's political stability and may adversely affect its economy, and no assurance can be given that the reforms and policies that are proposed or taking place at the relevant time will continue. Any post-election administration may pursue different policies and priorities than the previous administration, alter or reverse certain reforms or take actions that make domestic and foreign investment in Nigeria less attractive. Further, if there are allegations of fraud or other irregularities in connection with the presidential elections and such allegations are not properly handled in an orderly manner, such allegations may undermine the legitimacy of the new administration or lead to protests, violence or other unrest. Any significant changes in the political climate in Nigeria, including changes affecting the stability of the Government or involving a rejection, reversal or significant modification of policies, favouring the privatisation of state-owned enterprises, reforms in the power, banking and oil and gas sectors or other reforms, may have negative effects on the economy, government revenues or foreign reserves and, as a result, a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

There are risks related to political instability, religious differences, ethnicity and regionalism in Nigeria

With the adoption of a presidential constitution in May 1999, Nigeria has undergone its longest period of civilian rule since obtaining independence from the United Kingdom in 1960. In 2007, the late President Umaru Musa Yar'Adua, the presidential candidate of the People's Democratic Party ("**PDP**"), was elected as president, securing 70 per cent. of the votes cast. The result of the election was, however, widely disputed, not only by the opposition candidates but also by international election observers. Following the death of former President Umaru Musa Yar'Adua on 5 May 2010, the Vice President, Goodluck Ebele Jonathan, was sworn in as President, in accordance with the Constitution on 6 May 2010 and re–elected as president in the general elections that concluded in April 2011, although the months leading to the general elections were marked by increasing political tension and violence. Post–election violence also spread in northern Nigeria, reportedly as a result of the dissatisfaction with the results of the elections by supporters of an opposition party. See also the section entitled "*Nigeria—Constitution, Government and Political Parties—April 2011 Elections*". Apart from the PDP, many of Nigeria's political parties continue to be largely based upon ethnic allegiance. At the same time, these divisions are reinforced by religious differences, particularly between the mainly Muslim north and broadly Christian south. Certain northern states have adopted Sharia law since the return to civilian rule in 1999, which resulted in further alienation of their Christian minorities.

In early 2010, hundreds of lives were lost around the central city of Jos, Plateau State, due to conflicts relating to issues of land ownership. On 24 December 2010, a series of bomb attacks were carried out in Jos, in which about 80 people died and an Islamist group has claimed responsibility for the bomb attacks.

On 16 June 2011, there was a bomb blast at the headquarters of the Nigerian Police Force ("**NPF**") in Abuja. Boko Haram, an Islamic militia group, claimed responsibility for the attack, which aimed to target the Inspector General of Police, who was due to arrive at the NPF headquarters at the time of the explosion. Following the attack, on 26 June 2011, a second attack believed to have been carried out by the same group caused 25 fatalities in the city of Maiduguri, Borno State. A further bomb attack, claimed to have been carried out by the same group, took place on 26 August 2011, targeting the United Nations headquarters in Abuja. In recent times, there has been an increase in the number and frequency of attacks, particularly in the northern states of Nigeria. Subsequent attacks, also believed to have been carried out by the Boko Haram group, took place throughout the last quarter of 2011 until the date of this Prospectus, for example: 4 November 2011, where over 100 fatalities were caused in Damaturu and Maiduguri; 25 December 2011, with bomb blasts at churches in Damaturu, Madalla, Jos and Gadaka; 5, 6 and 20 January 2012, where attacks occurred at various sites including churches, businesses premises, police stations and immigration offices in Kano, Maiduguri, Mubi, Yola and Gombi; and on 8 February 2012, a suicide bombing at the army headquarters in Kaduna. On 26 April 2012, the Abuja and Kaduna offices of a Daily Newspaper were attacked by the Boko Haram. Series of bomb blasts have occurred in different parts of the country following the 26 April 2012 attacks. On 31 May 2012, a hostage held since 26 January 2012 in Kano by the Boko Haram group was killed when security operatives attempted a rescue mission and on 3 June 2012, a suicide church bomb was set off in Bauchi State leaving 15 dead and several others wounded. Further attacks on some churches in Kaduna took place on 17 June 2012.

Since June 2012, there has been an increase in the number and frequency of attacks, particularly in the northern states of Nigeria, also believed to have been carried out by the Boko Haram group. These attacks have occurred at various sites including churches, schools, businesses premises, police stations and immigration offices in Kano, Maiduguri, Mubi, Yola and Gombi. On 26 April 2012, the Abuja and Kaduna offices of a daily newspaper were attacked by the Boko Haram and these attacks escalated to a series of bomb blasts in different parts of the country. The spate of bomb attacks, including suicide bomb blasts, in the northern part of Nigeria continues to increase with Boko Haram claiming responsibility for the attacks.

There has also been an increase in cases of kidnapping across various parts of Nigeria. There have been reports that on 16 February 2013, an Islamist terrorist group named Ansaru executed seven foreigners that were held hostage by the group.

These attacks have elicited stern rebukes nationwide and state security operatives within the country have been engaged to address the acts carried out by this group.

In April 2013, the Nigerian government set up a committee to explore the possibility of amnesty for the Boko Haram group in return for an end of the four-year uprising. However, on 14 May, the federal government declared a state of emergency in the three states affected by the Boko Haram conflict (Adamawa, Borno and Yobe states) and deployed troops to the states. On 16 May 2013, an offensive was launched in those states against the Boko Haram group. On 8 July 2013, the Nigerian government announced it had signed a cease-fire agreement with the Boko Haram group, without providing further details.

Additionally, there is resentment in the oil rich Niger Delta towards the expenditure of oil revenue in the other parts of the country and the allocation of oil revenue expenditure has provoked political debates, with the oil producing areas claiming that they deserve to achieve some additional benefit in the form of jobs and compensation for environmental degradation. In reaction, the Government increased the amount of government oil revenue returned to the oil producing states from 3 per cent. to 13 per cent. in 1999. Opposition from some other states to this revenue sharing formula resulted in the restriction of the application of the formula with regard to offshore resources, to the littoral boundaries of the coastal states that comprise the Niger Delta region, from 200 nautical miles down to 24 nautical miles. In an attempt to resolve this conflict, the Government enacted the Allocation of Revenue Act (Abolition of Dichotomy in the Application of the Principle of Derivation Act) in 2004. However, Niger Delta states still frequently question the existing policies.

These events have had a direct impact on the Group. The Group has suffered loss of life and injury to its employees in the regions affected by the conflict, and has had to incur additional expenses to implement extra security measures at its branches in the affected areas, and has also had to limit the operating hours of some branches at affected locations Unless resolved by the Government, these conflicts may adversely affect Nigeria's political and economic stability which may, in turn, further affect the Group's business, financial condition, results of operations and/or prospects.

Failure to adequately address actual and perceived risks of corruption may adversely affect Nigeria's economy and ability to attract foreign direct investment

Although Nigeria has implemented and is pursuing major initiatives to prevent and fight corruption and unlawful enrichment, corruption remains a significant issue in Nigeria as it is in many other emerging markets. Nigeria is ranked 139 out of 176 countries in Transparency International's 2012 Corruption Perceptions Index and placed 131 out of 183 in the World Bank's Doing Business 2013 report, which covers the period from May 2011 to June 2012. Since 2000, Nigeria has implemented various measures to prevent and fight corruption and unlawful enrichment. In particular, Nigeria created the Independent Corrupt Practices Commission in 2000 to receive complaints, investigate and prosecute offenders. In 2002, Nigeria also created the EFCC, which is mandated to combat economic and financial crimes (including powers of investigation and prosecution) and to enforce the provisions of certain laws and regulations relating to economic and financial crimes.

Despite various reform efforts, corruption continues to be a serious problem impacting Nigeria. There have been a number of high profile convictions for corruption, including that of a former Inspector General of the Police. A number of ministers and judges have been dismissed and a number of ex-state governors are facing corruption charges. Failure to address these issues, continued corruption in the public sector and any future allegations of or perceived risk of corruption in Nigeria could have an adverse effect on the Nigerian economy and may have a negative effect on Nigeria's ability to attract foreign investment and, as a result, may have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

Nigeria's economic stability is subject to risks

Despite many efforts to move it forward, the Nigerian economy still faces significant challenges. During the years of military rule, national infrastructure and services were neglected. The agricultural sector, which had been thriving at independence, was allowed to fall into a deep malaise. Nigeria went from being a net food exporter to a food importer as military heads of state neglected all but the lucrative oil sector. Manufacturing and industry, both burgeoning in the 1960s, received no government support. Despite being a major oil producer, Nigeria frequently suffers from fuel shortages. According to the National Union of Electricity Employees ("**NUEE**") in 2012, only about 40 per cent. of Nigeria's total population has access to public electricity supply due to inadequate transmission and distribution networks. The government issued regulations in 2012 aimed at increasing access to electricity through the deregulation of power generation and distribution. The installed generation capacity of the country as of 31 December 2012 was only 6,442 mega watts ("**MW**"), with the peak generation actually achieved in 2012 being 4,517.6 MW. As such, manufacturers, businesses and retail consumers that need to maintain a reliable power supply are forced to equip themselves with costly generators that are expensive to operate and even then, the possibility of fuel shortages can result in generators not being able to operate.

In July 2010, the Government launched Vision 20:2020, a long-term strategic plan for Nigeria to become one of the 20 largest economies in the world by 2020. In May 2010, the Government adopted the First National Implementation Plan (the "**First NIP**") for the years 2010-2013, a medium-term plan for implementing Vision 20:2020 and the first of three expected national implementation plans. Continued pursuit of long-term objectives such as those set forth in Vision 20:2020 and the First NIP will depend on a number of factors, including continued political support across all levels of Nigerian society and across multiple government administrations, adequate funding, and positive coordination. In 2011, the Government announced the introduction of the Transformation Agenda, a blueprint of key policies and projects to be implemented between 2011 and 2015. The Transformation Agenda prioritises the key projects and programmes in the Vision 20:2020 and the First NIP which can be delivered with the four year tenure of the current administration. The Government also introduced the Subsidy Re-investment and Empowerment Programme in 2012 as a means of utilising the savings from the reduction in fuel subsidy. The Government is currently reviewing the First NIP and the outcome of its review will form the basis for the second NIP. Continued pursuit of long term objectives such as those set forth in Vision 20:2020 will depend on a number of factors, including continued political support across all levels of Nigerian society and across multiple government administrations, adequate funding, and positive coordination. The quantum of funding required for these plans may be difficult or impossible to meet, and the funding requirements for these initiatives may lead to an increase in Nigeria's outstanding debt. If fiscal resources prove to be insufficient, it may not be possible to adequately pursue all of the public capital projects set forth in the Vision 20:2020, the NIP and the Transformation Agenda.

Moreover, some planned reforms may disadvantage certain existing stakeholders, who may seek to curtail such reforms. For example, planned privatisations of state-owned enterprises have in some cases been met with strikes or threats of strikes in anticipation of job losses and price increases. If the Government is unable to fund or implement the medium-term objectives contained in the First NIP, or if there is a delay in such funding or implementation, then the Government may not be able to meet the long-term strategic objectives set forth in Vision 20:2020 by 2020, which could result in an adverse effect on the economy of Nigeria, and consequently on the business, results of operations, financial condition, cash flows, liquidity and/or prospects of the Group.

In addition, whilst the Government intended to remove the petroleum subsidy completely as a further step in deregulating the downstream petroleum sector, the subsidy was only partially removed as a result of protests against such removal in January 2012. In the event that the amount allocated to the petroleum subsidy in the 2013 federal budget is not sufficient and the Government is unable to obtain sufficient funding to cover such subsidy, this could have an adverse effect on the economy of Nigeria, and consequently on the business, results of operations, financial condition, cash flows, liquidity and/or prospects of the Group.

The Nigerian economy is highly dependent on oil production in Nigeria and global prices of oil

According to the Nigerian National Bureau of Statistics, the oil sector contributed 14.75 per cent. and 13.76 per cent. of GDP (in real terms at 1990 base price) in the first quarter of 2013 and in 2012, respectively. In nominal terms, the oil sector contributed 38.77 per cent. and 37.01 per cent. to GDP in the first quarter of 2013 and in 2012, respectively. Reductions in oil revenues could have a material adverse effect on the Nigerian economy and the ability of the Group to fulfil its obligations under the Notes. Nigeria's oil revenues are a function of the level of oil production in the country and prevailing world oil prices. Oil prices are subject to wide fluctuations in response to relatively minor changes in the supply of, and demand for, oil, market uncertainty and a variety of additional factors that are beyond Nigeria's control. These factors include, but are not limited to, political conditions in the Middle East and other regions, internal and political decisions of the OPEC and other oil producing nations as to whether to decrease or increase production of crude oil, domestic and foreign supplies of oil, consumer demand, weather conditions, domestic and foreign government regulations, transport costs, the price and availability of alternative fuels and overall economic conditions.

These factors have led to significant fluctuations in world oil prices in recent years. For example, the average spot price of crude oil (Bonny Light) was U.S.$74.96 per barrel in 2007, U.S.$101.15 per barrel in 2008, U.S.$62.08 per barrel in 2009, U.S.$78.80 per barrel in 2010, U.S.$111.10 per barrel in 2011 and U.S.$113.01 per barrel in 2012. In March 2013, the average price was U.S.$ 112.79 per barrel. According to the CBN, Nigerian oil revenue increased at an average of 2.73 per cent. monthly in 2012. In the first eleven months of 2012, oil receipts totalled US$40.1 billion. Given the significant contribution of oil revenues to GDP growth in Nigeria, the fall in oil prices might lead to, or signal, a weak performance of the Nigerian economy. Oil production in Nigeria has also fluctuated significantly in recent years, primarily as a result of violence in the Niger Delta region. Militant activity in the Niger Delta has led to significant disruptions in the production of oil, and although such activity has decreased and oil production has increased in the wake of the amnesty programme and other government initiatives to address the needs of the Niger Delta region, no assurance can be given that militant activity will not increase from current levels or that violence in the Niger Delta region will not lead to significant disruptions in oil production in future periods. The decline in oil production in the last quarter of 2012 was attributed to natural disaster, oil theft and sabotage to oil infrastructure. See the risk factor entitled "*—Risks related to Nigeria and other regions in which the Group operates—Militant activities in the Niger Delta could destabilise oil production in Nigeria and adversely affect Nigeria's economy*" below. The level of oil production by Nigeria may also be adversely affected by other factors, including changes in oil production quotas by OPEC or the response of international oil companies to changes in the regulatory framework for oil production in Nigeria. There may also be loss of revenue arising from the interruption of production operations and theft of crude oil from pipelines and tank farms. In addition, there may be a high incidence of abandoned projects by oil companies in communities where activities are disrupted by militants, which may lead to slower growth in oil and gas production. Many developed economies are actively seeking to develop alternative sources of energy and reduce their dependence on oil as a source of energy. Any long-term shift away from fossil fuels could adversely affect oil prices and demand and the resulting oil revenue of Nigeria and the Nigerian economy in general, and as a result, have a material adverse effect on the Group's business, results of operations, financial conditions and/or prospects.

The continuing depletion of the Excess Crude Account and the uncertainties surrounding the newly established National Sovereign Wealth Fund could have adverse impacts on the Nigerian economy

The Excess Crude Account ("**Excess Crude Account**") is an account set up to assist in stabilising the Government's finances to address volatility in crude oil prices and production. The Excess Crude Account is funded with the positive difference, if any, between the revenue generated by the price of oil per barrel included in the budget for the year and the actual revenue received in that year. The Excess Crude Account has historically funded government subsidies of refined oil products as well as other purposes, including disbursements of approximately U.S.$8 billion to fund the National Integrated Power Project ("**NIPP**") of Nigeria and U.S.$1 billion as seed capital for the proposed National Sovereign Wealth Fund ("**NSWF**") (which funds have been ring fenced and are not included in the balance of the Excess Crude Account). In 2009 and 2010, such funding increased in response to the global economic crisis and the resulting higher deficits at the federal, state and local levels. The balance of the Excess Crude Account was U.S.$19.1 billion as at 31 December 2008, U.S.$6.9 billion at 31 December 2009, U.S.$2.6 billion at 31 December 2010 and U.S.$9.7 billion at 13 December 2012. As at the end of January 2013, the balance in the Excess Crude Account was U.S.$9.2 billion. The balance in the Excess Crude Account is shared between the federal government, state governments and local governments in Nigeria according to a specified formula. Depletion of the Excess Crude Account in recent times has been cited with concern by rating agencies and other third parties who view the Excess Crude Account as an important factor in ensuring the stability of the Nigerian economy. Also, in

January 2013, President Goodluck Jonathan approved the withdrawal of U.S.$1 billion from the Excess Crude Account to be shared amongst the 36 states and the Federal Capital Territory, Abuja, ("**FCT**") to enable them execute more people-oriented projects in line with the government's transformation agenda and the need to deliver more democracy dividend. On 21 March 2013, the National Economic Council of the Government approved the sharing of between U.S.$1 billion and U.S.$2 billion from the Excess Crude Account among the three tiers of government. At the end of June 2013, an additional amount of U.S.$1 billion was withdrawn from the Excess Crude Account for the purpose of supplementing Government revenues due to lower oil production. The lower oil production was a result of continued oil theft in the Niger Delta region.

No assurance can be given that the Excess Crude Account will not continue to be depleted at a rate greater than that necessary for the Government to stabilise its finances from the impact of volatility in oil prices and production, or that the actual price of oil will exceed the price of oil included in the budget in future periods by amounts sufficient to ensure significant funding for the Excess Crude Account in the future. The absence of such funding for the Excess Crude Account may constrain the Government's ability to finance budget deficits in the future.

The National Economic Council (which includes the 36 State Governors) and the Federal Executive Council have approved the establishment of the NSWF and the submission of a bill for its establishment to the National Assembly for consideration. The bill was submitted to the National Assembly in December 2010 and was publicly considered by the National Assembly in March 2011. On 27 May 2011, the President signed the Nigeria Sovereign Investment Authority (Establishment etc.) Bill into law, creating the NSWF. The purpose of the NSWF is to build a savings base for future generations of Nigerian citizens, enhance development of the infrastructure sector and provide stabilisation support in times of economic stress. In addition, the NSWF will support and/or replace the Excess Crude Account as a secondary stabilisation account in the event of changes in oil prices and production. Pursuant to the Nigeria Sovereign Investment Authority Act and the decision of the National Economic Council, the initial funding of U.S.$1 billion to the NSWF are to be provided by the Federal, State, FCT, and local governments and Area Councils of Nigeria (although the initial funding in fact came from the Excess Crude Account as described above). Future funding for the NSWF will be derived from residual funds received into the Federation Account from excess oil revenues, being those over and above the amount needed to fund Nigeria's national budget. The initial funding and all subsequent allocations to the NSWF will then be allocated to three special funds—the Nigerian Infrastructure Fund, the Future Generations Fund and the Stabilisation Fund—for the purpose of making investments to support the aims and purpose of the NSWF, as described above. Whilst the creation of the NSWF is an improvement to the management of Nigeria's inflow from oil exploration funds, it is still in its infancy stage and there can be no assurance as to whether it will have the necessary safeguards in place to shield it from misappropriation and political pressures, whether it will continue to have sufficient funding (as this is dependent on the price of oil), whether it will make profitable investments or achieve its strategic objectives or how it will be perceived by ratings agencies or other parties. Further, there is still a pending claim before the Supreme Court instituted by State Governors challenging the constitutionality of the NSWF with regard to its funding from proceeds in the Excess Crude Account (the legality of the flow of funding into which the State Governors are also challenging). The State Governors are of the view that pursuant to the Constitution, all revenues generated ought to be transferred to the Federation Account before distribution amongst the three tiers of government (including the Excess Crude Account and the NSWF) in accordance with the provisions of the Constitution. The parties filed all required briefs with the Supreme Court and the next hearing is currently expected to take place on 2 December 2013.

The continuing depletion of the Excess Crude Account and the uncertainties surrounding the newly established NSWF may negatively affect the Nigerian economy in general and, as a result, have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change

Nigeria is pursuing a number of new policy directions with the aim of restructuring its upstream and deregulating its downstream oil and gas sectors, but the final form that these measures will take is subject to significant uncertainty and subject to political and economic influences. The National Assembly of Nigeria is currently considering the PIB, which would, if enacted, significantly change the way in which the oil and gas industry is structured and regulated in Nigeria and have a significant impact on Nigeria's oil and gas business and the Nigerian economy.

Risks associated with the PIB and related efforts to reform the Nigerian oil and gas industry may include:

- as the PIB has not yet been enacted, no assurance can be given as to when it will be enacted or whether it will be enacted at all, or that the final form of any bill ultimately enacted will not differ significantly from the current proposal;
- the uncertainty created by the PIB and the necessary implementing regulations may lead international oil companies to defer further major investment in Nigeria until the new regulations have been enacted and the new legal framework for the industry has been more clearly defined, or may decide to reduce their investments in Nigeria and/or decline to pursue certain investments as a result of the new framework;
- the proposed changes in the tax structure for oil and gas companies operating in Nigeria may lead certain companies to curtail their operations or future investment;
- the proposed deregulation of the petroleum products market and the removal of petroleum subsidies (as a further step in the deregulation of the downstream petroleum sector) may adversely affect the segments of the economy most affected by the resulting increase in prices and could lead to protests from the public who currently benefit from subsidised prices. This could also lead to further inflationary pressures in the economy. The new framework may also generate less new capacity than anticipated and any new capacity may take longer than anticipated to begin operations;
- the initiatives designed to promote gas production may prove ineffective;
- the PIB may fail to adequately address the concerns of communities in the Niger Delta region or create new grounds for further conflict;
- initiatives proposed in the PIB may further polarise the Northern and other political regions of Nigeria; and
- the proposed national oil company, which is part of the oil and gas sector reforms, may not be successful.

Similarly, the Nigerian Content Act, which was enacted in April 2010, introduced reforms in the Nigerian oil and gas industry, which include providing for preferential treatment to Nigerian companies and promoting the awarding of contracts to Nigerian companies for services provided and goods manufactured in Nigeria. Prior to the enactment of the Nigerian Content Act, local content promotion and development in the Nigerian oil and gas industry was loosely regulated. The Nigerian Content Act is expected to continue to provide business and growth opportunities for Nigerian businesses. The Nigerian Content Development Monitoring Board has issued regulations aimed at ensuring effective implementation of the Nigerian Contact Act. However, if the Nigerian Content Act and the other abovementioned reforms are not implemented effectively, the Nigerian economy and Nigerian banking sector, which includes the Group, may not achieve the growth prospects that have been expected.

There are risks associated with weak corporate governance standards in Nigeria

The CBN released a "*Code of Corporate Governance for Banks in Nigeria Post Consolidation*" which became effective in April 2006 and is mandatory for all banks in Nigeria. While this document reflects the increasing importance that the CBN places on improved corporate governance to improve the perception and performance of the Nigerian banking industry, the CBN has already relaxed some of its recommendations regarding corporate governance as a result of pressure from various banks regarding the tenure of service of non-executive directors. The CBN's provisions regarding corporate governance are underdeveloped and not as stringent as international standards, especially the corporate governance standards set forth in the UK Corporate Governance Code. Corporate governance provisions are in their infancy and there is a lack of tangible enforcement of corporate governance standards in Nigeria. In January 2011, the Nigerian SEC approved the implementation of a new code of corporate governance for public companies. The regulation took effect in April 2011 and is expected to bring about more stringent standards of transparency and accountability. However, no assumption can be made that these standards will be equivalent to those required in the United States or Western Europe or how quickly these standards will be adopted by companies. Although the Group has adopted corporate governance standards beyond those required by the CBN, it is possible that violations of disclosure and reporting requirements or breaches of fiduciary duties by the Group's directors could result in inappropriate management decisions, materially adversely affecting its business, results of operations and/or financial condition.

Certain proposed legal and regulatory reforms in Nigeria may not be successfully implemented

Several Government reforms are underway to improve Nigeria's electricity generation, transmission and distribution infrastructure. In August 2010, the Government launched the "Roadmap for Power Sector Reform" which seeks to remove obstacles to private sector investment in the power sector, permit the privatisation of generation and distribution companies, facilitate the construction of new transmission networks and reform the fuel-to-power sector. As at 31 March 2013, preferred bidders have been selected for 15 out of 17 electricity utility (generation and distribution) companies being privatised. The 15 preferred bidders all paid the initial deposit of 25 per cent. of the sale price by the deadline in March 2013 and the handover process is expected to be completed in the fourth quarter of 2013, after the payment of the balance by the preferred bidders.

Government reforms in the sea transportation sector aim to shorten the turn-around time of cargo ships in Nigerian ports, reduce administrative charges, increase competition, improve safety and security and dredge the Lagos and Bonny harbours to accommodate large ocean liners. The Government is also encouraging the establishment of indigenous shipping lines through the enactment of the Cabotage Act to restrict the use of foreign vessels in domestic coastal trade in Nigeria and promote domestic shipping companies. The Cabotage Act also provides for the establishment of the Cabotage Vessel Financing Fund to promote the development of ship acquisition capacity by providing financial assistance to Nigerian operators.

There are certain provisions in each of the abovementioned regulations and reforms which, if effectively implemented, are expected to result in the growth and development of the Nigerian banking industry and also in increased levels of business and returns for the Group. For example, the Nigerian Content Act provides that all operators, contractors and other entities engaged in any operation, business or transaction in the Nigerian oil and gas industry requiring financial services shall retain only the services of Nigerian financial institutions or organisations, except where this is impracticable. The Nigerian Content Act also requires all operators, contractors and sub-contractors to maintain a minimum of 10 per cent. of the total revenue accruing from their Nigerian operations in bank accounts domiciled in Nigeria. The Cabotage Act contains local content provisions in connection with domestic coastal carriage of cargo and passengers, which are expected to also increase Nigerian entities' requirements for finance and financial services from Nigerian banks, including the Group.

There is however the risk that the Nigerian Content Act, the "Roadmap for Power Sector Reform", and the Cabotage Act may not be implemented effectively. If the reforms are not implemented as intended, the Nigerian economy and Nigerian banking sector may not achieve the growth prospects that have been linked to the several ongoing government reforms, which could, in turn, have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

High inflation could have a material adverse effect on Nigeria's economy

Nigeria is exposed to the risk of high inflation. In recent years, the annual inflation rate has ranged from a level of 6.6 per cent. as at 31 December 2007 to a peak of 15.1 per cent. as at 31 December 2008.

Inflationary pressure moderated in 2009, as the inflation rate assumed a downward trend. However, it increased from 10.4 per cent. at 30 September 2009 to 13.9 per cent. by 31 December 2009, reflecting an increase in demand pressure due to fuel shortages linked to the speculation that petroleum product prices would be deregulated. In 2010 inflationary pressure remained high, with a slight decrease from December 2009 to 11.8 per cent. at 31 December 2010. Inflation further decreased to 10.3 per cent. as at 31 December 2011. Inflation rate was 12.0 per cent. as at 31 December 2012, 9 per cent. as at 31 January 2013, 8.6 per cent. in March and 9.1 per cent. in April 2013 and 9.5 per cent. as at 28 February 2013 as measured by CPI.

In addition, a significant portion of Nigeria's food is imported. Although Nigeria has recently experienced growth in the agricultural sector and improved harvests, the country continues to rely heavily on food imports. The Government has launched two comprehensive initiatives aimed at stimulating growth in the agricultural sector. The Agricultural Transformation Action Plan is intended to cut Nigeria's dependency on food imports and industrialise food production, particularly in poorer regions in rural Nigeria, whilst the Agricultural Transformation Agenda goal is to stimulate private sector investment throughout Nigeria. The Government is hoping that with these two programmes it can increase Nigeria's agricultural output to 20 million tonnes of food per year and create 3.5 million jobs. Although tighter monetary policies may help to curb inflation, the impact on inflation of higher food, fuel and other import prices is beyond Nigeria's control particularly since most of these products are imported.

Changes in monetary and/or fiscal policy may also result in higher rates of inflation. There can be no assurance that the inflation rate will not rise in the future. Significant inflation could have a material adverse effect on Nigeria's economy and, as a result, on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

The statistical information published by Nigeria may differ from that produced by other sources and may be unreliable

The NBS and CBN, as well as a range of ministries, including the Ministry of Finance, Ministry of Petroleum, Ministry of Commerce and Industry and Ministry of Environment produce statistics relating to Nigeria and its economy. Although there have been significant efforts to improve the compilation of Nigeria's data in recent years including through technical assistance provided by the IMF, there can be no assurance that these statistics are as accurate or as reliable as those published by more developed countries.

The global economic crisis could continue to have a negative effect on the Nigerian economy

The global recession and financial crisis in 2008 and 2009 affected Nigeria particularly through the resulting fluctuations in oil prices and increased investor aversion to risk which resulted in a withdrawal of portfolio capital and reduced access of private sector borrowers to external credit lines.

The impact of the global recession has been felt mainly through a reduction in external reserves, the weakening of the Naira towards the end of 2008 and the collapse of the Nigerian equity markets, falling commodity prices, reduced net capital inflows and the bad debt exposure of Nigerian banks. As the global economy began to improve, the real GDP growth of the country rose to 6.96 per cent. in 2009 from 6.0 per cent. in 2008, with real GDP growth of 7.9 per cent. for 2010 and real GDP growth of 7.4 per cent. for 2011 and real GDP growth of 6.6 per cent. for 2012, according to the International Monetary Fund ("**IMF**"). Nonetheless, if the global economy further weakens, this may have an adverse effect on the Nigerian economy and, as a result, have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

CBN may intervene in the currency markets by drawing on external reserves and the Naira is subject to volatility

The CBN has historically favoured maintaining the Naira within a narrow band with periodic adjustments. In late 2008 and early 2009, the Naira: U.S. dollar exchange rate experienced some instability, and declined from a high of ₦116.64 in 2008 to a low of ₦151.37 in 2009. In the last quarter of 2008, the CBN took measures to address the instability, including drawing from Nigeria's external reserves and intervening in the currency markets. The exchange rate stood at ₦155.25 at 31 March 2013. During the period, the external reserves were reduced from U.S.$53 billion in 2008 to U.S.$42.4 billion as at 31 December 2009, to U.S.$37.5 billion as at 31 December 2010 and further to U.S.$32.9 billion as at 31 December 2011. As at 19 June 2012, the external reserves had increased to U.S.$37.2 billion and further to U.S.$44.2 billion by 28 December 2012. This further increased to U.S.$48.5 billion as at 10 June 2013. The CBN has however indicated that the ₦4.9 trillion projection and the U.S.$76 per barrel oil price benchmarks in the 2013 budget may slow down the accretion of Nigeria's external reserves in 2013.

Given the fluctuations in Nigeria's external reserves, its high dependence on oil exports and the fact that Nigeria pays for its key imports, such as refined oil, in U.S. dollars, the Naira will remain vulnerable to external shocks which could lead to a sharp decline in its value, as occurred in 2008 and this may prompt the CBN to again intervene in the currency markets in an attempt to stabilise the Naira.

Although the CBN expects to continue to gear exchange rate policy towards maintaining price stability, no assurance can be given that the exchange rate will remain stable or that the CBN will not draw on the external reserves to stabilise the exchange rate. Any further currency fluctuations and/or fluctuations in Nigeria's external reserves may negatively affect the Nigerian economy in general and, as a result, have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

Failure to grow the non-oil and gas sectors of its economy may constrain Nigeria's economic growth

Over the last 10 years, Nigeria has attempted to develop the non-oil sectors of its economy by encouraging agriculture, trade, construction, telecommunications, financial services, mining and manufacturing activities. The non-oil sector grew by an average of 9.0 per cent. per year between 2005 and 2009. The non-oil sector continued to be a major driver of growth for the economy, recording an average growth of 7.9 per cent. growth for the year 2012, compared to 8.9 per cent. for the year 2011 and 8.9 per cent. for the year 2010, according to the NBS. The growth in this sector has largely been attributed to improved activities in the telecommunications, manufacturing, building and construction, hospitality and business services sectors.

However, the lack of infrastructure including inadequate power supply and transportation systems, reduced credit availability and consumer demand, local shortages of skilled managers and workers and inconsistent government policies may constrain development in these sectors and the current rate of growth may decline in future periods. A failure to continue to grow the non-oil sectors of its economy may constrain Nigeria's economic growth and, as a result, have an adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

Militant activities in the Niger Delta could destabilise oil production in Nigeria and adversely affect Nigeria's economy

Over the past few years, there has been an increase in violence and civil disturbance in the Niger Delta, Nigeria's southern oil producing region, mainly from militant groups who oppose, among other things, the activities of the oil companies in the area. This violence has mainly focused on oil interests in the region and oil production from onshore fields has slowed as a result of several kidnappings and bombings of oil installations and facilities. The outcome of such actions may have a continued significant impact on Government revenues from oil production, given that most of Nigeria's oil revenues come from oil produced in the Niger Delta region.

Since early 2006, hundreds of foreign oil workers and members of their families have been kidnapped in the Niger Delta. During this period, militant attacks have been carried out on numerous oil facilities and platforms, often focused on cutting oil production by sabotaging pipelines and forcing oil companies to halt onshore production. Militants have also staged attacks on pipelines in the region, adversely affecting the output of oil from the region. In January 2010, Chevron announced it had been forced to decrease oil production in Nigeria by 20,000 barrels per day, after gunmen attacked its Makaraba-Utonana pipeline in Delta State. In June 2013, the Trans Niger Pipeline, a major oil pipeline in Nigeria that carries 150,000 barrels a day of oil through the Niger Delta to the Bonny terminal, was shut down for approximately two weeks following an explosion and fire at a location that had been targeted by oil thieves. At least one international oil company present in Nigeria has raised the possibility that it might cease operations in Nigeria if conditions continue to worsen, while several international oil companies have divested assets in Nigeria in recent years, although it is not clear if the divestments were a direct result of the situation in the Niger Delta.

In 2009, the Government offered an amnesty to militants who surrendered their weapons by October 2009, in the hope that about 10,000 rebels would exchange their weapons for a pardon and retraining. Over 20,000 militants surrendered their arms and ammunition pursuant to the amnesty offer of the Government which expired on 4 October 2009. The amnesty programme has significantly reduced but not eliminated tensions in the region. In December 2009, the Movement for the Emancipation of the Niger Delta ("**MEND**") claimed responsibility for an attack on an oil pipeline in the Niger Delta, breaching the ceasefire agreement with the Government. After another attack on an oil pipeline in the Niger Delta in January 2010, during late President Umaru Musa Yar' Adua's absence from office, MEND announced that it would end the indefinite ceasefire it offered in 2009, threatening further hostility in the region. Following the accession to office by Goodluck Jonathan as President of Nigeria on 6 May 2010, militants in the Niger Delta region resumed their talks with the Government and other amnesty committees. However, on 1 October 2010, during Nigeria's celebration of the 50th anniversary of its independence, two bomb blasts occurred in the capital city of Abuja. Although MEND claimed responsibility for the attacks and some arrests have been made, investigations are still ongoing. Further attacks on oil pipelines and kidnappings have taken place in November 2010 and, in December 2010, two bombs exploded during a political rally in Yenagoa, Bayelsa State, causing injury to several people. The amnesty programme has significantly reduced but not eliminated tensions in the region. The MEND has however recently renewed its attack of oil industry participants and security operatives. According to MEND, the new series of attacks code named "*hurricane exodus*" is a reaction to the judgement of a court in South Africa sentencing one of the leaders of MEND. In addition, MEND has claimed responsibility of the murder of twelve Nigerian policemen in Bayelsa State.

In addition, the increased spate of divestment by the largest multinational oil and gas companies in Nigeria may generate a new crisis between the host communities and the acquirer of the asset from the oil major local firm. In February 2013, the Isoko Community in Delta State shut down all oil exploration in their land. The shutdown was as a result of unsuccessful discussions between the oil producing communities and officials of Shoreline Natural Resources Ltd and First Hydro Carbon Ltd, represented by Nigeria Petroleum Development Company (the "**NPDC**"), which bought 45 per cent. equity stake of the Shell, Total and Agip Joint Venture which holds OML 30 and OML 26 and comprises the Ogini and Isoko deep water wells.

In spite of the Government's efforts, militant acts in the Niger Delta continue to be directed at oil industry participants and in relation to the presence of foreign oil interests in the region and there is no assurance that militant acts will not occur in the future. Continued unrest in the Niger Delta region may lead to lower oil production, deter foreign direct investment, lead international oil companies to curtail their operations in Nigeria or lead to increased political instability and unrest and could have a material adverse effect on Nigeria's economy and, as a result, on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

Nigeria may face a lack of continued access to foreign trade and investment for several reasons

Foreign direct investment ("**FDI**"), which comprises equity capital, re-invested earnings and other capital inflows, has steadily increased from U.S.$4.9 billion in 2006 to U.S.$8.7 billion in 2009. However, such FDI reduced to U.S.$6.1 billion in 2010, according to reports by the United Nations Conference on Trade and Development ("**UNCTAD**"), World Investment Report, 2012. This decline can be attributed to the global financial downturn in 2008 and 2009, as greenfield projects, which are the major basis for FDI in Africa, suffered a value decline of about 10 per cent. in 2010. Similarly, peer economies within Africa also suffered declines in FDI in 2010, such as South Africa, which recorded a decrease in FDI of 77.9 per cent., with Africa as a whole recording an average decrease in FDI of 18.1 per cent. in 2010. According to the UNCTAD, World Investment Report, 2012, Nigeria was Africa's largest recipient of FDI inflows in 2011, which amounted to U.S.$8.92 billion.

Despite the slight increase in FDI in 2011, the future prospect for FDI to rebound and surpass its previous inflows is uncertain. In addition, if there is no decrease in the perceived risks associated with investing in Nigeria, including those described herein, there may not be any appreciable increase in FDI, which could adversely affect the Nigerian economy and limit sources of funding for infrastructure and other projects requiring significant investment by the private sector, which, in turn, may have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

Failure to adequately address Nigeria's significant infrastructure deficiencies could adversely affect Nigeria's economy and growth prospects

Decades of under-investment have resulted in significant deterioration of Nigeria's public infrastructure, and the continuous absence of basic infrastructure to support and sustain growth and economic development. Persistent problems with power generation, transmission and distribution, a deteriorating road network, congested ports and obsolete rail infrastructure have severely constrained socio-economic development in Nigeria. Although significant advances have been made in the area of telecommunications and internet facilities in recent years, the state of development in those sectors also cannot be considered at par with that in more developed economies. The Government has identified Nigeria's decaying infrastructure as a major impediment to economic growth and the First NIP and the Transformation Agenda include ambitious targets for infrastructure improvements and investments as part of the first phase of implementing the Vision 20:2020 strategy. Failure to significantly improve Nigeria's infrastructure could adversely affect Nigeria's economy and growth prospects, including its ability to meet GDP growth targets which, in turn, may have an adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

Nigeria suffers from chronic electricity shortages

In spite of the abundant energy resources in the country and significant Government reform efforts and investments in the power sector in recent years, lack of sufficient and reliable electricity supply remains a serious impediment to Nigeria's economic growth and development. Insufficient power generation, aging infrastructure, weak distribution networks and overloaded transformers result in frequent power outages, high transmission and distribution losses and poor voltage output.

Currently, only about 40 per cent. of the Nigeria's current total population has access to public electricity supply due to inadequate transmission and distribution networks. The Government has identified improvements in electricity generation, transmission and distribution infrastructure as a critical element required to enable the country to meet its economic growth and development objectives and the IMF reports that approximately one third of Nigeria's installed capacity is not in operation. According to the IMF, surveys show that 83 per cent. of businesses identified the lack of power as the biggest obstacle to doing business in Nigeria. Insufficient power generation, aging infrastructure, inadequate funding, weak distribution networks and overloaded transformers result in frequent power outages, high transmission and distribution losses and poor voltage output. According to a 2011 World Bank research paper, average electricity consumption per capita declined from 152 kilowatt hour in the mid-2000s to approximately 108 kilowatt hour in the late 2000s.

To address these issues, the Government is pursuing a number of significant policy initiatives including those set forth in the First NIP, the Transformation Agenda and the "*Roadmap for Power Sector Reform*". The "*Roadmap for Power Sector Reform*" seeks to remove obstacles to private sector investment in the power sector, begin the privatisation of generation and distribution companies, facilitate the construction of new transmission networks and reform the fuel-to-power sector with the goal of achieving 35,000 megawatts of electricity generation capacity by 2020. Failure to adequately address the significant deficiencies in Nigeria's power generation, transmission and distribution infrastructure and related concerns within the power sector could lead to lower GDP growth and hamper the development of the economy which, in turn, may have an adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

The taxation and customs systems in Nigeria may be subject to changes and inconsistencies

As an emerging market economy, the Nigerian government policies and regulations on taxation, customs and excise duties may change from time to time as considered necessary for the development of the economy. In addition, the Government has indicated that taxes, customs and excise duties may be the next major sources of revenue in view of the fluctuation in revenue derived from oil. A bill to repeal the current Customs and Excise Management Act and reform the administration and management of customs and excise in Nigeria is currently before the National Assembly. Further, the Nigerian Federal Inland Revenue Service's interpretation of, or decision with respect to, certain sections of tax laws may differ on a case by case basis. Changes in Government policies on taxation, customs and excise duties, as well as inconsistencies in interpretation of and decisions relating to tax laws, may have an adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects, and on the tax liability of Noteholders.

There are health risks relating to operating in Nigeria that could adversely affect the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects

HIV/AIDS, tuberculosis (which is exacerbated in the presence of HIV/AIDS), malaria and typhoid are major healthcare challenges in Nigeria and other West African countries. According to research published jointly by UNAIDS (The Joint United Nations Programme on HIV/AIDS) and the World Health Organisation in November 2009, Nigeria had an HIV prevalence of approximately 3.6 per cent. among its population of adults aged between 15 and 49 years old, with the total number of estimated persons with HIV at 3.3 million. By 2012, according to a report published by the National Agency for the Control of Aids, the national median HIV prevalence had risen to 4.1 per cent and the total number of persons living with HIV is estimated to be in the region of 3.5 million. Due to the high prevalence of HIV/AIDS, malaria and typhoid in Nigeria, the Group may incur costs relating to the loss of personnel and the related loss of productivity as well as the costs relating to recruiting and training of new personnel. The Group is not able to quantify these costs accurately and no assurance can be given that the costs it will incur in connection with this epidemic will not have a material adverse effect on the Group's business, results of operations, financial condition, cash flows, liquidity and/or prospects.

Inefficiencies in the judicial system may create an uncertain environment for investment and business activity

Nigerian law is predicated on the common law system, with its roots being derived from the English legal system. Still in its growing phase, the Nigerian legal system continues to undergo development and faces a number of challenges including delays in the judicial process as most cases take a considerable period of time to be concluded. Similarly, the enforcement of security in Nigeria is affected by the inefficiencies in the judicial system and can result in uncertain positions. However, recent years have witnessed considerable reform of the judiciary, especially in Lagos State (the commercial centre of Nigeria and where the Group is headquartered) with the setting up of commercial courts, the appointments of more commercially minded judges and the introduction of new rules to cut down on delays in the judicial process. In addition, the Federal Government has recently made the National Industrial Court a superior court of record. The National Industrial Court has exclusive jurisdiction amongst others, in civil cases and matters relating to labour, employment, trade unions, industrial relations, terms of service, and matters arising in relation to the workplace. Despite reforms, the slow judicial process may sometimes affect the enforceability of judgments obtained, including the ability to recover the assessed value of collateral on defaulting borrowers. Those and other factors that have an impact on Nigeria's legal system make an investment in the Notes subject to greater risks and uncertainties than an investment in a country with a more mature legal system.

Risks Related to the Notes

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments. A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Risks Relating to the Subordinated Note, the Notes and the Trading Market

The right of Noteholders to receive payments in respect of the Notes will be limited to payments actually received by the Issuer under the Subordinated Note

The Issuer is a special purpose vehicle ("**SPV**") with no business other than issuing the Notes and purchasing the Subordinated Note and has no assets other than such loans. The Issuer has an obligation under the "*Terms and Conditions of the Notes*" and the Trust Deed to pay such amounts of principal and interest, and additional amounts (if any) as are due in respect of the Notes. However, the Issuer's obligation to pay is equal to the amount of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer from the Bank pursuant to the Subordinated Note. Consequently, if the Bank fails to meet its payment obligations on the Subordinated Note in full, this will result in the Noteholders receiving less than the scheduled amount of principal and/or interest and/or other amounts (if any) payable on the Notes.

An investor in the Notes assumes an enhanced risk of loss in the event of a Subordination Event

The obligations of the Bank under the Subordinated Note will be unsecured and subordinated. On any distribution of the assets of the Bank on its dissolution, winding-up or liquidation whether in bankruptcy, insolvency, receivership, voluntary or mandatory reorganisation of indebtedness or any analogous proceedings (a "**Subordination Event**") (as further described in "*Subordinated Note*" below), and for so long as such Subordination Event subsists, the Bank's obligations under the Notes will rank subordinate in right of payment to the payment of all Senior Obligations (as defined below) and no amount will be paid by the Bank in respect of its obligations under the Subordinated Note until all such Senior Obligations have been paid in full. Unless, therefore, the Group has assets remaining after making all such payments, no payments will be made on the Subordinated Note and any such payments that are made will be made *pari passu* with any payments made by the Bank in respect of any other obligations it may have under any Parity Obligations (as defined below). Consequently, although the Notes may pay a higher return than comparable instruments relating to unsubordinated obligations, there is an enhanced risk that an investor in the Notes will lose all or some of its investment on the occurrence of a Subordination Event.

No limitation on incurrence of Senior Obligations or Parity Obligations

There is no restriction on the amount of Senior Obligations or Parity Obligations that the Bank may incur. As described above, the incurrence of any such obligations may reduce the amount recoverable by Noteholders on any dissolution, winding-up or liquidation of the Bank. Accordingly, on such dissolution, winding-up or liquidation, there may not be sufficient amounts to satisfy the amounts owing to Noteholders in respect of the obligations of the Bank under the Subordinated Note and this may result in an investor in the Notes losing all or some of its investment.

Absence of secondary market or limited liquidity

There is no assurance that a secondary market for the Notes will develop or, if it does develop, that it will provide the Noteholders with liquidity of investment or that it will continue for the life of the Notes. Accordingly, a Noteholder may not be able to find a buyer to buy its Notes readily or at prices that will enable the Noteholder to realise a desired yield. The market value of the Notes may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Notes. Accordingly, the purchase of the Notes is suitable only for investors who can bear the risks associated with a lack of liquidity in the Notes and the financial and other risks associated with an investment in the Notes. A Noteholder must be prepared to hold the Notes for an indefinite period of time or until their maturity. Application has been made for the listing of the Notes on the Irish Stock Exchange but there can be no assurance that such listing will occur on or prior to the Closing Date or at all or, if it does occur, that it will enhance the liquidity of the Notes.

Furthermore, the Notes have not been, and will not be, registered under the Securities Act or any other applicable securities laws and are being offered pursuant to an exemption from the registration requirements of the Securities Act. Accordingly, the Notes are subject to certain transfer restrictions and will bear a legend regarding those restrictions. See "*Subscription and Sale*" and "*Transfer Restrictions*". These restrictions may limit the ability of investors to resell the Notes.

The Notes may be subject to early redemption

The Notes may be subject to early redemption as provided in the terms and conditions of the Notes and the Subordinated Note. The Bank may redeem all, but not a part only, of the Subordinated Note prior to the Maturity Date: (a) at its outstanding principal amount, subject to having obtained the prior approval of the CBN (if required), pursuant to Applicable Banking Regulations (as defined in the Subordinated Note), on the Bank Call Date (as defined in the Subordinated Note), (b) at its outstanding principal amount, subject to having obtained the prior approval of the CBN (if required), if a Capital Disqualification Event (as defined in the Subordinated Note) occurs and (c) at their outstanding principal amount, subject to having obtained the prior approval of the CBN (if required), if a Tax Event (as defined in the Subordinated Note) occurs or Indemnity Amounts (as defined in the Subordinated Note) are payable in certain circumstances, in each case together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof. See condition 9 (*Redemption and Purchase*) of the Subordinated Note. This early redemption feature is likely to limit the market value of the Notes, as the market value of the Notes is unlikely to rise substantially above the price at which they can be redeemed during any period when such rights are exercisable. This may also be true prior to such period.

The Bank may be expected to exercise its rights in respect of any early redemption of the Subordinated Note on the Bank Call Date when its funding costs are lower than the Rate of Interest payable in respect of the Subordinated Note. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective rate as high as the interest rate on the Notes and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other instruments that may be available at the time.

Depending on prevailing market conditions on any redemption of the Subordinated Note upon the occurrence of a Tax Event, payment of Indemnity Amounts (if applicable) or a Capital Disqualification Event and subsequent redemption of the Notes, an investor may similarly not be able to reinvest the redemption proceeds in a comparable security in respect of which interest is payable at an equivalent rate to that of the interest rate then payable in respect of the Notes.

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of The Netherlands or Nigeria (or, upon the occurrence of a Relevant Event (as defined in the Trust Deed), the jurisdiction in which the Trustee is domiciled for tax purposes) or any political subdivision thereof or any authority therein or thereof having power to tax, the Bank would be required to increase amounts payable under the Subordinated Note. In such circumstances, the Bank may prepay the Subordinated Note, in which case the Issuer would redeem all outstanding Notes in accordance with the conditions.

As with the optional repayment feature of the Subordinated Note referred to above, it may not be possible for Noteholders to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate. See also "*Terms and Conditions of the Notes*" and "*Subordinated Note*".

Limited remedies for non-payment when due or enforcement of any other obligations

There are limited remedies under the Subordinated Note upon the occurrence of an Event of Default (including non-payment in respect of principal and interest), a Subordination Event or otherwise on the winding-up, dissolution or liquidation of the Bank, all as described in condition 11 (*Events of Default*) of the Subordinated Note (and which Events of Default, for the avoidance of doubt, do not include a breach of any of the covenants set out in condition 10 (*Covenants*) of the Subordinated Note). Subject as provided in condition 11 (*Events of Default*) of the Subordinated Note, the Trustee may then institute, or claim or prove in, as applicable, the winding-up, dissolution or liquidation of the Bank for and on behalf of Noteholders in respect of the resulting amounts due and payable by the Issuer under the Notes. There is otherwise no ability to accelerate payment of any amounts payable by the Bank under the Subordinated Note.

Except otherwise expressly provided in the Conditions and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Subordinated Note exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any provision of the Subordinated Note or have direct recourse to the Bank as issuer of the Subordinated Note except through action by the Trustee under the Security Interests (as defined in the Trust Deed) granted to the Trustee in the Trust Deed.

In addition, Noteholders should be aware that neither the Issuer nor the Trustee accepts any responsibility for the performance by the Bank of its obligations under the Subordinated Note. Neither the Issuer nor the Trustee under the Assigned Rights (as defined under "*Terms and Conditions of the Notes*") shall be required to monitor the Bank's financial performance or status or to enter into proceedings to enforce payment under the Subordinated Note unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Payments of principal and/or interest and/or other amounts (if any) by the Bank under the Subordinated Note to, or to the order of, the Trustee or the Principal Paying Agent will satisfy the Issuer's obligations in respect of the Notes. Consequently, Noteholders will have no further recourse against the Issuer or the Bank after such payment is made.

The Notes may in the future be subject to write down or other loss absorption mechanisms should Basel III be implemented in Nigeria

The package of new capital and liquidity requirements reflected in Basel III sets out guidance from the Basel Committee on the eligibility criteria for Tier 2 capital instruments under Basel III. This guidance includes minimum requirements to ensure loss absorption at the point of non-viability for internationally active banks (including write down and conversion into equity of such instruments).

There is no certainty as to whether Basel III will be implemented by the CBN in Nigeria prior to maturity of the Subordinated Note and the Notes and, if so, when and in what form (including whether any such loss absorption provisions would be introduced). Although an official timetable for the adoption of Basel III in Nigeria has not been announced by the CBN, if the CBN follows the timetable prescribed by the Basel Committee, then the regulations for such adoption should be implemented between 2013 and 2018. Even if introduced, it is equally unclear whether any loss absorption provisions would apply to capital instruments such as the Subordinated Note that are already in issue or whether certain grandfathering rules would apply.

The terms of the Subordinated Note will not contain any provisions in the nature of the proposed loss absorption requirements under Basel III. However, if any such requirements are implemented retrospectively in Nigeria so as to apply to the Subordinated Note, then either: (a) the Subordinated Note may become subject to loss absorption on a statutory basis at the point of the Bank's non-viability, which could result in Noteholders losing some or all of their investment, or (b) the Bank's ability to include the Subordinated Note in its capital calculations may be prohibited or limited. The implementation of any such loss absorption requirements or any suggestion of such implementation could also materially adversely affect the value of the Notes.

Risks related to the Notes generally

Set out below is a brief description of certain risks relating to the Notes generally:

Modification, Waivers and Substitution

The terms and conditions of the Notes (set out under "*Terms and Conditions of the Notes*", (the "**Conditions**" and each a "**Condition**") contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally, including material changes to the terms of the Notes and enforcement. These provisions permit certain defined majorities voting at a meeting or executing written consents to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, subject to the provisions of the Trust Deed without the consent of Noteholders, agree to:

(i) any modification of any of the provisions of the Notes, the Trust Deed, the Conditions or the Subordinated Note which, in the opinion of the Trustee, is of a formal, minor or technical nature or which is not materially prejudicial to the interests of the Noteholders (other than, in each case, in respect of the Reserved Matters (as defined in the Trust Deed)) or which, in the opinion of the Trustee, is made to correct a manifest error; or

(ii) the waiver or authorisation of any breach or proposed breach of any of the provisions of the Notes, the Trust Deed, the Conditions or the Subordinated Note, or determine without the consent of the Noteholders that any event which would, or might otherwise give rise to a right of acceleration under the Subordinated Note shall not be treated as such, if, in the sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (other than, in each case, in respect of the Reserved Matters (as defined in the Trust Deed)); or

(iii) substitution of the Issuer by any other entity as creditor under the Subordinated Note, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed, all as more fully described in Condition 10 (*Meetings of Noteholders; Modification; Waiver; Substitution of the Issuer*).

In certain circumstances a portion of payments made on or with respect to the Notes may be subject to U.S. reporting obligations which, if not satisfied, may require U.S. tax to be withheld

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to any non-U.S. financial institution (an "**FFI**") that does not become a "**Participating FFI**" by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or deemed in compliance with FATCA and with respect to certain payments to any investor that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "**United States account**" of a Participating FFI (unless otherwise exempt from FATCA). The new withholding regime will be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to "foreign passthru payments" no earlier than 1 January 2017. The Bank is classified as an FFI; however it is unclear whether the Issuer is classified as an FFI.

If the Issuer is not in compliance with FATCA, payments it receives from the Bank on the Subordinated Notes may be subject to FATCA withholding. Generally the Bank will be required to pay additional amounts on the Subordinated Notes so that the Issuer receives the amount it would have received had FATCA not been applicable to payments on the Subordinated Notes. If the Bank is required to do this, it will be entitled to redeem the Subordinated Notes. If the Issuer becomes a Participating FFI, withholding may apply to payments on or with respect to the Notes. If an amount in respect of FATCA were to be deducted or withheld from interest, principal or other payments on or with respect to the Notes, neither the Issuer nor the Bank would have an obligation to pay additional amounts or otherwise indemnify a holder for any such withholding or deduction by the Issuer, a paying agent or any other party. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected.

An investor that is not a Participating FFI that is withheld upon generally will be able to obtain a refund only to the extent an applicable income tax treaty with the United States entitles the investor to a reduced rate of tax on the payment that was subject to withholding under FATCA, provided the required information is furnished in a timely manner to the IRS.

The United States is in the process of negotiating intergovernmental agreements to implement FATCA ("**IGAs**") with a number of jurisdictions. Different rules than those described above may apply if the Issuer, the Bank or an investor is resident in a jurisdiction that has entered into an intergovernmental agreement to implement FATCA.

Significant aspects of the application of FATCA are not currently clear. Investors should consult their own advisers about the application of FATCA, in particular if they may be classified as financial institutions under the FATCA rules.

Enforcement of obligations of the Bank under the Subordinated Note, the Trust Deed, the Agency Agreement and the Subscription Agreement may be subject to the payment of Nigerian stamp duty

The Subordinated Note, the Trust Deed, the Agency Agreement and the Subscription Agreement (as defined below) may be liable to stamp duty in Nigeria under the Stamp Duties Act, Cap S8 LFN, 2004 (the "**Stamp Duties Act**") although, if so liable, it is unclear what the rate of any such stamp duty may be. Stamp duty is payable in Nigeria either on a flat rate or *ad valorem* basis. Based on the Stamp Duties Act, the maximum rate of stamp duty payable in Nigeria in respect of the Subordinated Note is 0.125 per cent. levied on an *ad valorem* basis on the value of the underlying transaction. In accordance with current practice in Nigeria, the Subscription Agreement will be assessed at an *ad valorem* rate of 1 per cent. of the fee payable to the Joint Lead Managers whilst the Trust Deed and the Agency Agreement will be assessed at a flat rate. However, provided documents that would otherwise be dutiable are executed outside of Nigeria, the parties have 30 days from when the documents are brought into Nigeria to arrange for payment of stamp duty. Accordingly, it is intended that the Trust Deed, the Agency Agreement and the Subscription Agreement will each be executed and held outside of Nigeria. However, if it is necessary to bring any such documentation into Nigeria for the purposes of enforcement, such enforcement may be subject to the payment of the relevant rate of stamp duty, as assessed by the Nigerian Commissioner for Stamp Duties. See "*Taxation—Nigeria—Stamp duties*". Further, as provided in Condition 12 (*Trustee and Agents*) of the Notes, the Trustee is not bound to take any proceedings for the enforcement of the provisions of the Trust Deed or the Notes or to take any other action in relation to the Trust Deed or the Notes unless, among other things, it shall have been indemnified, prefunded or provided with security to its satisfaction, which may include the prior payment of any such stamp duty to the Trustee.

Tax may be required to be withheld under the EU Savings Directive in respect of which no gross up payments will be made

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

On 10 April 2013. Luxembourg officially announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payment of interest (or similar income) as from this date.

A number of non-EU ("**EU**") countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent in accordance with the Savings Directive, the Issuer will be required to maintain an Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Savings Directive.

Noteholders' rights may be adversely affected by a change of law

The terms and conditions of the Subordinated Note are based on English law in effect as at the date of this Prospectus, except for the provisions relating to subordination, which shall be governed by, and construed in accordance with, Nigerian law. No assurance can be given as to the impact of any possible judicial decision or change to the laws or administrative practice of England or Nigeria after the date of this Prospectus.

Investors may be exposed to exchange rate risks and exchange controls

The Issuer and the Bank will pay principal and interest on the Notes and the Subordinated Note, as the case may be, in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. dollar would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Investors may be exposed to interest rate risks

Investment in Notes bearing interest at a fixed rate involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Interest rate reset may result in a decline in yield

The rate of interest applicable to the Notes will be automatically reset on the Bank Call Date (as defined in the "*Terms and Conditions of the Notes*") if not previously redeemed. As a result Noteholders will be exposed to the risk that the rate of interest following such reset may be lower than the initial rate of interest and as a result face a decline in yield. See "*Terms and Conditions of the Notes – Interest*".

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk based capital or similar rules.

Reliance on DTC, Euroclear and Clearstream, Luxembourg procedures

The Restricted Notes will be represented on issue by one or more Restricted Global Notes that will be deposited with a nominee for DTC. Except in the circumstances described in a Restricted Global Note, investors will not be entitled to receive Notes in definitive form ("**Restricted Note Certificates**"). DTC and its direct and indirect participants will maintain records of beneficial interests in the Restricted Global Notes. While the Notes are represented by a Restricted Global Note, investors will be able to trade their beneficial interests only through DTC and its participants, including Euroclear and Clearstream, Luxembourg.

The Unrestricted Notes will be represented by the Unrestricted Global Note that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the Unrestricted Global Note, investors will not be entitled to receive Notes in definitive form ("**Unrestricted Note Certificates**"). Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of beneficial interests in the Unrestricted Global Note. While the Notes are represented by the Unrestricted Global Note, investors will be able to trade their beneficial interest only through Euroclear and Clearstream, Luxembourg and their respective participants.

While the Notes are represented by the Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Holdings of less than U.S.$200,000

It is possible that the Notes may be traded in the clearing systems in principal amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. Should the Global Note be exchanged for Note Certificates, Noteholders who hold less than U.S.$200,000 in principal amount of the Notes in the relevant clearing system may need to purchase or sell, on or before such exchange, a principal amount of Notes such that they are no longer holding less than U.S.$200,000 in order to be able to exercise all of their rights and receive all of their entitlement in respect of their holding.

Risks relating to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The on-going uncertainty and volatility in the financial markets and the state of the global economic recovery may adversely affect the Group's business, results of operations, financial condition and/or prospects.

Global financial markets continue to experience disruptions, including increased volatility, and diminished liquidity and credit availability. Concerns about credit risk (including that of sovereigns) and the Eurozone crisis have increased recently, especially with the presence of significant sovereign debts and/or fiscal deficits in a number of European countries and the United States. This has raised concerns regarding the financial condition of financial institutions and other corporates located in these countries, having direct or indirect exposure to these countries, and/or whose banks, customers, service providers, sources of funding and/or suppliers have direct or indirect exposure to these countries. The default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions could cause severe stress in the financial system generally and could adversely affect the markets in which the Group operates and the businesses and economic condition and prospects of the Group's counterparties or customers, directly or indirectly, in ways which it is difficult to predict.

The impact of these conditions could be detrimental to the Group and could adversely affect its business, results of operations, financial condition and/or prospects; its solvency and the solvency of its counterparties and customers; the value and liquidity of its assets and liabilities; the value and liquidity of the Notes and/or the ability of the Bank to meet its obligations under the Notes and under its debt obligations more generally.

The Notes may be negatively affected by events in other emerging markets, including those in sub-Saharan Africa

Economic distress in any emerging market country may adversely affect prices of securities and the level of investment in other emerging market issuers as investors move their money to more stable, developed markets. The market price of the Notes is influenced by economic and market conditions in Nigeria and, to a varying degree, economic and market conditions in other African and emerging markets generally. Financial problems or an increase in the perceived risks associated with investing in emerging market economies could dampen foreign investment in Nigeria, adversely affect the Nigerian economy or adversely affect the trading price of the Notes. Even if the Nigerian economy remains relatively stable and currently relies less on external debt financing than some emerging market issuers, economic distress in other emerging market countries could adversely affect the trading price of the Notes and the availability of foreign funding sources for the government or private sector borrowers.

Adverse developments in other countries in sub-Saharan Africa, in particular, may have a negative impact on Nigeria if investors perceive risk that such developments will adversely affect Nigeria or that similar adverse developments may occur in Nigeria. Risks associated with sub-Saharan Africa include political uncertainty, civil unrest and conflict, corruption, the outbreak of disease and poor infrastructure. Investors' perceptions of certain risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on Nigeria, including elements of the information provided in this Prospectus. See also "*—Risks Related to the Group—Substantially all of the Group's operations and assets are based in Nigeria; a slowdown in economic growth in Nigeria could materially adverse effect the Group's business*" *above*.

It may be difficult to effect service of legal process and enforce foreign judgments obtained outside Nigeria against the Group and its management

The Bank is a company incorporated under the laws of Nigeria and substantially all of its businesses, assets and operations are located in Nigeria. In addition, a substantial majority of its directors, and executive officers reside in Nigeria and substantially all of their assets are located in Nigeria. As a result, it may not be possible to effect service of process in the United Kingdom or United States or elsewhere outside Nigeria upon the Group or such directors, supervisors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, Nigeria does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States and many other countries. As a result, recognition and enforcement in Nigeria of judgments of a court in the United States or in any of such other countries in relation to any matter may be difficult. See "*Enforcement of Foreign Judgments.*"

Negative Change in Nigeria's, the Group's, or the Notes' Credit Ratings could adversely affect the trading price of the Notes

Nigerian sovereign bonds are rated BB- long-term by Fitch and BB- long-term by S&P. The Bank's current long term rating by S&P is BB- (outlook stable) and its current long term rating by Fitch is B+ (outlook stable). The Notes are expected to be rated B by S&P and B- by Fitch. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The Group has no obligation to inform Noteholders of any revision, downgrade or withdrawal of its current or future credit ratings. A suspension, downgrade or withdrawal at any time of a credit rating assigned to Nigeria or the Group may adversely affect the market price of the Notes. Credit ratings included or referred to in this Prospectus have been issued by S&P and Fitch, each of which is a credit rating agency established or has offices established in the European Union. S&P and Fitch are established in the European Union and registered under the CRA Regulation. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation.

Return on an investment in Notes will be affected by charges incurred by investors

An investor's total return on an investment in any Notes will be affected by the level of fees charged by an agent, nominee service provider and/or clearing system used by the investor. Such a person or institution may charge fees for the opening and operation of an investment account, transfers of Notes, custody services and on payments of interest and principal. Potential investors are therefore advised to investigate the basis on which any such fees will be charged on the relevant Notes.

Tax consequences of holding the Notes

Potential investors should consider the tax consequences of investing in the Notes and consult their tax advisors about their own tax situation.

Recovery upon insolvency may be uncertain

Although Nigerian bankruptcy laws generally apply to individuals and not corporate entities, the CAMA makes provision for these laws to apply in the winding-up of an insolvent company with regards to the rights of secured and unsecured creditors. Nigerian bankruptcy laws are otherwise very similar to pre 1900 English law. Under Nigerian law, when a bank is unable to meet its obligations or suspends payment, the assets of the bank shall be available to meet all of the bank's deposit liabilities prior to the payment of any other liabilities of the bank. Furthermore, in the event of insolvency of a company, statutory preferred creditors (for example tax, provident funds, salaries and other staff remuneration), as well as secured creditors rank in priority to unsecured creditors. Senior unsecured creditors for the purposes of distributions upon insolvency rank *pari passu* with each other and subordinated creditors rank in accordance with the terms of their subordination. Additionally, the liquidator of an insolvent company has the powers to disclaim onerous contracts. In accordance with general common law bankruptcy rules, any transaction embarked upon by a company within three months prior to the winding-up of the company will be deemed fraudulent and invalid, if such transaction is entered into with the purpose of giving the counterparty to the transaction a preference over other creditors of the company.

Although the jurisprudence of Nigerian courts is relatively clear on how the Group's assets would be applied to its liabilities in the event of it being wound up for reasons other than insolvency, there is little precedent as to how claims against the Bank in respect of the Subordinated Note would be resolved in the event of insolvency. Generally, the winding-up or liquidation of banks in Nigeria entails the active intervention and supervision by the CBN and NDIC, under enabling statutory provisions. Additionally, with a view to ensuring that all creditors and depositors of insolvent banks are adequately protected, there are special provisions of banking statutes which make banking insolvency a highly regulated matter. In the event of the insolvency of the Group, the claims of the Issuer shall rank pari passu with the claims of the Group's other subordinated creditors that rank, or are expressed to rank, pari passu with the Bank's obligations under the Subordinated Note and after the Group's depositors, statutorily recognised preferential creditors, secured creditors and other senior creditors have been paid in full.

SUBORDINATED NOTE

The following is the form of the Subordinated Note Certificate relating to the Subordinated Note to be issued by the Bank to the Issuer on the issue date of the Notes, save for the signature page and schedules.

First Bank of Nigeria Limited
(incorporated with limited liability in the Federal Republic of Nigeria)
(the "Bank")
U.S.$300,000,000 Fixed Rate Subordinated Note due 2020

1. Introduction, Registered Holder and Register

(a) ***Introduction***

This Subordinated Note is issued in respect of the U.S.$300,000,000 Fixed Rate Subordinated Note of the Bank due 2020 or such other amount as is shown on the Register of holders (as defined below) as being represented by this Subordinated Note and is duly endorsed (for information purposes only) in the third column of Schedule A to this Subordinated Note (the "**Subordinated Note**"). The Bank hereby constitutes this Subordinated Note and the Bank covenants in favour of the Holder that it will duly perform and comply with the obligations expressed to be undertaken by it hereunder.

(b) ***Registered Holder***

This is to certify that FBN Finance Company B.V. of De Entree 99-197, 1101 HE Amsterdam, The Netherlands is, at the date hereof, entered in the Register (as defined below) as the duly registered holder (the "**Holder**") of U.S.$ three hundred million United States Dollars in initial aggregate principal amount of this Subordinated Note.

(c) ***Register***

The Bank shall, for so long as this Subordinated Note is outstanding, maintain a full and complete register outside the United Kingdom (the "**Register**"). The Register shall show the aggregate principal amount outstanding and date of issue of this Subordinated Note, the name and address of the Holder and the aggregate principal amount of the Subordinated Note held thereby and the amount then outstanding, the amount of any further issuance and any principal amount of such Note that has been redeemed, purchased or replaced and the relevant dates thereof.

2. Definitions

"**Account**" means the account of the Holder held with Citibank, N.A., London Branch with account number 11737902.

"**Affiliate**" of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect control with such specified Person or (ii) any other Person who is a director or officer (a) of such specified Person, (b) of any Subsidiary of such specified Person or (c) of any Person described in (i) or (ii) above. For the purposes of this definition, "**control**" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "**controlling**" and "controlled" have meanings correlative to the foregoing.

"**Applicable Banking Regulations**" means any laws, regulations, requirements, guidelines and policies relating to capital adequacy then in effect in Nigeria including, without limitation to the generality of the foregoing, those regulations, requirements, guidelines and policies relating to capital adequacy then in effect of the CBN (whether or not such requirements, guidelines or policies have the force of law and whether or not they are applied generally or specifically to the Bank).

"**Bank Call Date**" means 7 August 2018.

"**BIS Guidelines**" means, at any time, the capital adequacy standards and guidelines promulgated by the Basel Committee on Banking Supervision as currently implemented by the CBN.

"**Business Day**" means, unless otherwise specified, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in The Netherlands, London, Nigeria and New York.

“**Capital**” means the Bank’s capital as such term is defined in the BIS Guidelines.

“**Capital Disqualification Event**” means if, as a result of any change in law, or the application or official interpretation thereof, the principal amount outstanding of this Subordinated Note is fully excluded from inclusion as tier 2 capital of the Bank under the Applicable Banking Regulations (save where such exclusion is only as a result of any application of limits on the inclusion of such securities in tier 2 capital).

“**CBN**” means the Central Bank of Nigeria (or any successor body or entity thereto having primary responsibility for regulatory supervision of the Bank).

“**Code**” means the U.S. Internal Revenue Code of 1986.

“**Event of Default**” means an event as described in Condition 11 (*Events of Default*).

“**Fair Market Value**” means the value that would be obtained in an arm’s length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors of the Bank or the relevant Subsidiary (as the case may be).

“**FATCA**” means Sections 1471 through 1474 of the Code and any current or future regulations, treaties, laws or agreements thereunder or official interpretations thereof.

“**Group**” means the Bank and its Subsidiaries, from time to time, taken as a whole.

“**IFRS**” means the International Financial Reporting Standards as promulgated by the International Accounting Standards Board.

“**Interest Payment Date**” means 7 February and 7 August of each year, commencing on 7 February 2014 and ending on the Maturity Date.

“**Interest Period**” means each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

“**Issue Date**” means 7 August 2013.

“**Junior Obligations**” means any class of share capital (including ordinary and preferred shares) of the Bank together with any present and future undated or perpetual subordinated indebtedness or other payment obligations of the Bank that rank, or are expressed to rank, junior to the Bank’s obligations under this Subordinated Note.

“**Material Adverse Effect**” means a material adverse effect on (a) the business, financial condition or results of operations of the Bank or the Group, or (b) the Bank’s ability to perform its obligations under this Subordinated Note.

“**Material Part**” means in respect of any one or more transactions or series of transactions (whether related or not) (a) completed since 7 August 2013, revenues or assets the book value of which is 10.0 per cent. or more of the book value of the total revenues (with respect to a disposal of revenues) or total assets (with respect to a disposal of assets) of the Group and (b) completed in any 12 month period, revenues or assets the book value of which is 5.0 per cent. or more of the book value of the total revenues (with respect to a disposal of revenues) or total assets (with respect to a disposal of assets), of the Group.

“**Material Subsidiary**” means at any time a Subsidiary of the Bank which has gross revenues representing 10.0 per cent. or more of the consolidated gross revenues of the Group or total assets representing 7.5 per cent. or more of the consolidated total assets of the Group, in each case calculated on a consolidated basis in accordance with the then most recent audited consolidated financial statements of the Bank. For the avoidance of doubt, a report signed by two directors of the Bank stating that in their opinion a Subsidiary of the Bank is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary may be relied upon by the Holder without further enquiry or evidence.

“**Maturity Date**” means 7 August 2020.

“**Nigeria**” means the Federal Republic of Nigeria.

“**Notes**” shall have the meaning given to such term in Condition 9(e) (*Cancellation of all or a portion of the Subordinated Note*).

“**Officers’ Certificate**” means a certificate signed on behalf of the Bank by two authorised officers of the Bank, at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Bank;

"**Parity Obligations**" means any securities or other instruments issued by the Bank or other payment obligations of the Bank that rank, or are expressed to rank, *pari passu* with the Bank's obligations under this Subordinated Note.

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, trust, institution, organisation, agency or other entity, whether or not having separate legal personality.

"**Rate of Interest**" means (a) for the period from, and including, the Issue Date to, but excluding, the Bank Call Date, 8.250 per cent. per annum and (b) for the period from, and including, the Bank Call Date to, but excluding, the Maturity Date, a fixed rate per annum calculated by the Bank equal to the sum of (i) the prevailing mid-swap rate for United States Dollar swap transactions with a maturity of two years as displayed on Reuters screen "ISDAFIX1" (or such other page as may replace it on that information service or on such other equivalent information service as may be nominated by the person providing or sponsoring such information for the purpose of displaying equivalent or comparable rates to United States Dollar swap transactions with a maturity of two years) (the "**Relevant Screen Page**") at 11.00 a.m. New York time on the second Business Day prior to the Bank Call Date and (ii) 6.875 per cent. If the Relevant Screen Page is not available or such rate does not appear on the Relevant Screen Page, the Bank shall request the principal New York office of four major banks in the New York inter-bank market ("**Reference Banks**"), to provide the Bank with their respective mid-swap rate for United States Dollar swap transactions with a maturity of two years at approximately 11.00 a.m. New York time on the second Business Day prior to the Bank Call Date. If two or more of the Reference Banks provide the Bank with such rates, the Bank shall use the arithmetic mean of such rates.

"**Relevant Date**" means the date on which a payment under this Subordinated Note first becomes due.

"**Relevant Jurisdiction**" shall have the meaning given to such term in Condition 8(a) (*Additional Amounts*).

"**revenues**" means the total of interest and similar income and fee and commission income in the most recent audited consolidated IFRS Financial Statements of the Bank.

"**Risk Weighted Assets**" means the aggregate of the Group's consolidated balance sheet assets and off-balance sheet engagements, weighted for credit and market risk in accordance with the BIS Guidelines.

"**Securitisation Transaction**" means any securitisation of receivables, asset backed financing, or comparable secured loan financing or similar arrangement by which an entity acquires or provides finance against the security of certain assets or revenues and that entity funds such acquisition or financing from external funding sources (including, but not limited to, debt securities or banking facilities) on terms that such funding will be repaid primarily from such assets or revenues.

"**Senior Obligations**" means any of the Bank's present and future indebtedness and other obligations (including, without limitation (i) obligations to depositors and trade creditors and obligations for taxes, (ii) statutory preferences and other legally-required payments and (iii) obligations under hedging and other financial instruments), other than its obligations under (a) this Subordinated Note, (b) any Parity Obligations and (c) any Junior Obligations.

"**Subordination Event**" means any distribution of the assets of the Bank on a dissolution, winding-up or liquidation of the Bank whether in bankruptcy, insolvency, receivership, voluntary or mandatory reorganisation of indebtedness or any analogous proceedings.

"**Subsidiary**" means, in relation to any Person at any time, any other Person (whether or not now existing) which is controlled directly or indirectly, or more than 50 per cent. of whose issued equity share capital (or equivalent) is then beneficially owned by the first Person and/or any one or more of the first Persons' Subsidiaries, and "**control**" means the power (whether directly or indirectly) and whether by the ownership of share capital, the possession of voting power, contract or otherwise to appoint the majority of the members of the governing body of management or otherwise to control the affairs and policies, of that other Person.

"**Trust Deed**" means the trust deed dated on or around 7 August 2013 between the Holder and the Trustee.

"**Trustee**" means Citibank, N.A., London Branch.

3. **Promise to Pay**

The Bank, for value received, hereby promises to pay the principal sum of this Subordinated Note outstanding to the Holder on 7 August 2020 (or on such earlier date or dates as the same may become payable in accordance with the terms set out herein), and to pay interest on such principal sum in arrear on the dates and at the rates specified herein, together with any Additional Amounts or Indemnity Amounts payable in accordance with the terms hereof.

4. **Determination of Entitlement**

This Subordinated Note is evidence of entitlement only and is not a document of title. Entitlements are determined by the Register and only the Holder is entitled to payment in respect of this Subordinated Note. The Holder of this Subordinated Note as recorded in the Register will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes.

5. **Status of the Subordinated Note**

(a) ***Subordination***

The Bank's payment obligations hereunder will constitute direct, unsecured and subordinated obligations of the Bank and shall, in the case of a Subordination Event and for so long as that Subordination Event subsists, rank:

(i) subordinate in right of payment to the payment of all Senior Obligations;

(ii) *pari passu* without any preference among themselves and with all Parity Obligations; and

(iii) in priority to all payments in respect of Junior Obligations.

By virtue of such subordination as described herein, no amount will, in the case of a Subordination Event and for so long as that Subordination Event subsists, be paid hereunder until all payment obligations in respect of Senior Obligations have been satisfied. This Subordinated Note does not limit the amount of Senior Obligations of the Bank that may exist at any time.

(b) ***No Security***

This Subordinated Note is not secured by any security.

(c) ***Set-Off***

Subject to applicable law, all payment obligations of, and payments made by, the Bank hereunder must be determined and made without reference to any right of set-off or counterclaim of the Holder whether arising before or in respect of any Subordination Event and the Holder shall not exercise any right of set-off or counterclaim in respect of any amount owed to the Holder by the Bank hereunder and any such rights shall be deemed to be waived.

6. **Interest**

(a) ***Rate of Interest***

This Subordinated Note shall bear interest from the Issue Date at the applicable Rate of Interest payable semi-annually in arrear not later than 12.00 noon (New York time) one Business Day prior to each Interest Payment Date, subject as provided in Condition 7 (*Payments*).

(b) ***Cessation of Interest***

This Subordinated Note will cease to bear interest from the due date for final redemption unless, upon due surrender of this Subordinated Note, payment of principal is improperly withheld or refused. In such case it will continue to bear interest at the applicable Rate of Interest (after as well as before judgment) until the day on which all sums due in respect of this Subordinated Note up to that day are received by or on behalf of the Holder (except to the extent that there is any subsequent default in payment).

(c) ***Calculation of Interest for an Interest Period***

The amount of interest payable in respect of this Subordinated Note for any Interest Period shall be calculated by applying the applicable Rate of Interest to the outstanding principal amount of this Subordinated Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any period other than an Interest Period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed on the basis of a month of 30 days.

7. **Payments**

(a) ***Making of Payments***

All payments of principal, interest, Additional Amounts and Indemnity Amounts to be made by the Bank under this Subordinated Note, and any payments made in connection with Condition 9 (*Redemption and Purchase*) shall be made unconditionally by credit transfer to the Holder's Account (or as the Holder or Trustee may otherwise direct following the occurrence of an Event of Default or Relevant Event (as defined in the Trust Deed) not later than 12.00 noon (New York time) one Business Day prior to each Interest Payment Date, the Maturity Date or the relevant date on which this Subordinated Note is redeemed early in accordance with Condition 9 (*Redemption and Purchase*) (as the case may be) in Same Day Funds.

The Bank shall, in the case of any payments of principal and interest being made by the Bank under this Subordinated Note and any payments made in connection with Condition 9 (*Redemption and Purchase*), one Business Day prior to the relevant due date, procure that the bank effecting such payments on its behalf confirms to the Holder by authenticated SWIFT the irrevocable payment instructions relating to such payment. The Holder agrees with the Bank that the Holder will not deposit any other monies into the Account and that no withdrawals shall be made from such account other than for payments to be made in accordance with this Subordinated Note and in accordance with the Notes and the Trust Deed.

(b) ***Payments Subject to Fiscal Laws***

All payments in respect of this Subordinated Note are subject in all cases to (i) any applicable fiscal or other laws and regulations in any jurisdiction, and (ii) any withholding or deduction required pursuant to an agreement described in FATCA or any law implementing an intergovernmental approach thereto, but in each case without prejudice to the provisions of Condition 8 (*Additional Amounts and Indemnity Amounts*). In the event of any such withholding or deduction being required, the Bank shall make such payment after such withholding tax or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. No commissions or expenses shall be charged to the Holder in respect of such payments.

(c) ***Payments on Business Days***

If the due date for payments of any amount in respect of this Subordinated Note is not a business day, the Holder will not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition, "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London, Nigeria and New York.

8. **Additional Amounts and Indemnity Amounts**

(a) ***Additional Amounts***

All payments of principal or interest in respect of this Subordinated Note by or on behalf of the Bank shall be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or within Nigeria or any political subdivision or any authority thereof or therein have the power to tax or in either case any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Bank becomes subject in respect of payments made by it of principal and interest on this Subordinated Note (each a "**Relevant Jurisdiction**"), unless such deduction or withholding is required by law.

In that event, the Bank will pay such additional amounts ("**Additional Amounts**") as may be necessary in order that the net amount received by the Holder after the withholding or deduction shall equal the respective amount which would have been received in respect of this Subordinated Note in the absence of such withholding or deduction.

Any reference in this Subordinated Note to payments of principal and/or interest in respect of this Subordinated Note shall be deemed also to refer to any Additional Amounts which may be payable in accordance with this Condition 8.

If the Bank becomes subject at any time to any taxing jurisdiction other than Nigeria, including for this purpose any withholding required on or with respect to FATCA, references herein to Nigeria and/or "**Relevant Jurisdiction**" shall be construed so as to include references to Nigeria and/or such other jurisdiction.

(b) ***Indemnity Amounts***

Without prejudice to or duplication of the provisions of Condition 8.1(a) (*Additional Amounts*), if the Holder notifies the Bank that (i) it is obliged to make any payments of additional amounts to holders of the Notes (as defined in Condition 9(e) (*Cancellation of all or a portion of the Subordinated Note*) below) pursuant to condition 8 (*Taxation*) of such Notes, or (ii) the Holder incurs any additional costs as a result of it entering into or performing its obligations in relation to the Original Notes (in respect of which the Holder shall provide reasonable detail as to the basis of such additional costs to the Bank), the Bank shall pay to the Holder within 30 days of such notice (and otherwise in accordance with the terms of this Subordinated Note), in respect of (i), such additional amounts as are equal to the additional payments which the Holder (as issuer of the Notes) would be required to make under the terms and conditions of the Notes and/or, in respect of (ii), such additional amounts as shall be necessary to compensate the Holder for such duly documented and properly incurred additional costs.

Any payments made by the Bank under this Condition 8.1(b) are collectively referred to as "**Indemnity Amounts**".

9. **Redemption and Purchase**

(a) ***Final redemption***

Unless previously redeemed or purchased and cancelled, this Subordinated Note will be redeemed by the Bank at its principal amount on the Maturity Date.

(b) ***Early Redemption at the Option of the Bank on the Bank Call Date***

The Bank may, at its option, having given not less than 30 nor more than 60 days' notice to the Holder (which notice shall be irrevocable), redeem this Subordinated Note, subject to having obtained the prior approval of the CBN if required pursuant to the Applicable Banking Regulations, on the Bank Call Date at its principal amount then outstanding together with interest accrued to but excluding the Bank Call Date.

(c) ***Early Redemption at the Option of the Bank following a Capital Disqualification Event***

At any time, if a Capital Disqualification Event occurs, the Bank may, at its option, having given not less than 30 nor more than 60 days' notice to the Holder (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all but not some only of this Subordinated Note, subject to having obtained the prior approval of the CBN if required pursuant to the Applicable Banking Regulations, at any time at its principal amount then outstanding together with interest accrued to but excluding the date of redemption. Prior to the publication of any notice of redemption pursuant to this Condition 9(c), the Bank shall deliver to the Trustee (i) a copy of the circular, notification, directive or other official policy communique evidencing such Capital Disqualification Event (a "**CBN Communication**") and (ii) a certificate signed by two directors of the Bank stating that (A) the Bank has consulted with the CBN following the release of the relevant CBN Communication and (B) a Capital Disqualification Event has occurred.

(d) ***Early Redemption for Taxation Reasons and Indemnity Amounts***

If (a) a Tax Event occurs or (b) if as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in condition 8 (*Taxation*) of the Notes), or any change in the application or official interpretation of the laws or regulations of such a Relevant Jurisdiction, which change or amendment becomes effective after the Issue Date, any Indemnity Amounts are payable by the Bank under Condition 8(b) (*Indemnity Amounts*) (and the requirement cannot be avoided by the Bank taking reasonable measures available to it as determined in good faith by the Board of Directors of the Bank), then, in each case, the Bank may, at its option, having given not less than 30 nor more than 60 days' notice to the Holder (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem this Subordinated Note, subject to having obtained the prior approval of the CBN if required pursuant to the Applicable Banking Regulations, at any time at its principal amount then outstanding together with interest accrued to but excluding the date of redemption.

A "**Tax Event**" occurs if as a result of (a) any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after the Issue Date, or (b) any withholding or deduction required pursuant to FATCA or any law implementing an intergovernmental approach thereto, or (c) the enforcement of the Security Interests:

(i) on the next Interest Payment Date the Bank would be required to pay any Additional Amounts, and the requirement cannot be avoided by the Bank taking reasonable measures available to it as determined in good faith by the Board of Directors of the Bank; or

(ii) the Bank ceases to be able to deduct for Nigerian income tax purposes the full amount of interest paid or payable by it under this Subordinated Note.

(e) ***Cancellation of all or a portion of the Subordinated Note***

The Bank or any of its Subsidiaries may at any time, to the extent permitted by Applicable Banking Regulations and subject to having obtained the prior approval of the CBN if required pursuant to the Applicable Banking Regulations, purchase or procure others to purchase for its or their account any or all of the Holder's U.S.$300,000,000 Fixed Rate Subordinated Note Participation Notes due 2020 constituted by the Trust Deed (the "**Notes**" which expression includes, unless the context requires otherwise, any further notes issues pursuant to condition 16 (*Further Notes*) of the Notes and forming a single series therewith), in the open market or otherwise and at any price.

The Holder may from time to time request an Officers' Certificate from the Bank in relation to itself and its Subsidiaries setting out the total principal amount of Notes which, at the date of such certificate, are held by the Bank (or any Subsidiary of the Bank) and have not been cancelled and are retained by it for its own account or for the account of any other company.

In the event that an amount of Notes has been surrendered to the Holder (or one of its agents) for cancellation by the Bank or any of its Subsidiaries and cancelled in accordance with the terms thereof, subject to the prior approval of the CBN if required pursuant to the Applicable Banking Regulations, the Subordinated Note shall be deemed to have been redeemed by the Bank in an amount equal to the aggregate principal amount of the Notes delivered to the Holder (as issuer of such Notes) for surrender and cancellation, together with accrued interest and other amounts (if any) thereon and no further payment shall be made or required to be made by the Bank in respect of such portion of the Subordinated Note that has been so redeemed.

(f) ***No other redemption***

The Bank shall not redeem all or any part of this Subordinated Note except at the times and in the manner expressly provided for in the terms set out herein. Any such redemption shall be duly endorsed (for information purposes only) in the third column of Schedule A to this Subordinated Note and a corresponding entry made in the Register.

10. **Covenants**

For so long as any amounts are outstanding under this Subordinated Note:

(a) ***Restricted Payments***

Subject to the proviso below, the Bank shall not, and shall ensure that each of its Subsidiaries shall not, directly or indirectly:

(i) declare or pay any dividend, in cash or otherwise, or make any other distribution (whether by way of redemption, acquisition or otherwise) in respect of its share capital (other than a dividend or other distribution payable to the Bank or a Subsidiary of the Bank); or

(ii) voluntarily purchase, redeem or otherwise retire for value any debt (including any form of capital instrument) of the Bank subordinated by its terms to the obligations of the Bank under this Subordinated Note,

(any such action, a "**Restricted Payment**"), if such Restricted Payment when aggregated with all other Restricted Payments previously made in respect of the relevant financial year of the Bank, exceed

75 per cent. of the Group's consolidated profit after tax and extra-ordinary activities for such fiscal year, determined by reference to the Bank's audited consolidated IFRS financial statements for such fiscal year.

(b) ***Capital Adequacy***

The Bank shall:

(i) not permit its total capital adequacy ratio to fall below the minimum total capital adequacy ratio required by the CBN and the ratio of its Capital to its Risk Weighted Assets to fall below 10.0 per cent., as calculated in accordance with the BIS Guidelines; and

(ii) at all times comply with all rules, regulations and prudential supervision ratios of the CBN applicable to banks in Nigeria except where failure to so comply would not have a Material Adverse Effect.

(c) ***No Consolidation or Merger***

The Bank shall not without the prior approval of the Holder consolidate with or merge into any other Person (or enter into any transaction whose effect would be similar to that of a merger) or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets to any Person by one or more transactions or series of transactions (whether related or not) (any such consolidation or merger (or transaction whose effect would be similar to that of a merger) and any such transaction or series of transactions, a "**consolidation**" or "**merger**") if such consolidation or merger would have a Material Adverse Effect, unless:

(i) the Bank shall be the continuing Person or the successor Person (as a result of such consolidation or merger) shall be a corporation organised and validly existing under the laws of Nigeria, and shall expressly assume all of the obligations of the Bank under this Subordinated Note by a deed poll and such other documents (if any) as may be necessary to give effect to the assumption of all such obligations;

(ii) (A) immediately on or after giving effect to such consolidation or merger, none of the events or circumstances described in paragraphs (a), (b) or (c) of Condition 11 (*Events of Default*) has occurred and (B) such consolidation or merger does not and would not, on completion, result in any other default or breach of the obligations and covenants of the Bank under this Subordinated Note; and

(iii) the Bank or such successor Person, as the case may be, shall have delivered to the Holder (A) an opinion of independent legal advisers of recognised standing stating the consolidation or merger complies with the provisions of paragraph (i) and (B) a certificate signed by two of its directors stating the consolidation or merger complies with the provisions of paragraphs (i) and (ii) above.

(d) ***Disposals***

Without prejudice to the provisions of Conditions 10(c) (*No Consolidation or Merger*) above or 10(e) (*Transactions with Affiliates*) below, the Bank shall not, and shall ensure that none of its Material Subsidiaries will, (in each case disregarding any sale, lease, transfer or disposal made in the ordinary course of banking business of the Bank or the ordinary course of business of the relevant Material Subsidiary, as the case may be) sell, lease, transfer or otherwise dispose of, to a Person other than the Bank or a Subsidiary of the Bank, by one or more transactions or series of transactions (whether related or not), the whole or any Material Part of any of its revenues or its assets unless such transaction(s) is/are (i) for Fair Market Value and (ii) has/have been approved by a resolution of the appropriate decision making body of the Bank or the relevant Material Subsidiary, as the case may be, resolving that the transaction complies with the requirements of this provision.

For the purpose of determining whether one or more disposals is of a Material Part, (i) in determining the book value of the revenues or assets being disposed of, reference shall be made to the most recent published audited consolidated IFRS financial statements of the Bank or non-consolidated IFRS financial statements of the Material Subsidiary, as the case may be, at the time the disposal is completed and (ii) in determining the book value of the total revenues or total assets of the Group, reference shall be made to the most recent published audited consolidated IFRS financial statements of the Bank at the time the determination is made.

The above provisions shall not apply to any revenues or assets (or any part thereof) the subject of any Securitisation Transaction, provided the aggregate value of the assets or revenues which are the subject of all such Securitisation Transactions does not at any time exceed 10.0 per cent. of the total loans and advances of the Group (less provisions for bad and doubtful loans), as determined at any such time by reference to the most recent published audited consolidated annual IFRS financial statements of the Bank.

(e) ***Transactions with Affiliates***

The Bank shall not, and shall ensure that each of its Subsidiaries shall not, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**"), including, without limitation, inter-company loans, unless the terms of such Affiliate Transaction are no less favourable to the Bank or such Subsidiary, as the case may be, than those that could be obtained in a comparable arm's-length transaction for Fair Market Value with a Person that is not an Affiliate of the Bank or such Subsidiary.

This provision does not apply to (a) compensation or employee benefit arrangements with any officer or director of the Bank or any of its Subsidiaries arising as a result of the employment contract of such officer or director, or (b) any Affiliate Transaction between the Bank and any of its Subsidiaries or between any Subsidiaries of the Bank.

(f) ***Financial Reporting***

The Bank shall deliver to the Holder and the Trustee for distribution to any holder of notes issued by the Holder on such holder's written request:

(i) not later than 120 days after the end of each financial year of the Bank, copies of the Bank's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied, and all such annual financial statements of the Bank shall be accompanied by the report of the auditors thereon;

(ii) not later than 90 days after the end of the first six months of each financial year of the Bank, copies of its unaudited consolidated financial statements for such six-month period, prepared in accordance with IFRS consistently applied; and

(iii) not later than 90 days after the end of the first and third quarter of each of the Bank's financial years, of each financial year of the Bank, copies of its unaudited consolidated financial statements for such three-month period, prepared in accordance with IFRS consistently applied.

11. **Events of Default**

If:

(a) default is made by the Bank in the payment of any principal or interest due in respect of this Subordinated Note and the default continues for a period of 5 Business Days in the case of principal or 10 Business Days in the case of interest; or

(b) a Subordination Event occurs; or

(c) any order is made by any competent court or resolution is passed for the winding-up, dissolution or liquidation of the Bank,

the Holder may, at its discretion, declare all amounts due under this Subordinated Note immediately due and payable and:

(i) in the case of (a) above, at its discretion and without further notice institute proceedings for the Bank to be declared bankrupt or insolvent or for there otherwise to be a Subordination Event, or for the Bank's winding-up, dissolution or liquidation, and prove in the winding-up, dissolution or liquidation of the Bank; and/or

(ii) in the case of (b) or (c) above, claim or prove in the winding-up, dissolution or liquidation of the Bank,

but (in either case) may take no further or other action to enforce, claim or prove for any payment by the Bank in respect of this Subordinated Note and may only claim such payment in the winding-up, dissolution or liquidation of the Bank. In addition to its rights under Condition 11(a) to (c) above, the Holder may institute such proceedings against the Bank as it may think fit to enforce any obligation, condition or provision binding on the Bank under the terms of the Subordinated Note (other than any obligation for the payment of any principal or interest in respect of the Subordinated Note) provided that the Bank shall not by virtue of the institution of any such proceedings be obliged to pay any sum or sums in respect of any breach of any such obligation, condition or provision sooner than the same would otherwise have been payable by it pursuant to the Events of Default set out in paragraphs (a) to (c) above in accordance with the above provisions of this Condition 11.

12. Assignment

(a) ***Binding Effect***

This Subordinated Note shall inure to the benefit of and be binding upon the Bank, the Holder, their respective successors and any permitted assignee or transferee of some or all of their respective rights or obligations under this Subordinated Note. Any references in this Subordinated Note to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Holder, following the assignment referred to in Condition 12(c) (*No Transfer by the Holder*) below, shall be references to the exercise of such rights or discretions by the relevant assignee or transferee.

(b) ***No Assignment by the Bank***

Save with the consent of the Holder or as otherwise permitted under this Subordinated Note, the Bank may not assign, in whole or in part, any of its rights and obligations under this Subordinated Note.

(c) ***No Transfer by the Holder***

The Holder may not assign or transfer, in whole or in part, any of its rights and benefits under this Subordinated Note except as contemplated by the Trust Deed (which, for the avoidance of doubt, includes any assignment or transfer as a result of a substitution of the Holder as issuer of the Notes). In the event that this Subordinated Note is transferred in accordance with the terms of the Trust Deed or the terms and conditions of the Notes, the Bank shall execute a replacement Subordinated Note in the name of such new holder, amend the Register accordingly, and amend, replace or destroy this Subordinated Note Certificate in the manner it deems appropriate in the circumstances in order to effect such assignment or transfer .

13. Prescription

This Subordinated Note will become void unless presented for payment within ten years (in the case of principal) or five years (in the case of interest) from the Relevant Date in respect thereof.

14. Notices

(a) All notices, requests, demands or other communications required under this Subordinated Note shall be given or made in the English language by letter or fax or email (subject to the subsequent dispatch of the original by post), by hand or by courier to the party to which such notice, request, demand or other communication is required or permitted to be given or made hereunder addressed as follows:

if to the Holder, to it at:

FBN FINANCE COMPANY B.V.
De Entree 99 – 197
1101 HE Amsterdam
The Netherlands

Fax:	+31 (0)20 555 4308
Attention:	Deutsche International Trust Company N.V. (Managing Director)

if to the Bank, to it at:

FIRST BANK OF NIGERIA LIMITED
Samuel Asabia House
35 Marina
Lagos
Nigeria

Fax:	+234 1 3052156
Email:	head.treasury@firstbanknigeria.com; chieffinancialofficer@firstbanknigeria.com
Attention:	Ini Ebong, Adebayo Adelabu

or to such other address or fax number as the Bank or Holder may hereafter specify in writing to the other.

(b) ***Effectiveness***

Every notice or other communication sent in accordance with this Condition 14 (*Notices*) shall take effect, in the case of a letter, at the time of delivery, or in the case of facsimile transmission, at the time of despatch or in the case of email, at the time of sending (provided that no delivery failure notification is received by the sender within 48 hours of sending such communication), provided however, that any such notice or other communication which would otherwise take effect after 4.00 p.m. on any particular day shall not take effect until 10.00 a.m. on the immediately succeeding Business Day in the city of the addressee.

15. **Further Issues**

The Bank may from time to time create and issue a further subordinated note having the same terms and conditions as this Subordinated Note in all respects (or in all respects except for the first payment of interest on the further notes) so as to form to be consolidated and form a single issuance with this Subordinated Note. Such further subordinated note may either be documented by means of a further subordinated note or the amount of such further issuance shall be added to this Subordinated Note and duly endorsed (for information purposes only) in the third column of Schedule A to this Subordinated Note and, in each case, a corresponding entry made in the Register.

16. **Amendments**

No variation of, or amendment to, the obligations under, this Subordinated Note shall be permitted unless the Bank has received the prior written consent of the Holder. Any such amendments shall be in the English language and included in Schedule B to this Subordinated Note.

17. **Replacement of Subordinated Note**

If this Subordinated Note is mutilated, defaced, lost, stolen or destroyed it may be replaced by the Bank on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Holder or the Trustee. If this Subordinated Note is mutilated or defaced it must be surrendered before a replacement will be issued.

18. **Contracts (Rights of Third Parties) Act 1999**

No Person shall have any right to enforce any term or condition of this Subordinated Note under the Contracts (Rights of Third Parties) Act 1999.

19. **Governing Law**

(a) ***Governing Law***

This Subordinated Note including any non-contractual obligations arising out of or in connection with this Subordinated Note, are governed by, and shall be construed in accordance with, English law except for the provisions of Condition 5(a) (*Subordination*) which shall be governed by, and construed in accordance with, Nigerian law.

(b) ***Jurisdiction***

The Bank hereby agrees that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings arising out of or in connection with this Subordinated Note ("**Proceedings**") and, for such purposes, irrevocably submits to the jurisdiction of such courts. Nothing in this paragraph shall (or shall be construed so as to) limit the right of the Holder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings by the Holder in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

(c) ***Appropriate Forum***

For the purposes of Condition 19(b) (*Jurisdiction*), the Bank irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and agreed not to claim that any such court is not a convenient or appropriate forum.

(d) ***Service of Process***

The Bank agrees that the service of process relating to any Proceedings in England and Wales pursuant to Condition 19(b) (*Jurisdiction*) may be made by delivery to the Bank at FBN Bank (UK) Limited at 28 Finsbury Circus, London EC2M 7DT or at any other address of the Bank in England or Wales at which service of process may be delivered and as notified to the Holder. If such Person ceases to accept service of process on behalf the Bank, the Bank shall, on the written demand of the Holder, appoint a further Person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Holder shall be entitled to appoint such a Person by written notice to the Bank. Nothing in this paragraph shall affect the right of the Holder to serve process in any other manner permitted by law.

20. **Currency Indemnity**

To the fullest extent permitted by law, the obligation of the Bank in respect of any amount due in U.S. dollars under this Subordinated Note shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in U.S. dollars that the Holder may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any properly incurred costs of exchange) on the Business Day immediately following the day on which it receives such payment. If the amount in U.S. dollars that may be so purchased for any reason falls short of the amount originally due (the "**Due Amount**"), the Bank hereby agrees to indemnify and hold harmless the Holder against any such deficiency in U.S. dollars. Any obligation of the Bank not discharged by payment in U.S. dollars (including by an amount of U.S. dollars so purchased) shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect. If the amount in U.S. dollars that may be purchased exceeds that Due Amount the Holder shall promptly pay the amount of the excess to the Bank.

As Witness Whereof this Subordinated Note has been signed by the Bank **as a DEED** on the date below.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Definitive Note Certificate (if issued).

The U.S.$300,000,000 Fixed Rate Subordinated Note Participation Notes due 2020 (the "**Notes**", which expression includes, unless the context requires otherwise, any further Notes issued pursuant to Condition 16 (*Further Issues*) and forming a single series therewith) of FBN Finance Company B.V. (the "**Issuer**"), which expressions shall include (unless the context requires otherwise) any entity substituted for the Issuer pursuant to Condition 10(c) (*Substitution*), are constituted by, are subject to, and have the benefit of, a trust deed dated on or around 7 August 2013 (the "**Trust Deed**", which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) and made between the Issuer and Citibank, N.A., London Branch (the "**Trustee**", which expression shall include any trustees or trustee for the time being under the Trust Deed) as trustee for the Noteholders (as defined below).

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing the purchase by the Issuer of a fixed rate subordinated note due 2020 issued by First Bank of Nigeria Limited (the "**Bank**") in an aggregate amount of U.S.$300,000,000 (the "**Subordinated Note**", which expression includes, unless the context requires otherwise, any further notes issued pursuant to condition 15 (*Further Issues*) of the Subordinated Note and forming a single series therewith and, in each case, as the same may be amended, restated, replaced, assigned, supplemented or novated).

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Subordinated Note. Noteholders must therefore rely solely and exclusively on the Bank's covenant to pay under the Subordinated Note, the benefit of the Security Interests (as defined below) and the credit and financial standing of the Bank. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.

The Issuer (as holder of the Subordinated Note) under the Trust Deed has charged by way of first fixed charge in favour of the Trustee for itself and on behalf of the Noteholders certain of its rights and interests as holder of the Subordinated Note as security for its payment obligations in respect of the Notes and under the Trust Deed (the "**Charge**") and has assigned absolutely certain other rights under the Subordinated Note to the Trustee (the "**Assigned Rights**" and, together with the Charge, the "**Security Interests**").

In certain circumstances, the Trustee may (subject to it being indemnified and/or secured (including by way of prefunding) to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Bank) pursuant to a paying agency agreement (the "**Agency Agreement**") dated on or around 7 August 2013 and made between, *inter alios*, the Bank, the Issuer, Citigroup Global Markets Deutschland AG, as the registrar (the "**Registrar**", which expressions shall include any successors), Citibank, N.A., London Branch, as the principal paying agent (the "**Principal Paying Agent**", which expressions shall include any successors), and the transfer agents and paying agents named therein (the "**Transfer Agents**" and "**Paying Agents**" and the Registrar respectively together, the "**Agents**", which expressions shall include any successors) and the Trustee.

Copies of the Trust Deed, the Subordinated Note and the Agency Agreement are available for inspection by Noteholders during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Issuer (being, at the date hereof, De Entree 99 – 197, 1101 HE Amsterdam, The Netherlands) the principal office of the Trustee being, at the date hereof, One Canada Square, London E14 5AL and at the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent, the initial Specified Office of which is set out below.

Certain provisions of these terms and conditions (the "**Conditions**") are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Subordinated Note (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions applicable to them. Terms defined in the Trust Deed and the Subordinated Note shall have the same meaning when used herein, except as otherwise provided.

1. **Status and Limited Recourse**

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the purchase by the Issuer of the Subordinated Note from the Bank. The Notes constitute the secured, limited recourse obligation of the Issuer to apply an amount equal to the gross proceeds from the issue of the Notes solely for financing the purchase of the Subordinated Note and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer pursuant to the Subordinated Note. The right of the Issuer to receive such sums is being charged by way of security to the Trustee by virtue of the Security Interests as security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received and retained (net of tax) by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Subordinated Note and subject to Condition 8 *(Taxation),* will be made *pro rata* among all Noteholders, on the payment dates on which such payments are due in respect of the Notes, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Subordinated Note. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, the Issuer shall be under no obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Bank.

Noteholders are deemed to have notice of, and to have accepted, these Conditions and the contents of the Trust Deed, the Agency Agreement and the Subordinated Note. It is hereby expressly *provided that*, and Noteholders are deemed to have accepted that:

(a) neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph (f) below, liability or obligation in respect of the performance and observance by the Bank of its obligations under the Subordinated Note or the recoverability of any sum of principal or interest or any additional amounts (if any) due or to become due from the Bank under the Subordinated Note;

(b) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Bank;

(c) neither the Issuer nor the Trustee shall at any time be liable for any representation, misrepresentation, breach of warranty or any act, default or omission of the Bank under or in respect of the Subordinated Note;

(d) the Trustee shall not at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, the Paying Agent, the Registrar, any Transfer Agent or any other Agents of their respective obligations under the Agency Agreement;

(e) the financial servicing and performance of the terms of the Notes depends solely and exclusively upon performance by the Bank of its obligations under the Subordinated Note and its covenant to make payments under the Subordinated Note and its credit and financial standing.

(f) the Issuer and (following the creation of the Security Interests) the Trustee shall be entitled to rely on certificates of the Bank (and, where applicable, certification by third parties) as a means of monitoring whether the Bank is complying with its obligations under the Subordinated Note and shall not otherwise be responsible for investigating any aspect of the Bank's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a lender or a security holder (as applicable) in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of such security; and

(g) the Issuer shall at no time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until it has received and retained (net of tax) from the Bank the funds that are necessary to cover the costs and expenses in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds.

Under the Trust Deed, the Notes constitute direct, general, limited recourse and secured obligations of the Issuer. The Notes will at all times rank *pari passu*, rateably without any preference among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer, save for obligations as may be preferred by provisions of law that are both mandatory and of general application.

In the event that the payments under the Subordinated Note are made by the Bank to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes, except to the extent that there is a subsequent failure to make payment to the Noteholders.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's right under or in respect of the Subordinated Note exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Subordinated Note or direct recourse to the Bank except its rights against the Issuer through action by the Trustee pursuant to the Charge and the assignment of the Assigned Rights granted to the Trustee in the Trust Deed.

The Trustee may (subject to the non-petition covenant contained in this Condition 1) at any time after the Notes become due and payable, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights or any payments under the Trust Deed and these Conditions in respect of the Notes, or, following the enforcement of the Security Interests created in the Trust Deed, the Subordinated Note but it shall not be bound to do so unless it has been indemnified and/or secured (including by way of prefunding) by the Noteholders to its satisfaction.

Notwithstanding any other provision hereof, the obligations of the Issuer under the Notes shall be solely to make payments of amounts in aggregate equal to each sum actually received and retained (net of tax) by or for the account of the Issuer from the Bank in respect of principal, interest or, as the case may be, other amounts relating to the Subordinated Note, the right to receive which will, *inter alia*, be assigned to the Trustee as security for the Issuer's payment obligations in respect of the Notes. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the extent of such sums received or recovered and retained (net of tax) by or on behalf of the Issuer or the Trustee (following a Relevant Event or (if applicable) an Event of Default). Noteholders shall look solely to such sums for payments to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets in respect thereof. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received or recovered and retained, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

None of the Noteholders or other creditors (not any other person acting on behalf of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes.

2. **Form and Denomination**

The Notes are issued in registered form in the denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each a "**Specified Denomination**").

*Notes sold to qualified institutional buyers (within the meaning of Rule 144A under the U.S. Securities Act of 1933, as amended (the "**Securities Act**")) ("**QIBs**") who are also qualified purchasers (within the meaning of*

*Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended) (“**QPs**”) in the United States in reliance on Rule 144A (the “**Restricted Notes**”) will be represented by a restricted global registered note certificate (the “**Restricted Global Note**”). Notes sold to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act (the “**Unrestricted Notes**”) will be represented by an unrestricted global note certificate (the “**Unrestricted Global Note**” and together with the Restricted Global Note, the “**Global Notes**”). The Unrestricted Global Note will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”). The Restricted Global Note will be deposited with a custodian for, and registered in the name of, Cede & Co., as nominee for DTC.*

Ownership of beneficial interests in the Restricted Global Note will be limited to Persons (as defined below) that have accounts with DTC or Persons that may hold interests through such participants. Ownership of beneficial interests in the Unrestricted Global Note will be limited to Persons that have accounts with Euroclear or Clearstream, Luxembourg or Persons that may hold interests through such participants. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected through, records maintained in book-entry form by DTC and its participants or by Euroclear, Clearstream, Luxembourg and their participants, as applicable. Global Notes will be exchangeable for Notes in definitive form only in certain limited circumstances specified in the Global Notes.

3. **Register, Title and Transfers**

(a) ***Register***

The Registrar will maintain a register of Noteholders outside the United Kingdom (the “**Register**”) to be kept at the Specified Office of the Registrar in which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the “**holder**” or “**Noteholder**” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof). A Definitive Note Certificate will be issued to each Noteholder in respect of its registered holding. Each Definitive Note Certificate will be serially numbered with an identifying number which will be recorded in the Register.

In these Conditions, “**Definitive Note Certificate**” means Notes, substantially in the form set out in Part A (*Form of Definitive Note Certificate*) of Schedule 1 (*Forms of Definitive Notes*) to the Trust Deed and includes any replacement definitive note certificate issued pursuant to Condition 13 (*Replacement of Definitive Note Certificates*) and any other definitive note certificates representing Further Notes or any of them.

(b) ***Title***

Title to the Notes will pass by transfer and registration as described in Conditions 3(a) (*Register*) and 3(c) (*Transfers*). The holder of any Note as recorded in the Register, will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing on the Definitive Note Certificate by any Person (as defined below) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous loss or theft of such Definitive Note Certificate) and no Person shall be liable for so treating such holder.

In these Conditions, “**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality,

Notwithstanding anything to the contrary in this Condition 3(b), the Notes will be numbered serially with an identifying number which will be recorded in the Register and a copy of which in an all times up-to-date version is held at the registered office of the Issuer.

(c) ***Transfers***

Subject to paragraphs (f) (*Closed Periods*) and (g) (*Regulations Concerning Transfers and Registration*) below, a Note may be transferred, subject to the transfer being duly recorded in the

Register and upon surrender of the relevant Definitive Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer *provided,* however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred each amounts to a Specified Denomination or a multiple thereof. Where not all the Notes represented by the surrendered Definitive Note Certificate are the subject of the transfer, a new Definitive Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) ***Registration and Delivery of Definitive Note Certificates***

Within five business days of the surrender of a Definitive Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer and deliver a new Definitive Note Certificate of a like principal amount to the Notes transferred to each relevant holder for collection at its Specified Office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in both New York and the city where the Registrar or the Transfer Agent has its Specified Office.

(e) ***No Charge***

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) ***Closed Periods***

The Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(g) ***Regulations Concerning Transfers and Registration***

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. **Restrictive Covenant**

As provided in the Trust Deed, so long as any Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (each as defined in the Trust Deed), agree to any amendments to or any modification of, or waiver of, or authorise any breach or proposed breach of, the terms of the Subordinated Note and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Subordinated Note, except as otherwise expressly provided in the Trust Deed or the Subordinated Note. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 *(Notices).*

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*, incur any other indebtedness for borrowed moneys, other than the issue of notes on a limited recourse basis for the sole purpose of purchasing notes issued by, or the making of any loan to, the Bank, engage in any other business (other than acquiring and holding the Security Interests in respect of the Notes (or any other security interests in relation to any other issue of notes), purchasing the Subordinated Note from the Bank or purchasing notes issued by, or any future loans to the Bank or any other issue of notes as aforesaid (including derivative transactions on a limited recourse basis) and performing any act incidental to or necessary in connection with the foregoing including purchasing Notes in accordance with Condition 6(d) (*Purchase of Notes*)), declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in these Conditions, the Trust Deed and the Subordinated Note), issue any shares, give any guarantee or assume any other liability, or, subject to the laws of The Netherlands, petition for any winding-up or bankruptcy.

5. Interest

Interest will accrue from and including 7 August 2013 (the "**Issue Date**"). Interest will be payable on 7 February and 7 August of each year, commencing on 7 February 2014 and ending on 7 August 2020 (the "**Maturity Date**" and each such date an "**Interest Payment Date**"), or as soon thereafter as the same is received and retained by the Issuer pursuant to the Subordinated Note, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained by or for the account of the Issuer pursuant to the Subordinated Note (with respect to the corresponding interest payment thereunder) which interest under the Subordinated Note is equal to (a) for the period from, and including, the Issue Date to, but excluding, 7 August 2018 (the "**Bank Call Date**"), 8.250 per cent. per annum and (b) for the period from, and including, the Bank Call Date to, but excluding, the Maturity Date, a fixed rate per annum calculated by the Bank equal to the sum of (i) the prevailing mid-swap rate for United States Dollar swap transactions with a maturity of two years as displayed on Reuters screen "ISDAFIX1" (or such other page as may replace it on that information service or on such other equivalent information service as may be nominated by the person providing or sponsoring such information for the purpose of displaying equivalent or comparable rates to United States Dollar swap transactions with a maturity of two years) (the "**Relevant Screen Page**") at 11.00 a.m. New York time on the second Business Day prior to the Bank Call Date and (ii) 6.875 per cent. If the Relevant Screen Page is not available or such rate does not appear on the Relevant Screen Page, the Bank shall request the principal New York office of four major banks in the New York inter-bank market ("**Reference Banks**"), to provide the Bank with their respective mid-swap rate for United States Dollar swap transactions with a maturity of two years at approximately 11.00 a.m. New York time on the second Business Day prior to the Bank Call Date. If two or more of the Reference Banks provide the Bank with such rates, the Bank shall use the arithmetic mean of such rates. Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (and excluding) the next Interest Payment Date is herein called an "**Interest Period**".

If interest is required to be calculated for any period other than a full Interest Period, it will be calculated on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

6. Redemption and Purchase

(a) *Scheduled Redemption*

Unless previously redeemed pursuant to Condition 9 (*Redemption and Purchase*) and 11 (*Events of Default*) of the Subordinated Note, the Bank will be required to redeem the Subordinated Note (in full and not in part) on its maturity date as provided in the terms and conditions of the Subordinated Note (being the Maturity Date) and, subject to such redemption, as set forth in the Subordinated Note, and subject as provided in Condition 7 (*Payments*), all Notes then outstanding will, on the Maturity Date or as soon thereafter as such redemption amounts in respect of the Subordinated Note are actually received and retained, be redeemed or repaid by the Issuer at 100 per cent. of the principal amount thereof.

(b) *Early Redemption*

The Notes shall be redeemed by the Issuer in whole, but not in part, at any time, on giving prior notice to the Noteholders, the Trustee, the Principal Paying and Transfer Agent and the Bank (which notice shall be irrevocable and shall specify a date for redemption, being the same date as that set out in the notice of redemption of the Subordinated Note) in accordance with Condition 14 (*Notices*) at the prices set out in condition 9 (*Redemption and Purchase*) of the Subordinated Note, together with interest accrued and unpaid to the date fixed for redemption and any additional amounts in respect thereof (to the extent that such amounts are received and retained by the Issuer from the Bank pursuant to the Subordinated Note) pursuant to Condition 8 (*Taxation*), if, immediately before giving such notice, the Issuer provides the Trustee with satisfactory evidence that the Issuer has received a notice of early redemption of the Subordinated Note from the Bank pursuant to Condition 9 (*Redemption and Purchase*) of the Subordinated Note.

To the extent that the Issuer receives amounts of principal, interest or other amounts from the Bank following acceleration of the Subordinated Note, the Issuer shall pay an amount equal to such amounts on the business day (as defined in Condition 7 (*Payments*)) following receipt of such amounts, subject as provided in Condition 7 (*Payments*).

Prior to the publication of any notice of redemption referred to in this Condition 6(b), the Issuer shall deliver to the Trustee a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption in accordance with this Condition 6(b). A copy of the Bank's notice of early redemption of the Subordinated Note or details of the circumstances contemplated by Conditions 9 (*Redemption and Purchase*) of the Subordinated Note (as the case may be) and the date fixed for redemption of the Notes shall be set out in the notice.

The Trustee shall be entitled to accept any notice or certificate delivered by the Issuer in accordance with this Condition 6(b) as sufficient evidence of the satisfaction of the applicable circumstances in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice given by the Issuer to the Trustee on behalf of the Noteholders as is referred to in this Condition 6(b), the Issuer shall be bound, subject to receipt of corresponding amounts from the Bank, to redeem the Notes in accordance with this Condition 6(b), subject to Condition 7 (*Payments*).

(c) ***Compulsory Sale***

The Issuer may compel any beneficial owner of an interest in the Restricted Notes (as defined in the Trust Deed) to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is not both a QIB and a QP.

(d) ***Purchase of Notes***

The Issuer, or the Bank or any of the Bank's subsidiaries may at any time, to the extent permitted by Applicable Banking Regulations (as defined in the Subordinated Note) and subject to having obtained the prior approval of the CBN if required pursuant to Applicable Banking Regulations, purchase or procure others to purchase for its or their account Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (*provided that* such resale is in compliance with the Applicable Banking Regulations and all other applicable laws) or surrendered to the Registrar for cancellation at the option of the Issuer, the Bank or the relevant subsidiary or otherwise, as the case may be in compliance with Condition 6(e) (*Cancellation of Notes*) below. The Notes so purchased, while held by or on behalf of the Issuer, the Bank or any such subsidiary, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 10(a) (*Meetings of Noteholders*).

(e) ***Cancellation of Notes***

All Notes which are surrendered to the Registrar for cancellation pursuant to Condition 6(d) (*Purchase of Notes*) will be cancelled and may not be reissued or resold.

7. **Payments**

(a) ***Principal***

Payments of principal shall be made by U.S. dollar cheque drawn on, or upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificates at the Specified Office of the Registrar or of any Paying Agent.

(b) ***Interest***

Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificates at the Specified Office of the Registrar or of any Paying Agent.

(c) ***Payments Subject to Fiscal Laws***

All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in any jurisdiction, and (ii) any withholding or deduction required pursuant to an agreement described in FATCA or any law implementing an intergovernmental approach thereto, but in each case without prejudice to the provisions of Condition 8 *(Taxation).* In the event of any such withholding or deduction being required, the Issuer or the relevant Paying Agent (as the case may be) shall make such payment after such withholding tax or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) ***Payments on Business Days***

If the due date for payments of any amount in respect of any Notes is not a business day, the holder of a Note will not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition, "**business day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in The Netherlands, London, Nigeria, New York and, if different, in the city where the Specified Office of the Principal Paying Agent is located.

(e) ***Record Date***

Each payment of principal and/or interest due in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar's Specified Office) on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 7(a) *(Principal),* if later, on the business day on which the relevant Definitive Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 7(a) *(Principal)* (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder). Each payment in respect of the Notes pursuant to Conditions 7(a) *(Principal)* and 7(b) *(Interest)* will be mailed to the holder of the relevant Note at his address appearing in the Register.

(f) ***Accrued Interest***

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, in respect of the first Interest Payment Date only, from the date of issuance of the Notes, shall be payable only as and when actually received and retained by or for the account of the Issuer pursuant to the Subordinated Note.

(g) ***Payments by the Bank***

Save as directed by the Trustee at any time after the security created in the Trust Deed becomes enforceable, the Issuer will require the Bank to make all payments of principal, interest and any additional amounts to be made pursuant to the Subordinated Note to the Principal Paying Agent to an account in the name of the Issuer. Pursuant to the Charge, the Issuer will charge by way of first fixed charge all its rights, title and interest in and to all sums of money then or in the future deposited in such account in favour of the Trustee for the benefit of the Noteholders.

(h) ***Currency Other Than U.S. dollars***

In respect of the Issuer's obligations under Conditions 5 *(Interest),* 6 *(Redemption and Purchase)* and 8 *(Taxation),* and subject to the following sentence, if the Issuer receives any amount under the Subordinated Note in a currency other than U.S. dollars, the Issuer's obligation under the relevant Condition shall be fully satisfied by paying such sum (after deducting any costs of exchange) as the Issuer receives upon conversion of such sum into U.S. dollars in accordance with customary banking practice in the spot market on the business day immediately following the day on which such sum is received and retained by the Issuer. If the Issuer receives any payment from the Bank pursuant to condition 8(b) (*Indemnity Amounts)* of the Subordinated Note with respect to amounts due under the Notes, the Issuer shall pay such sum to the Noteholders in accordance with this Condition 7 *(Payments).*

8. ***Taxation***

All payments of principal or interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or within The Netherlands, Nigeria, or any political subdivision or any authority thereof or therein having the power to tax or in either case any other jurisdiction or any political subdivision or any authority thereof or therein having the power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes (each a "**Relevant Jurisdiction**"), unless such deduction or withholding is required by law.

In such event, the Issuer shall, subject as provided below, pay such additional payments as will result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required. However, the Issuer shall only make such additional payments to the extent and at such time as it shall receive and retain (net of tax) equivalent sums from the Bank under the Subordinated Note. To the extent that the Issuer does not receive and retain any such equivalent sum, the Issuer shall account to the relevant Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received and retained (net of tax) by, or for the account of, the Issuer pursuant to the provisions of the Subordinated Note on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer, *provided that* no such additional amount will be payable:

(i) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (ii) is liable for such taxes, duties, assessments or governmental charges by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of such Notes or the receipt of payments in respect thereof;

(ii) where the relevant Definitive Note Certificate is surrendered for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts if it had surrendered such Definitive Note Certificate for payment on the last day of such period of 30 days;

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

(iv) where the relevant Definitive Note Certificate is surrendered for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by surrendering the relevant Definitive Note Certificate to another Paying Agent and Transfer Agent in a Member State of the European Union; or

(v) where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment in The Netherlands or Nigeria.

Notwithstanding anything to the contrary in the preceding paragraph, none of the Issuer, any paying agent or any other person shall be required to pay any additional amounts with respect to any withholding or deduction imposed on or in respect of any Note pursuant to Section 1471 to 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**"), any treaty, law, regulation or other official guidance implementing FATCA, or any agreement between the Issuer, a paying agent or any other person and the United States, any other jurisdiction, or any authority of any of the foregoing implementing FATCA.

As used herein, "**Relevant Date**" means (i) the date on which the equivalent payment under the Subordinated Note first becomes due but (ii) if the full amount payable by the Bank has not been received and retained (net of tax) by, or for the account of, the Issuer pursuant to the Subordinated Note on or prior to such date, means the date on which, the full amount plus any accrued interest shall have been so received and retained and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14 *(Notices).*

Any reference in these Conditions or in the Trust Deed to payments of principal and/or interest in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Subordinated Note or the Trust Deed.

If the Issuer or the Bank becomes subject at any time to any taxing jurisdiction other than The Netherlands or Nigeria, as the case may be, references in these Conditions to a Relevant Jurisdiction shall be construed as references to The Netherlands or Nigeria and/or such other jurisdiction.

9. Enforcement

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing *provided that* any judgment or amount obtained as a result of such action or exercise of rights must be entered or held or, as the case may be, registered in the name of the Trustee and shall be held or dealt with by or on behalf of the Trustee in accordance with the Trust Deed.

At any time after the occurrence of an Event of Default (as defined in the Subordinated Note), or a Relevant Event (as defined in the Trust Deed), the Trustee (subject to the Non-Petition Covenant in Condition 1) may, at its discretion, and shall, if requested to do so in writing by Noteholders whose Notes constitute at least 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified (including by way of prefunding) to its satisfaction against all liabilities, proceedings, actions, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith, declare all amounts under the Subordinated Note by the Bank immediately due and payable and take the action permitted to be taken by the Issuer as holder of the Subordinated Note (in the case of an Event of Default), or exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon the repayment of the Subordinated Note or the receipt in full of all principal and interest accrued under the Subordinated Note following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

The Trustee may, in making any determination under these Conditions, act on the opinion or advice of, or information obtained from, any expert and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting.

The Trustee may rely without liability to Noteholders on any certificate or report prepared by any of the above mentioned experts, including specifically the Auditors (as defined in the Trust Deed), or any auditor, pursuant to the Conditions or the Trust Deed, whether or not the expert or auditor's liability in respect thereof is limited by a monetary cap or otherwise.

10. Meetings of Noteholders; Modification; Waiver; Substitution of the Issuer

(a) *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of the Subordinated Note, these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution (as defined in the Trust Deed) or a Written Resolution (as defined in the Trust Deed). Such a meeting may be convened on not less than 21 days' prior written notice by the Issuer or the Trustee and shall be convened by the Trustee, subject to its being indemnified and/or secured (including by way of prefunding) to its satisfaction, upon the request in writing of Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be at least two persons present holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, at least two persons present being or representing Noteholders whatever the outstanding principal amount of the Notes held or represented; *provided, however,* that Reserved Matters (as defined in the Trust Deed) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which at least two persons present holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

Neither the Issuer nor any subsidiary of the Issuer nor any holding company of the Issuer nor any subsidiary of any such holding company who is or are also Noteholders shall be allowed to vote at a meeting or be included in a quorum.

An "**Extraordinary Resolution**" means a resolution passed at a Meeting duly convened and held in accordance with Schedule 5 to the Trust Deed by a majority of no less than three quarters of the votes cast.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed (a "**Written Resolution**") will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) ***Modification and Waiver***

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, these Conditions and the Trust Deed or, following the creation of the Security Interests, the Subordinated Note which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or (other than, in each case, in respect of the Reserved Matters) is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions, or the Trust Deed or, following the creation of the Security Interests, by the Bank of the terms of the Subordinated Note, or determine that any event which would or might otherwise give rise to a right of acceleration under the Subordinated Note shall not be treated as such, if in the sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (other than, in each case, in respect of the Reserved Matters) and provided always that the Trustee may not exercise such power of waiver in contravention of a request given by the holders of one quarter in aggregate principal amount of the Notes then outstanding or of any express direction by an Extraordinary Resolution or written Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

(c) ***Substitution***

The Trust Deed contains provisions to the effect that the Issuer may, having obtained the consent of the Bank and the Trustee (which latter consent may be given without the consent of the Noteholders) and subject to having complied with certain requirements as set out therein including the substitute obligor's rights under the Subordinated Note being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes and its rights as holder under the Subordinated Note, substitute any entity in place of the Issuer as holder of the Subordinated Note, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 *(Notices)* or the Issuer shall use its best endeavours to ensure that the substitute obligor does so.

(d) ***Exercise of Powers***

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, the Bank or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

No Noteholder shall, in connection with any substitution, be entitled to claim any indemnification or payment in respect of any tax consequence thereof for such Noteholder, except to the extent provided for in Condition 8 (*Taxation*) (or any undertaking given in addition to or substitution for it pursuant to the provisions of the Trust Deed).

11. Prescription

Notes will become void unless presented for payment within ten years (in the case of principal) or five years (in the case of interest) from the Relevant Date in respect thereof.

12. Trustee and Agents

The Trust Deed provides for the Trustee to take action on behalf of the Noteholders in certain circumstances, for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified and/or secured (including by way of prefunding) to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and the Bank and any entity relating to the Issuer and the Bank without accounting for any profit and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its subsidiaries.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Subordinated Note or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Bank in respect of the Subordinated Note.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar and additional or successor paying agents and transfer agents; *provided, however,* that the Issuer shall at all times maintain (a) a Principal Paying Agent and a Registrar, (b) a Paying Agent and Transfer Agent having Specified Offices in at least two major European cities approved by the Trustee, and (c), a Paying Agent in a Specified Office in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive.

As provided in the Trust Deed, any Trustee for the time being may retire at any time upon giving not less than three months' notice in writing to the Issuer and the Bank without assigning any reason therefor and without being responsible for any costs occasioned by such retirement. The retirement of any Trustee shall not become effective unless there remains a trustee (being a Trust Corporation (as defined in the Trust Deed)) in office after such retirement. In the event of a Trustee giving such notice, the Issuer shall use its reasonable endeavours to procure a new trustee to be appointed. If the Issuer has not appointed a new trustee within 60 days of giving such notice, the Trustee may procure a new trustee to be so appointed. The Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees for the time being hereof. The removal of any trustee shall not become effective unless the Bank has given its prior written consent thereto and there remains a trustee hereof (being a Trust Corporation) in office after such removal. Notice of any change in the Trustee or any of the Agents shall promptly be given by the Issuer to the Noteholders in accordance with Condition 14 *(Notices)*.

13. Replacement of Definitive Note Certificates

If a Definitive Note Certificate is mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Stock Exchange (as defined in the Trust Deed), be replaced at the Specified Office of the Registrar or the Transfer Agent upon payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

14. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any Stock Exchange or the relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

So long as any of the Notes are represented by the Unrestricted Global Note, notices required to be published in accordance with this Condition 14 may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders, provided that such notice is also delivered to the Stock Exchange and given in accordance with the rules of the Stock Exchange. So long as any of the Notes are represented by the Restricted Global Note, notices required to be published in accordance with this

Condition 14 may be given by delivery of the relevant notice to DTC for communication to the relevant accountholders, provided that such notice is also delivered to the Stock Exchange and given in accordance with the rules of the Irish Stock Exchange.

15. **Provision of Information**

The Issuer shall, during any period in which it is not subject to or in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, duly provide to any holder of a Note which is a "**restricted security**" within the meaning of Rule 144(a)(3) under the Securities Act or to any prospective purchaser of such securities designated by such Noteholder, upon the written request of such Noteholder or (as the case may be) prospective Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Registrar, the information specified in Rule 144A(d)(4) under the Securities Act.

16. **Further Issues**

The Issuer may from time to time, with the consent of the Bank but without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on the further Notes) so as to form to be consolidated and form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed. In relation to any further issue which is to form a single series with the Notes (i) the Issuer will purchase a further subordinated note from the Bank on the same terms as the Subordinated Note (except with regard to the principal amount and the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee would not materially prejudice the interests of the Noteholders and (ii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such further Notes also and/or new security will be granted over any further subordinated note or the Subordinated Note as so amended or supplemented to secure amounts due on the Notes and such further Notes and the Trustee is entitled to assume without enquiry that this arrangement as regards security for the Notes will not be materially prejudicial to the interests of the Noteholders. Such further Notes shall be issued under a deed supplemental to the Trust Deed. Any further issue which is to form a single series with the Notes for non-U.S. tax purpose that is not issued pursuant to a "qualified reopening" for U.S. federal income tax purposes shall be issued with a separate CUSIP and ISIN than the Notes.

17. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18. **Governing Law and Jurisdiction**

The Notes, the Trust Deed and the Agency Agreement and any non-contractual obligations arising out of or in connection with them, are governed by and shall be construed in accordance with, English law.

The Issuer has (i) submitted in the Trust Deed to the non-exclusive jurisdiction of the courts of England for the purposes of hearing any determination and suit, action or proceedings or settling any disputes arising out of or in connection with the Trust Deed and the Notes; (ii) waived any objection which it might have to such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; and (iii) designated a person in England to accept service of any process on its behalf.

THE FORM OF GLOBAL NOTES

The Global Notes contain provisions which apply to the Notes while they are in global form, some of which modify the effect of the terms and conditions of the Notes set out in this document. Set out below is a summary of certain of those provisions.

The Form of Global Notes

All Notes will be in fully registered form, without interest coupons attached. The Notes sold in reliance on Regulation S under the Securities Act will be represented on issue by the Unrestricted Global Note, which will be deposited with, and registered in the name of a nominee for the common depositary for, Euroclear and Clearstream, Luxembourg. Beneficial interests in the Unrestricted Global Note may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. See "*Book-Entry Clearance Systems*". By acquisition of a beneficial interest in the Unrestricted Global Note, the purchaser thereof will be deemed to represent, among other things, that it acquired such beneficial interest in accordance with Regulation S and that it will only offer, sell, pledge or otherwise transfer such beneficial interest in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See "*Subscription and Sale*" and "*Transfer Restrictions*".

The Notes sold in reliance on Rule 144A will be represented on issue by the Restricted Global Note, which will be deposited with a custodian for, and registered in the name of a nominee of, DTC. Beneficial interests in the Restricted Global Note may only be held through DTC or its participants at any time. Beneficial interests in the Restricted Global Note may only be held by persons who are QIBs who are also QPs, holding their interests for their own account or for the account of one or more QIBs who are also QPs. By acquisition of a beneficial interest in the Restricted Global Note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Restricted Global Note. See "*Subscription and Sale*" and "*Transfer Restrictions*".

Beneficial interests in Global Notes will be subject to certain restrictions on transfer set out therein and under "*Transfer Restrictions*" and in the Agency Agreement and such Global Notes will bear a legend as set out under "*Transfer Restrictions*". On or prior to the 40th day after the later of the commencement of the offering and the Closing Date, ownership of interests in the Unrestricted Global Note will be limited to persons who have accounts with Euroclear or Clearstream, Luxembourg, or persons who hold interests through Euroclear or Clearstream, Luxembourg, and any sale or transfer of such interests to U.S. persons shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A as provided below.

Amendments to the Conditions

The Global Notes contain provisions that apply to the Notes that it represents, some of which modify the effect of the above Conditions of the Notes. The following is a summary of those provisions:

1. *Payments*

Payments of principal and interest in respect of Notes evidenced by the Global Note will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of the Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.

2. *Payment Record Date*

Each payment in respect of the Global Note will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note is being held is open for business.

3. *Notices*

Notwithstanding Condition 14 (*Notices*), so long as the Notes are represented by a Global Note and the Global Note is held on behalf of Euroclear, Clearstream, Luxembourg, the DTC or any other clearing system, notices to Noteholders represented by such Global Note may be given by delivery of the relevant notice to such clearing system for communication to the relative accountholders rather than by publication as required by Condition 14 (*Notices*), provided that, for so long as the Notes are listed on the Irish Stock Exchange and the guidelines of the Irish Stock Exchange so require, notice will also be given by filing with the Companies Announcements Office of the Irish Stock Exchange.

4. ***Meetings***

The holder of the Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each U.S.$1,000 in principal amount of Notes for which the Global Note may be exchanged.

5. ***Trustee Powers***

In considering the interests of Noteholders while the Global Note is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Note and may consider such interests as if such accountholders were the holders of the Global Note.

6. ***Prescription***

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8 (*Taxation*) of the Notes).

7. ***Cancellation***

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the relevant Global Note.

Terms defined in the "*Terms and Conditions of the Notes*" have the same meaning in paragraphs 1 to 7 above

8. ***Exchange of Interests in Global Notes for Note Certificates***

The Restricted Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Note certificates in definitive, registered form ("**Restricted Note Certificates**") if DTC (a) notifies the Issuer or the Bank that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Note or ceases to be a "**clearing agency**" registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Issuer or the Bank are unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC or (b) an Event of Default (as defined and set out in Condition 9 (*Enforcement*) of the Notes) occurs or (c) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 (*Taxation*) which would not be suffered were the Notes in definitive form and a certificate to such effect signed by two members of the management board of the Issuer is given to the Trustee. In such circumstances, such Restricted Note Certificates shall be registered in such names as DTC shall direct in writing and the Issuer or the Bank will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a), (b) or (c).

The Unrestricted Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Note certificates in definitive form ("**Unrestricted Note Certificates**") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so or (b) an Event of Default (as defined and set out in Condition 9 (*Enforcement*) of the Notes) occurs or (c) the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 (*Taxation*) which would not be suffered were the Notes in definitive form and a certificate to such effect signed by two members of the management board of the Issuer is given to the Trustee. In such circumstances, such Unrestricted Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Issuer or the Bank will procure that the Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a), (b) or (c).

In the event that the Restricted Global Note is to be exchanged for Restricted Note Certificates or the Unrestricted Global Note is to be exchanged for Unrestricted Note Certificates (together "**Note Certificates**") the relevant Global Note shall be exchanged in full for the relevant Note Certificates and the Issuer or the Bank will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders.

On exchange, a person having an interest in a Global Note must provide the Registrar with (i) a written order containing instructions and such other information as the Issuer, the Bank and the Registrar may require to complete, execute and deliver such Note Certificates and (ii) in the case of the Restricted Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Note Certificates issued in exchange for a beneficial interest in the Restricted Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*" below. Restricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Unrestricted Global Note and Unrestricted Note Certificates issued as described above will not be exchangeable for beneficial interests in the Restricted Global Note.

In addition to the requirements described under "*Transfer Restrictions*" below, the holder of a Note may transfer such Note only in accordance with the provisions of Condition 3 (*Register, Title and Transfers*) of the Notes.

Upon the transfer, exchange or replacement of a Restricted Note Certificate bearing the legend referred to under "*Transfer Restrictions*" below, or upon specific request for removal of the legend on a Restricted Note Certificate, the Issuer will deliver only Restricted Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer, the Bank and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer or the Bank that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

The Registrar will not register the transfer of any Notes or exchange of interests in a Global Note for Note Certificates for a period of 15 calendar days ending on the due date of any payment of principal or interest in respect of such Notes.

USE OF PROCEEDS

An amount equal to the gross proceeds of the issue of the Notes will be used by the Issuer for the sole purpose of financing the purchase of the Subordinated Note to be issued by the Bank on the issue date of the Notes. The proceeds of the Subordinated Note will be used by the Bank for general banking purposes.

DESCRIPTION OF THE ISSUER

History

The Issuer was incorporated as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) under and subject to the laws of The Netherlands on 26 October 2011. The Issuer has been established as an SPV for the purpose of issuing debt securities.

The Issuer's corporate seat (*statutaire zetel*) is in Amsterdam, The Netherlands and is registered with the Trade Register of the Chamber of Commerce and Industry in Amsterdam under number 53827317.

The principal activities of the Issuer are the issuance of financial instruments, the acquisition of financial assets and the entering into other legally binding arrangements.

Capitalisation

The Issuer's issued share capital is €18,000 which is fully paid up and divided into 18 shares with a nominal value of €1,000 each. The entire issued share capital is owned by Stichting FBN Finance Company (the "**Foundation**"), a foundation (*stichting*) established under the laws of The Netherlands. The Foundation was established on 3 October 2011.

The net proceeds of the issue will be used by the Issuer to acquire the Subordinated Note from the Bank. The Bank will use the proceeds in accordance with the section "*Use of Proceeds*".

Management

The Issuer's management structure consists of a managing director (the "**Managing Director**") and a board of supervisory directors (the "**Supervisory Board**"). The Managing Director of the Issuer as at the date of this Prospectus is Deutsche International Trust Company N.V. ("**DTITC**"), a private company with limited liability incorporated under the laws of The Netherlands and registered with the commercial register of the Chamber of Commerce and Industry in Amsterdam under number 33093266. The Supervisory Board currently consists of two members, being Mr. Johannes Wilhelmus Elbertus Rijkenberg and Mr. Frederik Hendrik Timmers.

The business address of the Managing Director and the Supervisory Board (and the managing directors of DTITC) is at De Entree 99 - 197, 1101 HE Amsterdam, The Netherlands.

The Managing Director is authorised to represent the Issuer. The managing directors of DTITC are Mr. Berent Blijdenstein, Mr. Leonardus Petrus Antonius Verminand and Mr. Eric-Jan van de Laar, each jointly authorised to represent DTITC as the managing director of the Issuer. There are no potential conflicts of interest between any duties owed to the Issuer and the private interests or any other duties of the Managing Director or the Supervisory Board. The Managing Director and the supervisory directors of the Issuer perform no principal activities outside the Issuer which are significant with respect to the Issuer. There are no potential conflicts of interests between any duties of the managing directors of DTITC towards either the Issuer or DTITC and their private interests and/or other duties. The managing directors of DTITC perform no principal activities outside DTITC, which are significant with respect to either DTITC or the Issuer.

Business

The Issuer will enter into a management agreement dated on or about the Closing Date, with the Managing Director, pursuant to which the Managing Director will provide management services to the Issuer.

As set out in Article 2 of its Articles of Association, the Issuer was incorporated primarily for the purpose of raising funds in the international capital markets and lending such funds to the Bank or its subsidiaries. The Issuer has been established as an SPV and has no employees or subsidiaries.

The Issuer will not, on the Closing Date, have any loan capital (including term loans) outstanding or created but unissued, or any outstanding mortgages, charges or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptance credits, hire purchase agreements, guarantees or other contingent liabilities, other than, upon their issuance, the Notes, the Trust Deed, and the other Transaction Documents (as defined in this Prospectus).

Financial Statements

Since the date of incorporation, the Issuer has not commenced any operations and no financial statements of the Issuer have been prepared as of the date of the Prospectus, save as described in this Prospectus. The auditors of the Issuer are PricewaterhouseCoopers Accountants N.V., a company with certified accountants, who are registered in The Netherlands with NBA (*Nederlandse Beroepsorganisatie van Accountants*), to conduct annual audits of its statutory financial statements. The Issuer is not required to, and does not intend to, produce interim financial statements.

General Information

The Issuer's registered office is situated at De Entree 99 - 197, 1101 HE Amsterdam, The Netherlands and its telephone number is +31 20 555 4466. Administrative services are provided to the Issuer by Deutsche International Trust Company N.V. whose business address is De Entree 99 - 197, 1101 HE Amsterdam, The Netherlands.

SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The following tables set forth certain historical consolidated financial information derived from the Financial Statements. The Financial Statements have been prepared in accordance with IFRS and are presented in Naira. The Annual IFRS Financial Statements are the Group's first consolidated financial statements prepared in accordance with IFRS, and IFRS 1 *First-time adoption of International Financial Reporting Standards* has been applied. Under IFRS 1, IFRS accounting policies has been applied as of the date of transition to IFRS (1 January 2011 for the Group) and throughout all periods presented in the first IFRS financial statements. See "*Presentation of Financial and Certain Other Information*".

Prospective investors should read the following selected consolidated financial and other information in conjunction with the information contained in "*Management's Discussion and Analysis of Results of Operations and Financial Condition*", "*Selected Statistical and Other Information*" and the Financial Statements and the related notes thereto.

Consolidated statement of financial position of the Group

	As at 31 March	As at 31 December		As at 1 January
	2013	2012	2011	2011
		(₦ millions)		
ASSETS				
Cash and balances with central banks	322,384	298,024	199,228	75,517
Loans and advances to banks	366,147	393,125	462,856	575,467
Loans and advances to customers	1,554,669	1,563,005	1,252,462	1,160,293
Financial assets held for trading	6,836	2,565	5,964	16,636
Investment securities				
—Available for sale	575,480	351,374	356,933	222,822
—Held to maturity	294,609	330,860	337,336	31,886
Asset pledged as collateral	49,558	50,109	72,129	122,009
Inventory	—	—	25,609	23,081
Investments in associates accounted for using the equity method	5,894	5,609	7,489	8,996
Intangible assets	2,664	3,417	1,008	494
Deferred tax asset	7,538	7,955	6,954	12,274
Other assets	48,276	33,733	62,272	39,282
Investment properties	—	—	4,055	2,440
Property, plant and equipment	77,018	74,454	65,874	63,634
Assets classified as held for sale	12,736	12,978	—	—
TOTAL ASSETS	**3,323,809**	**3,127,208**	**2,860,169**	**2,354,831**
LIABILITIES				
Deposits from banks	78,029	87,551	183,500	148,352
Deposits from customers	2,604,062	2,405,858	1,951,321	1,447,600
Financial liabilities held for trading	6,332	1,796	2,857	1,639
Liability on investment contracts	—	—	49,440	76,446
Liability on insurance contracts	—	—	824	—
Borrowings	35,810	75,541	104,473	126,350
Retirement benefit obligations	18,559	18,648	15,081	11,426
Current income tax liability	24,796	22,374	24,254	20,052
Deferred income tax liability	6	5	1,067	901
Other liabilities	132,610	118,066	158,773	120,470
Liabilities included in assets classified as held for sale	1,929	2,836	—	—
TOTAL LIABILITIES	**2,902,133**	**2,732,675**	**2,491,590**	**1,953,236**

	As at 31 March	As at 31 December		As at 1 January
	2013	2012	2011	2011
		(₦ millions)		
EQUITY				
Share capital	16,316	16,316	16,316	16,316
Share premium	189,241	189,241	254,524	254,524
Retained earnings	114,882	94,991	41,587	47,304
Other reserves				
—Statutory reserve	45,932	42,972	32,144	28,508
—SSI Reserve	6,076	6,076	6,076	6,309
—ASF Fair Value Reserve	30,162	25,815	8,524	47,033
—Contingency reserve	—	—	13	—
—Statutory credit reserve	15,968	16,101	9,766	28,220
—Treasury share reserve	—	—	(1,941)	(27,767)
—Foreign currency translation reserve	1,511	1,668	606	—
	420,088	**393,180**	**367,615**	**400,447**
Non-controlling interest	1,588	1,353	964	1,148
Total equity	**421,676**	**394,533**	**368,579**	**401,595**
TOTAL EQUITY & LIABILITIES	**3,323,809**	**3,127,208**	**2,860,169**	**2,354,831**

Consolidated statement of comprehensive income of the Group

	For the three months ended 31 March		For the year ended 31 December	
	2013	2012	2012	2011
	(₦ millions)		(₦ millions)	
Gross Earnings	**90,740**	**75,342**	**338,921**	**265,580**
Interest income	69,637	59,596	276,795	207,019
Interest expense	(19,802)	(11,815)	(58,511)	(34,727)
Net interest income	**49,835**	**47,781**	**218,284**	**172,292**
Impairment charge for credit losses	(1,268)	(3,070)	(12,912)	(38,011)
Net interest income after impairment charge for credit losses	**48,567**	**44,711**	**205,372**	**134,281**
Net fee and commission income	15,104	13,606	54,862	43,591
Foreign exchange income	6,015	1,428	2,456	7,497
Net (losses)/gains on investment securities	(1,056)	1	(860)	458
Net (losses)/gains from financial assets classified as held for trading	564	24	1,752	2,828
Net insurance premium	—	475	—	—
Net insurance benefits and claims	—	(303)	—	—
Loss on sale of assets to AMCON	—	—	—	(15,501)
Dividend income	—	—	518	4,175
Other operating income	476	515	3,398	12
Other operating expenses	(44,308)	(41,858)	(182,329)	(136,668)
Operating profit	**25,362**	**18,599**	**85,169**	**40,673**
Share of profit/(loss) of associates	282	(854)	1,008	(1,507)
Profit before tax	**25,644**	**17,745**	**86,177**	**39,166**
Income tax expense	(3,713)	(2,591)	(14,918)	(18,864)
Profit after tax	**21,931**	**15,154**	**71,259**	**20,302**
Non-controlling interests	—	—	\—	—
Profit for the period from continued operations	**21,931**	**15,154**	**71,259**	**20,302**

	For the three months ended 31 March		For the year ended 31 December	
	2013	2012	2012	2011
	(₦ millions)		(₦ millions)	
Discontinued operations				
Profit for the period from discontinued operations	—	—	3,838	(1,666)
Profit for the period from assets held for sale	—	—	—	—
Profit for the period	**21,931**	**15,154**	**75,097**	**18,637**
Profit attributable to:				
Owners of the parent	21,877	15,453	75,040	19,521
Non-controlling interests	54	(299)	57	(884)
	21,931	**15,154**	**75,097**	**18,637**

STATEMENT OF COMPREHENSIVE INCOME

	2013	2012	2012	2011
Other comprehensive income:				
Exchange difference on translation of foreign operations	(157)	370	1,827	606
Net gains on available-for-sale financial assets:				
—Unrealised net gains/(losses) arising during the period, before tax	4,347	3,681	15,846	(38,509)
—Net reclassification adjustment for realised net gains or losses, before tax	—	—	1,930	—
Expected return on plan assets	841	78	—	—
Actuarial gains/(losses) on defined benefit pension scheme	—	—	(485)	(3,042)
Income tax relating to components of other comprehensive income	—	—	146	913
Other comprehensive income for the period, net of tax	**5,031**	**4.129**	**19,264**	**(40,032)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**26,962**	**19,283**	**94,361**	**(21,395)**

Selected ratios

	As at and for the three months ended 31 March	As at or for the year ended 31 December	
	2013	2012	2011
		(%)	
Profitability ratios:			
Return on average equity(1) (4)	21.50	18.68	5.27
Return on average assets(2) (4)	2.72	2.38	0.78
Net interest margin(3) (4)	7.72	9.26	7.89
Net interest income/operating income	71.53	81.60	97.15
Cost to income ratio(5)	63.60	68.16	77.07
Operating expenses/average total assets(6)	5.49	6.09	5.24
Effective tax rate(7)	14.48	17.31	48.16
Balance sheet ratios:			
Gross loans to customers / total assets	48.00	51.24	43.79
Gross loans to customers /customer deposits	61.27	66.60	64.19
Deposits from customers/total assets	78.35	76.93	68.22
Total equity/total assets	12.69	12.62	12.89
Liquid assets(8)/total assets	30.55	25.75	30.38
Liquid assets(8)/total deposits	37.86	32.30	40.71
Capital adequacy ratios:			
Total capital	20.04	19.38	23.02
Tier 1 capital	17.69	17.16	20.39
Credit quality ratios:			
Non performing loans(9)/gross loans(10)	3.39	2.33	2.24
Allowances for impairment losses(11)/non performing loans(9)	86.05	99.14	99.17
Allowances for impairment losses(11)/total gross loans to customers	0.48	1.08	2.87
Impairment charges/average loans and advances to customers(12)	0.43	0.78	2.83

(1) Return on average equity is calculated as the Group's net profit for the year attributable to total equity holders divided by the average opening (1 January) and closing (31 December) balances of its equity attributable to total equity holders for the relevant year.

(2) Return on average assets is calculated as the Group's net profit for the year attributable to total equity holders divided by the average opening (1 January) and closing (31 December) balances of its total assets for the relevant year.

(3) Net interest margin of the Bank is calculated as the Bank's net interest income divided by the average opening (1 January) and closing (31 December) balances of its interest earning assets for the relevant year. Interest earning assets consist of loans and advances to banks and customers, investment securities and trading assets.

(4) The return on average equity and return on average assets and net interest margin ratios presented here are calculated in accordance with IFRS. For a presentation of these ratios calculated using daily average data in accordance with Nigerian GAAP, see "*Selected Statistical and Other Information*".

(5) Cost to income ratio is calculated as the Group's operating expenses divided by operating income for the relevant year.

(6) Operating expenses to average total assets is calculated as the Group's operating expenses divided by the average opening (1 January) and closing (31 December) balances of its total assets.

(7) Effective tax rate is calculated as the ratio of the Group's tax expense to profit before tax.

(8) Liquid assets consists of cash and cash equivalents, Treasury bills, trading assets and government bonds (available for sale and trading).

(9) NPLs are loans to customers that with respect to which an amount of principal or interest is 90 days or more overdue, with the exception of specialized loans (such as agricultural finance, project finance, object finance, real estate finance, SME finance and mortgage finance), which classification as NPL takes into considerations the cash flows and gestation periods of the different loan types.

(10) Non performing loans to gross loans ratio is calculated as NPLs divided by gross loans to customers (for the Bank).

(11) Allowances for impairment losses consist of allowances for specific and collective impairment for the Bank divided by the average opening (1 January) and closing (31 December) balances of loans and advances to customers for the period. This ratio is annualised for the first quarter of 2013.

(12) Impairment charges to average loans and advances to customers of the Bank is calculated as impairment charges for the period divided by the average opening (1 January) and closing (31 December) balances of loans and advances to customers for the period. This ratio is annualised for the first quarter of 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis is intended to assist in the understanding and assessment of the trends and significant changes in the Group's results of operations and financial condition. Historical results may not indicate future performance. Some of the information in this section, including information in respect of the Group's plans and strategies for its business and expected sources of financing, contains forward-looking statements that involve risk and uncertainties and is based on assumptions about the Group's future business. Actual results could differ materially from those contained in such forward-looking statements as a result of a variety of factors, including the risks discussed in "Risk Factors" included elsewhere in this Prospectus. Potential investors should read "Forward-Looking Statements" for a discussion of the risks and uncertainties related to those statements and should also read "Risk Factors" for a discussion of certain factors that may affect the business, results of operations or financial condition of the Group.

The following discussion and analysis of the Group's results of operations and financial condition is based on the Annual IFRS Financial Statements and the Interim IFRS Financial Statements, both prepared in accordance with IFRS. The Annual IFRS Financial Statements represent the consolidated financial statements of the Group as at and for the year ended 31 December 2012, with comparative financial information as of and for the year ended 31 December 2011, and as at 1 January 2011, which is the start of the Group's date of transition to IFRS. The Interim IFRS Financial Statements represent the consolidated financial statements of the Group as at and for the three months ended 31 March 2013, with comparative financial information as of and for the three-month financial period ended 31 March 2012 and the year ended 31 December 2012. The following discussion and analysis also contain references to certain selected statistical and other information (included under the section entitled "Selected Statistical and other Information") which were prepared based on the management accounts of the Group which are maintained in accordance with IFRS (see "Presentation of Financial and Certain Other Information"). Unless otherwise indicated, all of the financial data and discussions herein are based upon the Financial Statements, which were prepared in accordance with IFRS.

The following discussion should be read in conjunction with the section entitled "Selected Statistical and other Information" and the Financial Statements, including accompanying notes, appearing elsewhere in this Prospectus. The financial information set out below and referred to this in section has been extracted without material adjustment from the Financial Statements or has been extracted without material adjustment from the Group's accounting records, which formed the underlying basis of the financial information included in the Financial Statements.

Overview

The Group is the largest banking group by assets in Sub-Saharan Africa excluding South Africa (based on published financial statements of banks in this region as at and for the year ended 31 December 2012), with total assets of ₦3,127 billion as at 31 December 2012. The Group provides a wide range of banking and other financial services to individuals and corporate customers in Nigeria and the sub-Saharan Africa region, as well as the United Kingdom, and serves over 8.5 million customers accounts through a large distribution network of over 700 branches, 2,000 ATMs and 18,000 point-of-sale ("**POS**") terminals. Headquartered in Lagos, Nigeria, the Bank also has a network of representative offices in Abu Dhabi, Beijing and Johannesburg set up to capture trade-related businesses between respective geographies.

The Bank is the principal bank subsidiary of FBN Holdings Plc**,** a Nigerian-based, non-operating financial holding company listed on the Nigerian Stock Exchange (the "**NSE**"), which was established in 2012 as a result of the CBN's repeal of the universal banking model, under which Nigerian banks could either opt for a commercial banking licence or a holding company structure. The Group constituted 98 per cent. of FBN Holdings Plc's consolidated total assets as at 31 December 2012 and 91 per cent. of its consolidated total operating profit for the year ended 31 December 2012. See "*—Compliance with Central Bank of Nigeria's Regulation on the Scope of Banking Activities*".

The Bank serves retail, corporate and public sector customers with a range of deposit, lending, transactional, trade and foreign exchange products, and also generates revenue from money market investments.

The Bank's main business activities are organised along five customer segments, each served by a strategic business units ("**SBUs**") as follows:

- ***Retail Banking:*** The retail banking segment ("**Retail Banking**") SBU serves SMEs, local governments, and the affluent and the mass market customer segments, and serves over 8.5 million customer accounts through a network of over 700 branches and other delivery platforms. The Retail Banking SBU also serves as the bedrock for stable and low-cost deposit mobilisation with about 50 per cent. of total deposits in the Bank. In the consumer finance sector, they key targets are salaried individuals employed in reputable organisations (as determined by the Bank);
- ***Institutional Banking:*** The institutional banking segment ("**Institutional Banking**") SBU serves institutional customers that represent the top-end of the business banking value chain—companies which have good corporate governance, annual turnover of at least ₦5 billion, are typically listed, and require a wide variety of sophisticated products and product specialisation). These customers comprise the largest organisations across the Bank's target industries, i.e. oil and gas; conglomerates; manufacturing; telecommunications, construction and infrastructure; and financial institutions and multilateral agencies;
- ***Corporate Banking:*** The corporate banking segment ("**Corporate Banking**") SBU serves the middle segment of the Nigerian corporate landscape, predominantly unrated and non-investment grade companies with annual turnover in the range of ₦500 million to ₦5 billion and usually a higher risk profile than the Institutional Banking customers. Corporate Banking clients are broadly split into two groups—emerging corporates (smaller corporates with annual turnover in the range of ₦500 million to ₦2 billion) and large corporates (corporate with annual turnover in the range of ₦2 billion to ₦5 billion annually);
- ***Private Banking:*** The private banking segment ("**Private Banking**") SBU serves the premium bracket of individual customers, i.e. high net worth individuals, providing them with wealth management services; and
- ***Public Sector:*** The Public Sector SBU provides integrated banking products, financing and collection services for the Federal and State Governments, as well as Federal Government departments and agencies.

Significant factors affecting results of operations

The Group's performance and results of operations have been and continue to be affected by a number of external factors. There are also various specific factors the Group believes have affected the Group's results of operations in the past and that the Group expects will continue to affect its results in the future. In this section, the Group sets out those material factors that have had, or may have had, an effect on its results.

Economic condition of Nigeria and the CBN

The majority of the Group's assets and customers are located in, or have businesses related to, Nigeria. As a result, the Group is substantially affected by Nigerian economic conditions. Accordingly, the Group is substantially affected by regulatory developments in the banking sector, as well as political stability in Nigeria as it affects economic growth generally.

The following table sets forth certain Nigerian economic indicators as at and for the periods indicated.

Economic Indicators	As at or for the three months ended 31 March	As at or for the years ended 31 December		
	2013	2012	2011	2010
Nominal GDP at market exchange rates (U.S.$ billions)	283.7	260.3	238.0	227.8
Real GDP growth (%)	7.2	6.6	7.4	7.9
GDP per capita (U.S.$ at purchasing power parity ("**PPP**") market exchange rates)	2,883.4	2,720.0	2,582.1	2,419.8
Inflation (all items, year on year change, as at December in each year) (%)	8.6	12.0	10.3	11.8
Population (millions)	169.3	164.8	160.3	156.1
Total gross debt (U.S.$ billions)	55.3	48.5	41.4	35.1
Total gross debt (% of GDP)	17.9	19.6	17.5	15.4
Total net debt (U.S.$ billions)	33.5	36.8	36.0	33.1
Total net debt (% of GDP)	10.8	13.3	14.9	14.4
Exchange rate ₦/U.S.$ (average)	155.75	157.50	153.86	150.30

Source: IMF, CBN

The global financial crisis that began at the end of 2008 had a significant impact on the Nigerian economy. The reduction of external reserves which triggered speculative currency trading, coupled with the reduction in oil prices, led to a devaluation of the Naira against the U.S. Dollar from a high of ₦116.64 in 2008 to an average of ₦155.44 for 2012. As at 3 July 2013, the Official Exchange Rate was ₦155.76 to U.S.$1.00. In addition, in 2008, the NSE posted the biggest decline among 89 global indices tracked by Bloomberg.

In 2009, the CBN undertook a number of measures designed to stimulate growth and improve liquidity within the Nigerian banking sector, including removing interest rate caps, reducing the MPR, reducing mandatory reserve levels from four per cent. to one per cent., and providing guarantees of all interbank lending (which expired in September 2011, except for banks negotiating merger and acquisition transactions within the Nigerian banking industry, which expired in December 2011). The increased liquidity levels from these measures have resulted in increased competition in lending, and a decline in yields on the Group's loans and advances to customers.

In late 2009 and early 2010, the CBN introduced an aggregate of ₦500 billion of stimulus measures administered through the Bank of Industry (the "**BOI**") to stimulate the economy. Of the total amount, ₦300 billion is intended for power projects and ₦200 billion is intended for the refinancing/restructuring of banks' existing loan portfolios to the small and medium sized enterprises ("**SME**") and manufacturing sectors. The CBN has also established a ₦200 billion Small and Medium Enterprise Credit Guarantee Scheme ("**SMECGS**") for promoting access to credit by SMEs in Nigeria. Other sector specific measures were also introduced, particularly in agriculture. As part of these measures, the CBN established, in collaboration with the Federal Ministry of Agriculture and Water Resources, the Commercial Agriculture Credit Scheme for promoting commercial agriculture in Nigeria. The scheme was financed from the proceeds of a ₦200 billion seven year bond raised by the Nigerian Debt Management Office ("**DMO**") and proceeds were made available to participating banks for state governments to borrow for on lending to farmers cooperatives in their states. In addition, in 2011 the BOI granted the Group a ₦27.2 billion facility as an intervention fund for SMEs.

For more information on the banking sector in Nigeria and the special measures taken by the CBN in response to the global financial crisis, see "*The Nigerian Banking Sector*".

Any deterioration in economic conditions in Nigeria has affected, and may in the future affect, the Nigerian banking sector and the Group's results of operations.

For more information on the economic and political conditions of Nigeria, see "*Nigeria*" and "*The Nigerian Banking Sector*". See also "*Risk Factors—Risks related to the Nigerian banking sector—The banking sector is affected by changes in the Nigerian economy*" and "*Risk Factors—Risks Relating To Nigeria and other regions in which the Group operates—There are risks related to political instability, religious differences, ethnicity and regionalism in Nigeria*".

Nigeria's economy is closely linked to its oil and gas industry

The Nigerian economy is highly influenced by oil prices and by the country's level of oil and gas production. According to the NBS, the oil and gas sector accounted for 15.88 per cent. of GDP in 2010, 14.80 per cent of GDP in 2011 and 13.76 per cent. of GDP in 2012 (in real terms at 1990 base price).

Brent crude oil prices declined from an average of U.S.$96.94 per barrel in 2008 to U.S.$61.74 in 2009, subsequently increasing in 2010 to an average of U.S.$79.61, U.S.$111.26 in 2011, U.S$111.63 in 2012 and U.S.$107.34 in the first six months of 2013, according to data from the EIA. In the first quarter of 2013, oil production in Nigeria was estimated at 2.29 mbd or 205.80 million barrels compared with 2.00 mbd or (184.00 million barrels) in the preceding quarter. This represented an increase in production level of 0.29 mbd or 14.5 per cent. For the three months ended 31 March 2013, 34.2 per cent. of the Group's total gross loans were extended to companies in the oil and gas sector, compared to 37.1 per cent. as at 31 December 2012, and 30.1 per cent. as at 31 December 2011.

The global oil industry impacts the Nigerian banking sector and the Bank at a macro level to the extent that Nigerian federal revenues and expenditure are tied to revenues from crude oil. In the downstream sector, Nigeria's reliance on imported refined products has historically provided trade finance opportunities for the Bank. However, the reform of the sector and subsequent fuel subsidies investigations in 2012 curtailed this activity significantly resulting in a drop of the Bank's trade finance business.

Since the promulgation of the Nigerian Local Content Act in 2011, the oil and gas industry has had a more significant impact on the Bank's business, and indigenous players have been more active in the mid stream and oil services sectors. This has encouraged growth in the Bank's SME and Corporate banking business.

Since 2012, the Bank has increased its lending to the upstream sector, as a result of indigenous players acquiring onshore marginal fields or fields disposed of by oil majors under the Nigerian marginal field regime. This has increased the Bank's foreign currency lending portfolio and growth in the Bank's domiciliary deposits between 2011 and the first quarter of 2013.

See also "*Risk Factors—Risks Related to the Group—The Bank is exposed to risks because of customer and sector concentration in its loan portfolios and deposit base*".

Nigeria's banking regulatory environment

On 27 March 2013, the CBN released the Revised Guide to Bank Charges, which provides a standard for the application of charges in the banking industry, and took effect from 1 April 2013. The Revised Guide to Bank Charges in part, stipulated a minimum of 30 per cent. of the MPR per annum as interest payable on savings account in Nigeria. At the current MPR of 12 per cent., this translates to a minimum of 3.6 per cent per annum. For the three months ended 31 March 2013 and the years ended 31 December 2012 and 2011, the average interest rate paid by the Bank on its average balance of savings account deposits (calculated in accordance with Nigerian GAAP) was 0.8 per cent. Savings account deposits accounted for 21.9 per cent., 22.8 per cent., 25.4 per cent. and 26.8 per cent. of the Bank's total deposits from customers as at 31 March 2013, 31 December 2012, 31 December 2011 and 1 January 2011, respectively. This increase in interest payable on savings account deposits has already increased the Group's cost of funds. Compared to its peers, the Group has historically relied heavily on savings deposits as a low cost source of funds, with savings deposits comprising 21.9 per cent. of its total deposits as at 31 March 2013, compared to 22.8 per cent. and 25.4 per cent. as of 31 December 2012 and 31 December 2011, respectively. Therefore, the increase in interest payable on savings account disproportionately impacts the Group more than other banks in Nigeria.

The Revised Guide to Bank Charges also phases-out the commission on turnover ("**COT**") charged by banks from this year, until 2016 when customers will no longer be charged for transactions on current accounts. Prior to 1 April 2013, COT that banks were permitted to charge was ₦5 per ₦1,000. From 1 April 2013, this was reduced to ₦3 per ₦1,000. This will be further reduced to ₦2 per ₦1,000 in 2014, ₦1 per ₦1,000 in 2015, and zero from 2016. This reduction in COT chargeable is expected to reduce the Group's fee and commission income. Fee and commission income has constituted 16.7 per cent and 18.1 per cent. of the Group's revenues for the periods ended 31 March 2013 and 31 March 2012, respectively; and 16.2 per cent. and 16.4 per cent. of the Group's revenues for the periods ended 31 December 2012 and 31 December 2011, respectively. As such, this decrease in fee and commission income as a result of the reduction in COT chargeable could negatively impact the Group's revenues. For the three months ended 31 March 2013, 6.8 per cent. of the Group's gross revenue was comprised of income from COT, compared to 8.6 per cent. and 7.0 per cent. for the years ended 31 December 2012 and 2011, respectively.

In addition, the CBN also stated in the Revised Guide to Bank Charges that banks should not charge COT on returned outward clearing cheques, reversal of transactions and all bank-induced debts. These changes, as well as other changes instituted by regulatory authorities on Nigerian banks, such as the withdrawal of the ₦100 ATM charge in November 2012, could have significant effects on the Group's results of operations.

See "*Risk Factors—Risks Related to the Group—The Group operates in an uncertain regulatory environment and recent changes by the CBN are having a material adverse effect on the Group*".

Interest rate environment and funding

One of the most significant factors affecting the Group's profitability is the level of, and fluctuations in, interest rates in Nigeria over time, which in turn (along with the volume of loans and deposits) influence the interest income generated by the Group's assets (primarily loans and advances to customers) and the interest expense associated with its liabilities (primarily deposits). Increases in interest rates have tended to increase net interest income as the Group's assets have tended to reprice more quickly than liabilities. Movements in short and long-term interest rates also have affected the Group's level of gains and losses on its investment and trading portfolio.

Interest rates in Nigeria were substantially affected by the financial crisis. In September 2008, the CBN began to gradually decrease the MPR, reducing it to 6.0 per cent by July 2009. Beginning in September 2010, the CBN began to raise the MPR again and, through a series of increases, raised the MPR to 12.0 per cent. on 10 October 2011. As at 31 May 2013 , the MPR stood at 12.0 per cent.

Notwithstanding the trend in the MPR, lending rates in Nigeria increased in 2008 and remained high in 2009 as a result of the financial crisis, although interbank lending rates declined significantly in 2009 when the CBN announced that it would guarantee interbank lending. In addition, in 2008 and 2009, in advance of the CBN's Special Examination, interest rates on deposits were relatively high, as banks sought to attract funding. Interest rates on deposits declined in early 2010, and average interest rates for all of 2010 were lower than in 2009, as concerns over liquidity in the banking sector eased. Interest rates on loans also decreased across the Nigerian banking sector in 2010 as a result of the intervention of the CBN, which put an end to distressed borrowing by intervened banks, which were driving up the average interest rate on loans. Over 2011 and 2012, interest rates on loans remained relatively high, due to funding supply constraints as well as perceived higher level of risk of creditors in the market. Interest rates on deposits also increased in 2011 and 2012, due to increases in the MPR and cash reserve ratio (CRR) in 2011 and 2012, as well as higher rates offered by the Government on Treasury bills and FGN bonds as part of its fiscal policy in 2011 and 2012 that led to the increase in rates paid on deposits.

In 2011 and 2012, the Group generated the majority of its interest income from loans and advances to customers. The average interest rate on the Group's placements was 13.5 per cent. for the three months ended 31 March 2013, 6.2 per cent. for the year ended 31 December 2012 and 3.6 per cent. for the year ended December 2011. The average interest rate on the Group's loans and advances was 13.8 per cent. for the three months ended 31 March 2013, 13.7 per cent. for the year ended 31 December 2012 and 11.6 per cent. for the year ended 31 December 2011. The Group also generates a significant amount of interest income from its investment securities, which represented 20.0 per cent. of total interest income for the three month period ended 31 March 2013. The average interest rate on the Bank's investment securities (calculated in accordance with Nigerian GAAP) was 7.11 per cent. in the three months ended 31 March 2013, 8.51 per cent. in the year ended 31 December 2012 and 8.71 per cent. in the year ended 31 December 2011, respectively.

Continuing Expansion of Branch Network

The Group has grown significantly in the periods under review, primarily through organic expansion. During this period, although the Group's cost to income ratio has generally been declining, certain of the Group's expenses have increased. The Bank's number of branches in Nigeria has increased from 650 as at 31 December 2011 to 729 as at 31 March 2013. The Bank is targeting an increase of branches to 743 by the end of 2013. The Group's current expansion strategy can be expected to result in increasing personnel and administrative expenses, which may adversely affect the Group's operating efficiency and profitability. See "*Risk Factors—Risks Related to the Group—The Group's expansion strategy may not continue to be successful*".

Demand for the Group's products

The Group generates a significant portion of its interest income from loans and advances. In addition, a significant portion of the Group's fee and commission income, which consists of fees arising from transaction and banking activity, facility fees and administrative fees, is associated with the volume of loans extended by the Group. Demand for the Group's loans and other products, and the Group's ability to continue to create loans, affect the size of the Group's loan portfolio and, in turn, the Group's results of operations. Demand for the

Group's loans and other products depend on several factors, which include economic and political conditions in Nigeria and elsewhere in Africa, conditions prevailing in the Nigerian banking sector, the Group's competitive environment and the Group's ability to take advantage of growth opportunities.

Loans and advances to customers was ₦1,602 billion for the year ended 31 December 2012 as compared to ₦1,285 billion for the year ended 31 December 2011. This increase was due to growth in the Group's exposure to the oil and gas, manufacturing, real estate and construction sectors of the economy.

Impact of non-performing loans and sales to AMCON

The global financial crisis and the resulting decline in the Nigerian equities market resulted in significant provisions and high NPLs at a number of Nigerian banks. In July 2010, AMCON was established to assist banks in Nigeria to improve their capital and liquidity positions, with the aim of fuelling a recovery of the Nigerian banking sector and capital markets. Among its functions, AMCON is mandated to provide liquidity to banks by buying certain of their NPLs (including margin loans). As at 31 December 2009, NPLs were 36.0 per cent. as a proportion of total loans in the Nigerian banking industry. Subsequent to the AMCON acquisition of loans on 31 December 2010, the industry NPL ratio dropped to 16.0 per cent. of the total loans and dropped further to 4.8 per cent. by end of 2011. See also "*The Nigerian Banking Sector*". As at 31 March 2013, the Group had sold loans with a total gross value of ₦186.7 billion (including the performing loans of Seawolf Oilfield services with a gross value of ₦99 billion in exchange for AMCON Bonds with a discounted value of ₦88 billion, resulting in a loss of ₦11 billion). The Group's NPLs as a percentage of gross loans was 7.5 per cent. as at 1 January 2011, 2.6 per cent. as at 31 December 2011, 2.5 per cent. as at 31 December 2012 and 2.6 per cent. as at 31 March 2013.

As a result of such sales to AMCON, the Bank's NPL level has significantly decreased and the Bank believes it has also de-risked a large portion of its historical loan book that had previously been held on the balance sheet as NPLs (except for the performing loans of Seawolf Oilfield services). Since 2011, the Bank has sought to improve its risk management framework and expects to continue to focus on maintaining NPL levels at or below the Nigerian banking sector averages. AMCON's consideration bonds are three year zero coupon bonds with a yield to maturity of 10.125 per cent. and are fully guaranteed by the Government.

In addition, the Group is required to contribute to a sinking fund to cover any net deficits incurred by AMCON. On this basis, effective 1 January 2011, each Nigerian bank is required to contribute to the sinking fund an amount equal to 0.30 per cent. of its total assets as at 31 December each year, in respect of the immediately preceding financial year. Starting from 1 January 2013, the contribution percentage was raised to 0.50 per cent. of total assets. Any increase in such charge would have a negative impact on the Group's profitability.

Levels of deposits

Similar to other banks in Nigeria, the Group has historically relied heavily on corporate and retail deposits to meet its funding needs as access to other funding sources, including the capital markets, has been limited. The Group's deposits from customers has increased to ₦2,406 billion as at 31 December 2012 from ₦1,951 billion as at 31 December 2011. These constituted 88.0 per cent and 78.3 per cent. of the Group's total liabilities as at 31 December 2012 and 31 December 2011, respectively.

Nigerian companies usually withdraw their deposits on a frequent basis and are not typically in a position to place significant funds in deposits on a long-term basis. The CBN requires Nigerian banks to maintain a 30.0 per cent. liquidity ratio to meet short term liquidity needs. Decreases in corporate deposits and/or unexpected withdrawals of retail deposits can increase the Group's costs of funding when other sources of funding are not available on commercially reasonable terms or in time to meet the Group's funding requirements. In addition, the CBN's requirement to maintain a 30.0 per cent. liquidity ratio results in certain constraints on the Group's ability to lend, which in turn affects the size and growth of its loan portfolio. As at 31 December 2012, the Group's liquidity ratio, which is the ratio of net liquid assets (defined as cash and cash equivalents and marketable securities less current liabilities) to deposits from customers (calculated on the basis of Nigerian GAAP), was 49.53 per cent.

Competition

The banking industry in Nigeria has become increasingly competitive, which has resulted in increasing pressure on the loan rates chargeable by the Group, particularly in the corporate segment where Nigerian banks also face increasing competition from foreign banks. The Bank's net interest margin (defined as net interest income divided by average interest earning assets of the Bank on a stand-alone basis and calculated in accordance with Nigerian GAAP) was 8.5 per cent. for the three months ended 31 March 2013, 8.7 per cent. for the year ended 31 December 2012, and 8.0 per cent. for the year ended 31 December 2011.

The Nigerian banking industry encountered significant difficulties during the recent global economic and financial crisis primarily related to high loan growth prior to and at the early stage of the crisis and consequent risk management and credit quality related issues. The CBN has undertaken a number of initiatives to stabilise and improve conditions in the industry which have had a significant positive impact. As a result, the Nigerian banking industry has improved and the Group believes that this improvement will result in continuing and increasing competition in the future. Further, the Group believes that consolidation in the industry may further increase competition, as larger banks seek to take advantage of economies of scale and greater capacity to undertake larger loans and other operations. This increased competition is likely to result in a further narrowing of spreads between deposit and loan rates.

Significant accounting policies

The Group's consolidated financial position and results of operations presented in the Financial Statements and the notes thereto are prepared in accordance with IFRS. The application of certain accounting policies require management's subjective and complex judgment about matters that are inherently uncertain. The following paragraphs describe those accounting policies that management believes are important for an understanding of the Financial Statements and those that involve the most complex judgments and assessments. The estimates and assumptions used by the Group are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could, in future periods, lead to adjustments in the carrying amounts of the related assets or liabilities. A more detailed description of The Group's principal accounting policies can be found in Note 2 to the Financial Statements included elsewhere in this Prospectus.

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.

The most significant areas requiring the use of management's estimates and judgments are as follows:

(A) Impairment charges on financial assets

The Group reviews its loan portfolios for impairment on an ongoing basis. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The use of historical loss experience is supplemented with significant management judgment to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to differ from that suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess inherent loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment loss derived solely from historical loss experience.

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Group's impairment charge on financial assets are set out in note 3 to the Annual IFRS Financial Statements.

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 of the Financial Statements for more information.

(B) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions.

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

Changes in assumptions about these factors could affect the reported fair value of financial instruments. Refer to Note 3.5 of the Financial Statements 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) Retired 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 40, "*Retirement benefits obligation*," of the Financial Statements 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.

Recent developments

Board changes

Effective 31 May 2013, the Executive Director, Corporate Banking, Mr Kehinde Lawanson and Executive Director/Chief Risk Officer, Mrs Remi Odunlami retired from the service of the Group. Mr. Lawanson had concluded his tenure while Mrs. Odunlami had served a substantial part of her tenure. Management believes that this is an opportunity to rejuvenate the Board as part of its work force rejuvenation strategy, and in line with its commitment to good corporate governance and seamless succession planning.

Mr Biodun Odubola and Mrs Cecilia Majekodunmi are serving in acting capacities as Chief Risk Officer and Head of the Corporate Banking Directorate respectively, pending the appointment of permanent replacements.

The CBN's Revised Guide to Bank Charges

On 27 March 2013, the CBN released the Revised Guide to Bank Charges, which provides a standard for the application of charges in the banking industry, and took effect from 1 April 2013. The Revised Guide to Bank Charges in part, stipulated a minimum of 30 per cent. of the MPR per annum as interest payable on savings account in Nigeria. At the current MPR of 12 per cent., this translates to a minimum of 3.6 per cent per annum. The Revised Guide to Bank Charges also phases-out the commission on turnover ("**COT**") charged by banks from this year, until 2016 when customers will no longer be charged for transactions on current accounts. Prior to 1 April 2013, COT that banks were permitted to charge was ₦5 per ₦1,000. From 1 April 2013, this was reduced to ₦3 per ₦1,000. This will be further reduced to ₦2 per ₦1,000 in 2014, ₦1 per ₦1,000 in 2015, and zero from 2016. In addition, the CBN also stated in the Revised Guide to Bank Charges that banks should not charge COT on returned outward clearing cheques, reversal of transactions and all bank-induced debts.

Following the implementation by the Bank of the provisions in accordance with the Revised Guide to Bank Charges, there has been a reduction in the run rate of the Bank's fee and commission income. In particular, there has been a significant reduction in the management fees on the loan book, which had previously been charged periodically over the life of the facility, depending on the terms of agreement, and is now charged as a one-off fee, when new loans are created.

The Bank has also seen a reduction in the average ratio of COT to total demand deposits from 0.24 per cent. for the first quarter of 2013 to 0.16 per cent. average for April and May 2013, representing an approximate 32 per cent. decline in monthly run rates.

As a result of the increase in the minimum savings deposit rate to 3.6 per cent. (30 per cent. of MPR), the Bank has seen a 172 per cent. increase in the monthly run rate in interest expense on savings deposits.

In May 2013, the Bank started implementing certain initiatives to mitigate the impact of the revised charges stipulate by the Revised Guide to Bank Charges, and additional measures to counter the downward pressure on revenues are being planned. Some of these initiatives include focusing on shorter dated trade transactions, which will increase the turnover on the accounts thereby increasing the Bank's ability to charge COT, increasing the number of fee-paying services available on the Bank's ATMs, extending the range of services for which customers can be notified via SMS for a fee and introducing penalty charges on late repayments of loans and advances.

Banking application upgrade

In June 2013, the Bank upgraded of its core banking application from Finacle 7 to Finacle 10. This upgrade necessitated the Bank to partially close for 77 hours, and fully close for 14 hours to ensure all data was migrated to the new platform. The upgrade was completed in the early hours of 10 June 10 2013 and the Bank was open to customers by 8am that day.

Finacle 10 (developed by Infosys) is a core banking application that is expected to enhance the banking needs of the Bank's customers and increase the Bank's product offering. With the upgrade, the Bank can now achieve seamless "round-the-clock" operations, simplified end-user interfaces, enhanced Know-Your-Customer (KYC)/ Anti Money Laundering (AML) functionalities for regulatory compliance, better relationship management with an improved Customer Relationship Management (CRM) module, enhanced control and audit functionalities, supports for multi-entity operations (which would support existing and future foreign subsidiaries), and capability to support new lines of businesses including Financial Inclusion, Wealth Management and Interest Free Banking (Islamic Banking).

The Bank expects that, like any other project of this magnitude, this upgrade will entail an adjustment period during which the Bank's dedicated support team, the application vendor teams and the vendor's local partner are available to promptly provide technical support and resolve issues that arise. The upgraded application is currently at a stabilisation stage, after which the Bank expects to start the rollout of product and services to enhance customer experience.

Developments in loan asset quality

In May 2013, the Bank's NPLs increased to ₦50.9 billion with provision of ₦43.5 billion giving an asset quality ratio of 3.9 per cent. and cost of risk of 0.5 per cent. A single account contributed 61 per cent. of the incremental NPL over the period from March 2013 to May 2013 which was classified on a subjective basis in view of recent developments in the corporate governance structure of the borrower and the likely adverse impact that the development may have on the ability of the borrower to obtain new business in the near term. The impairment charge on the account is significant due to the loan not being secured by tangible collateral but backed by domiciliation of receivables on contracts executed by the company. Remedial action has since commenced on the major account in order to minimize any eventual loss that may be recorded on the account. Management believes that the decision taken on this account is prudent as it will ensure that proper focus is given to the recovery of the exposure.

As at the date of this prospectus, the Group's impairment charge and asset quality ratios are still within the limits of NPL ratio of not more than 4 per cent. and cost of risk of not more than 1 per cent. for the 2013 financial year.

Results of operations

The following discussion and analysis of the Group's results of operations and financial condition is based on the Financial Statements prepared in accordance with IFRS. The following discussion and analysis also contains references to average balances and interest rate information (included under the section entitled "Selected Statistical and other Information") which were prepared based on the management accounts of the Bank which are maintained in accordance with Nigerian GAAP (see "Presentation of Financial and Certain Other Information"). Investors should note that financial data prepared in accordance with Nigerian GAAP is not directly comparable with, and may differ materially from, financial data prepared in accordance with IFRS. Investors should also note that the financial data prepared in accordance with Nigerian GAAP included in this section of the prospectus is not extracted from the Group's audited Annual IFRS Financial Statements, and is not audited. Unless otherwise indicated, all of the financial data and discussions herein are based upon the Financial Statements, which were prepared in accordance with IFRS.

The following table sets forth the Group's results of operations for the three months ended 31 March 2013 and 2012 and for the years ended 31 December 2012 and 2011.

	Three months ending 31 March		Year ending December 31	
	2013	2012	2012	2011
	(₦ millions)			
Gross Earnings	**90,740**	**75,342**	**338,921**	**265,580**
Interest and similar income	69,637	59,596	276,795	207,019
Interest and similar expense	(19,802)	(11,815)	(58,511)	(34,727)
Net interest income	**49,835**	**47,781**	**218,284**	**172,292**
Impairment charge for credit losses	(1,268)	(3,070)	(12,912)	(38,011)
Net interest income after impairment charge for credit losses	**48,567**	**44,711**	**205,372**	**134,281**
Net fee and commission income	**15,104**	**13,606**	**54,862**	**43,591**
Net gains / (losses) from financial assets classified as held for trading	564	24	1,752	2,828
Foreign exchange income	6,015	1,428	2,456	7,497
Net (losses) / gains on investment securities	(1,056)	1	(860)	458
Net insurance premium	—	475	—	—
Net insurance benefits and claims	—	(303)	—	—
Loss on sale of assets to AMCON	—	—	—	(15,501)
Dividend income	—	—	518	4,175
Other operating income	476	515	3,398	12
Other operating expenses	(44,308)	(41,858)	(182,329)	(136,668)
Operating profit	**25,362**	**18,599**	**85,169**	**40,673**
Share of profit/(loss) of associates	282	(854)	1,008	(1,507)
Profit before tax	**25,644**	**17,745**	**86,177**	**39,166**
Income tax expense	(3,713)	(2,591)	(14,918)	(18,864)
Profit after tax	**21,931**	**15,154**	**71,259**	**20,302**
Non Controlling Interest	**54**	**(299)**	**57**	**(884)**
Profit for the period from continued operations			**71,259**	**20,302**
Profit for the period from assets held for sale			**3,838**	**(1,666)**
Profit attributable to owners of the parent and non controlling interests	**21,931**	**15,154**	**75,097**	**18,637**

Three months ending 31 March 2013 compared to three months ending 31 March 2012

Net interest income

Net interest income was ₦49,835 million for the three months ended 31 March 2013 and ₦47,781 million for the three months ended 31 March 2012. The increase in net interest income was due to increases in average balances of interest earning assets and an increase in the average rates earned on such balances, partially offset by an increase in interest expense, which reflected an increase in the average balances of deposits from customers, as well as an increase in the average rates paid on such deposits.

The average rate of interest earned on interest-earning assets (calculated in accordance with Nigerian GAAP) increased to 11.5 per cent. in the first quarter of 2013 compared to 10.99 per cent. in the first quarter of 2012, while the average rate of interest accrued on interest-bearing liabilities (calculated in accordance with Nigerian GAAP) increased to 3.2 per cent. in the first quarter of 2013, compared to 2.6 per cent. in the first quarter of 2012. Net interest spread (defined as the difference between the average rate of interest earned on interest-earning assets and the average rate of interest accrued on interest-bearing liabilities, calculated in accordance with Nigerian GAAP) decreased to 8.4 per cent. in the first quarter of 2013 as compared to 8.44 per cent. in the first quarter of 2012. The Bank's net interest margin (defined as net interest income divided by average interest earning assets, calculated in accordance with Nigerian GAAP) decreased to 8.5 per cent. in the first quarter of 2013 compared to 8.68 per cent. in the first quarter of 2012.

The primary reason for the decrease in the Group's net interest margin in the first quarter of 2013 compared to the same period in 2012 was due to an increase in the average interest rates paid on deposits from customers of the Bank (calculated in accordance with Nigerian GAAP) in the first quarter of 2013 (which was 3.2 per cent.) compared to the first quarter of 2012 (which was 1.6 per cent.). As a result of this, while the average balance of deposits from customers (calculated in accordance with Nigerian GAAP) increased 29.0 per cent in the first quarter of 2013 compared to the first quarter of 2012, the interest expense (calculated in accordance with Nigerian GAAP) increased by 153.6 per cent. in the same periods. In future periods, the Group expects that its margins will be tightened further due to the CBN requirement that savings deposits earn at least 30 per cent. of the annual MPR. See "*—Significant factors affecting results of operations—Nigeria's banking regulatory environment*".

Interest income

The following table sets out information on the Group's interest income for the periods indicated.

	Three months ending 31 March					
	2013	**% of total**	**2012**	**% of total**	**Change %**	**Difference**
			(₦ millions except %)			
Loans and advances	53,632	77.0	42,393	71.1	26.5	11,239
Investment securities	13,906	20.0	14,892	25.0	(6.6)	(986)
Placements and short term funds	2,099	3.0	2,311	3.9	(9.2)	(212)
Interest and similar income	**69,637**	**100.0**	**59,596**	**100.0**	**16.8**	**10,041**

Total interest and similar income increased to ₦69,637 million for the three months ended 31 March 2013 from ₦59,596 million for the three months ended 31 March 2012, primarily due to an increase in interest from loans and advances. Interest income from loans and advances increased to ₦53,632 million for the three months ended 31 March 2013 from ₦42,393 million for the three months ended 31 March 2012, primarily due to an increase in the average rate of interest earned on such loans and advances (calculated in accordance with Nigerian GAAP). Interest income from Treasury bills and other investment securities decreased to ₦13,906 million for the three months ended 31 March 2013 from ₦14,892 million for the three months ended 31 March 2012, primarily due to a decrease in Treasury yields. Interest income from placements decreased to ₦2,099 million for the three months ended 31 March 2013 from ₦2,311 million for the three months ended 31 March 2012, primarily due to an increase in placement rates in the market.

Interest expense

The following table sets out information on the Group's interest expense for the periods indicated.

	Three months ending 31 March					
	2013	**% of total**	**2012**	**% of total**	**Change %**	**Difference**
			(₦ millions except %)			
Current accounts	6,099	30.8	3,455	29.2	76.5	2,644
Saving accounts	1,098	5.5	908	7.7	20.9	190
Time deposits	10,990	55.5	1,821	15.4	503.5	9,169
Domiciliary deposits	1,372	6.9	1,112	9.4	23.4	260
Inter-bank takings	71	0.4	2,564	21.7	(97.2)	(2,493)
Borrowed funds	172	0.9	1,153	9.8	(85.1)	(981)
Managed funds	—	0.0	802	6.8	(100)	(802)
Interest and similar expense	**19,802**	**100.0**	**11,815**	**100.0**	**67.6**	**7,987**

Substantially all of the Bank's interest and similar expense in the three months ended 31 March 2013 and 2012 was related to deposits from customers and was driven by increased average balances of deposits (calculated in accordance with Nigerian GAAP) and increased average rates paid on deposits (calculated in accordance with Nigerian GAAP).

Total interest and similar expense increased to ₦19,802 million for the three months ended 31 March 2013 from ₦11,815 million for the three months ended 31 March 2012, primarily due to an increase in interest expense incurred on time deposits and current accounts, partially offset by a decrease in interbank takings. Interest expense on time deposits increased to ₦10,990 million for the three months ended 31 March 2013 from ₦1,821 million for the three months ended 31 March 2012, and interest expense on current accounts increased to ₦6,099 million for the three months ended 31 March 2013 from ₦3,455 million for the three months ended 31 March 2012 due to both higher average rates of interest (calculated in accordance with Nigerian GAAP) paid on time deposits and current accounts and an increase in the average balances of deposits in such accounts (calculated in accordance with Nigerian GAAP). Interest expense on inter-bank takings decreased to ₦71 million for the three months ended 31 March 2013 from ₦2,564 million for the three months ended 31 March 2012, primarily due to an improvement in the Group's liquidity position resulting in lower interbank borrowings. Interest expense on borrowed funds decreased to ₦172 million for the three months ended 31 March 2013 from ₦1,153 million for the three months ended 31 March 2012, primarily due to the repayment in 2012 of a U.S.$350 million loan from Standard Chartered Bank obtained in 2010.

The Bank has historically relied on low cost current and savings account deposits for a significant portion of its funding needs. Higher rates offered by the Government on Treasury bills and FGN bonds as part of its fiscal policy in the first quarter of 2013 compared to the first quarter of 2012 led to an increase in rates paid on deposits, and an increase in the Bank's interest expense. This rise in the interest rate environment also caused more of the Bank's customers to deposit money in term deposits that paid a higher rate of interest, instead of current and savings accounts. In addition, the Group also expects that its interest expense will rise materially in future periods due to the CBN requirement that savings deposits earn at least 30 per cent. of the annual MPR. See "*—Significant factors affecting results of operations—Nigeria's banking regulatory environment*" and "*Business Description—Description of Business—Retail Banking SBU—Deposits*".

Impairment charge for credit losses

The impairment charge for credit losses decreased to ₦1,268 million for the three months ended 31 March 2013 from ₦3,070 million for the three months ended 31 March 2012, primarily due to a decrease in the specific impairment charge attributable to an improvement in the credit quality of loans and advances to customers as well as improved collateral quality.

The following table sets out information on movements in the Group's impairment allowance on loans and advances for the periods indicated.

	Three months ending 31 March			
	2013	2012	Change %	Difference
		(₦ millions except %)		
Specific impairment	1,099	2,685	(59.1)	(1,586)
Impairment recoveries	(167)	(1,096)	(84.8)	929
Collective impairment	331	1,481	(77.7)	(1,150)
Other assets	5	—	—	5
Impairment charge for credit losses	**1,268**	**3,070**	**(58.7)**	**(1,802)**

Fee and commission income

The following table shows the composition of the Group's total fee and commission income for the periods indicated.

	Three months ending 31 March			
	2013	2012	Change %	Difference
		(₦ millions except %)		
Credit related fees	794	382	107.9	412
Commission on turnover	6,166	5,034	22.5	1,132
Remittance fees	911	1,443	(36.9)	(532)
Letters of credit commissions and fee	1,501	1,264	18.8	237
Western Union Commission	503	380	32.4	123
Other fees and commissions	5,229	5,103	2.5	126
Total fee and commission income	**15,104**	**13,606**	**11.0**	**1,498**

Total fee and commission income increased to ₦15,104 million for the three months ended 31 March 2013 from ₦13,606 million for the three months ended 31 March 2012 primarily due to an increase in commission on turnover. Commission on turnover increased to ₦6,166 million for the three months ended 31 March 2013 from ₦5,034 million for the three months ended 31 March 2012, primarily due to increased customer activities reflecting an increase in the customer base as well as the Group's strategy to focus less on term loans and instead more on transactions that generate more turnover, in order to drive fee and commission income. Credit related fees, which are charges that are applied to loans such as processing fees and legal fees, increased to ₦794 million for the three months ended 31 March 2013 from ₦382 million for the three months ended 31 March 2012, primarily due to increased service charge attributable to increased volume of loans and advances and the elimination of certain concessions previously offered to customers as part of the Group's strategy to focus on transactions that generate fee income. Remittance fees, which are charged on funds transfers by customers, decreased to ₦911 million for the three months ended 31 March 2013 from ₦1,443 million for the three months ended 31 March 2012, primarily due to decreased customer foreign remittances as a result of the Nigeria oil subsidy investigations following a parliamentary report in April 2012 which caused a decrease in trade volumes in the first quarter of 2012. Letters of credit commissions and fee income increased to ₦1,501 million for the three months ended 31 March 2013 from ₦1,264 million for the three months ended 31 March 2012, primarily due to increased volumes of letters of credit opened in the period. Other fees and commissions increased to ₦5,229 million for the three months ended 31 March 2013 from ₦5,103 million for the three months ended 31 March 2012 primarily due to an increase in commission on value card and line facility charges.

The Revised Guide to Bank Charges released by the CBN that took effect in April 2013 phases-out the commission on turnover charged by banks from 2013, until 2016 when customers will no longer be charged for transactions on current accounts. This reduction in COT chargeable has already impacted the Group's results for the first half of 2013 and is expected to continue to reduce the Group's fee and commission income in the future. See "*Significant factors affecting results of operations—Nigeria's banking regulatory environment*" and "*Risk Factors—The Group operates in an uncertain regulatory environment and recent changes by the CBN are having a material adverse effect on the Group*".

Financial assets held for trading

The following table shows the Group's net gains from financial instruments classified as held for trading for the periods indicated.

	Three months ending 31 March			
	2013	2012	Change %	Difference
	(₦ millions except %)			
Net gains / (losses) arising on:				
Derivatives	509	—	—	509
Debt securities	55	24	129.2	31
Net gains from financial instruments at fair value	**564**	**24**	**2,250.0**	**540**

Net gains from financial instruments at fair value increased to ₦564 million for the three months ended 31 March 2013 from ₦24 million for the three months ended 31 March 2012 due to recognition on fair value gain on derivatives, which consisted of market risk hedges. Net gains from debt securities increased ₦55 million for the three months ended 31 March 2013 from ₦24 million for the three months ended 31 March 2012 due to mark-to-market gains on held for trading securities.

Net losses on investment securities

The following table shows the net losses on investment securities for the periods indicated.

	Three months ending 31 March			
	2013	2012	Change %	Difference
	(₦ millions except %)			
Equity Securities	—	—	—	—
Debt Securities	(1,056)	1	(105,700.0)	(1,057)
Net (losses) on investment securities	**(1,056)**	**1**	**(105,700.0)**	**(1,057)**

Net losses on investment securities increased to ₦1,056 million for the three months ended 31 March 2013 as compared to a net gain of ₦1 million for the three months ended 31 March 2012 due to net losses on debt securities, which matured or were sold during the period.

Other operating income

The following table shows the components of the Group's other operating income for the periods indicated.

	Three months ending 31 March			
	2013	2012	Change %	Difference
	(₦ millions except %)			
Rental income	326	283	15.2	43
Other income	150	232	(35.3)	(82)
Other operating income	**476**	**515**	**(7.6)**	**(39)**

Other operating income decreased to ₦476 million for the three months ended 31 March 2013 from ₦515 million for the three months ended 31 March 2012, primarily due to a decrease in other income, which was partially offset by an increase in rental income. The decrease in other income was due to reduced sundry income during the first quarter of 2013 compared to the same period in 2012.

Other operating expenses

The following table sets out the principal components of the Group's operating expenses for the periods indicated.

	Three months ending 31 March					
	2013	% of total	2012	% of total	Change %	Difference
	(₦ millions except %)					
Staff Costs	16,267	36.7	17,108	40.9	(4.9)	(841)
Depreciation and amortization	2,597	5.9	2,339	5.6	11.0	258
Deposit insurance premium	2,415	5.5	2,283	5.5	5.8	132
Other expenses[1]	23,029	52.0	20,128	48.1	14.4	2,901
Other operating expenses	**44,308**	**100.0**	**41,858**	**100.0**	**5.9**	**2,450**

(1) Other expenses comprise maintenance, travel & hotel expenses, cost of living reimbursement, donations, directors' emolument auditors' remuneration and other sundry charges.

Other operating expenses increased to ₦44,308 million for the three months ended 31 March 2013 from ₦41,858 million for the three months ended 31 March 2012. This increase in operating expenses was primarily due to an increase in other expenses, in particular cost of living reimbursement, which increased to ₦4,346 million for the three months ended 31 March 2013 from ₦1,783 million for the three months ended 31 March 2012 due to the rising cost of living in Nigeria and the effects of promotions within the workforce.

Staff costs

Staff costs decreased to ₦16,267 million for the three months ended 31 March 2013 from ₦17,108 million for the three months ended 31 March 2012. The decrease in staff costs related to the Group's employee rejuvenation strategy that resulted in the departure of some senior employees who were replaced with lower paid junior employees.

Other expenses

Other expenses increased to ₦23,029 million for the three months ended 31 March 2013 from ₦20,128 million for the three months ended 31 March 2012. The increase in other expenses was primarily due to expenses related to additional new branches opened as well as increase level of operations.

Income tax expense

The following table sets out details with respect to the Group's income tax expense for the periods indicated.

	Three months ending 31 March	
	2013	2012
	(₦ millions)	
Income tax expense	**(3,713)**	**(2,591)**

Income tax expense increased to ₦3,713 million for the three months ended 31 March 2013 from ₦2,591 million for the three months ended 31 March 2012. The Group's effective income tax rate increased to 15.2 per cent. for the three months ended 31 March 2013, as compared to 14.6 per cent. for the three months ended 31 March 2012. The increase in income tax expense and effective tax rate resulted mainly from the increase in profit before tax to ₦25,644 million for the three months ended 31 March 2013 from ₦17,745 million for the three months ended 31 March 2012 and the recomputation of tax rates after an audit by tax authorities during the year.

Year ending December 2012 compared to year ending December 2011

Net interest income

Net interest income was ₦218,284 million in 2012 and ₦172,292 million in 2011. The increase in net interest income was due to increases in average balances of interest earning assets and an increase in the average rates earned on such balances, partially offset by an increase in interest expense, which reflected a substantial increase in the average balances of deposits from customers, as well as an increase in the average rates paid on such deposits.

The average rate of interest earned on interest-earning assets (calculated in accordance with Nigerian GAAP) increased to 11.0 per cent. in 2012 from 9.5 per cent. in 2011, the average rate of interest accrued on interest-bearing liabilities (calculated in accordance with Nigerian GAAP) increased to 2.6 per cent. in 2012 from 1.8 per cent. in 2011. As a result, net interest spread (defined as the difference between the average rate of interest earned on interest-earning assets and the average rate of interest accrued on interest-bearing liabilities, calculated in accordance with Nigerian GAAP) widened to 8.4 per cent. in 2012 from 7.7 per cent. in 2011. The Bank's net interest margin (defined as net interest income divided by average interest earning assets, calculated in accordance with Nigerian GAAP) increased to 8.7 per cent. in 2012 from 8.0 per cent. in 2011.

The primary reason for the increase in the Group's net interest margin in 2012 compared to 2011 was primarily due to an increase in the Bank's average rate of interest earned from loans and advances to banks (calculated in accordance with Nigerian GAAP), which increased to 6.2 per cent. in 2012 from 3.6 per cent. in 2011, and average rate of interest earned from loans and advances to customers (calculated in accordance with Nigerian GAAP), which increased to 13.7 per cent. in 2012 from 11.6 per cent. in 2011, which outpaced the increase in the Bank's average rate of interest paid on deposit from customers (calculated in accordance with Nigerian GAAP), which increased to 2.3 per cent. in 2012 from 1.5 per cent. in 2011.

Interest income

The following table sets out information on the Group's interest income for the periods indicated.

	Year ending 31 December					
	2012	**% of total**	**2011**	**% of total**	**Change %**	**Difference**
			(₦ millions except %)			
Loans & Advances[1]	199,134	71.9	151,381	73.1	31.5	47,753
Investment securities	74,866	27.0	35,455	17.1	111.2	39,411
Placements & Short Term Funds	2,795	1.0	20,183	9.7	(86.2)	(17,388)
Interest and similar income	**276,795**	**100.0**	**207,019**	**100.0**	**33.7**	**69,776**

(1) Interest income on loans and advances to customers includes interest income on impaired financial assets, recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The Group's interest and similar income in 2012 and 2011 were primarily derived from loans and advances and investment securities.

Interest and similar income increased to ₦276,795 million in 2012 from ₦207,019 million in 2011, primarily due to an increase in interest income from loans and advances and investment securities. Interest income from loans and advances increased to ₦199,134 million in 2012 from ₦151,381 million in 2011, due to an increase in the average volume of the Bank's loans and advances to customers in 2012 (calculated in accordance with Nigerian GAAP)(which increased by 4.7 per cent. to ₦1,220 billion for 2012 from ₦1,165 billion for 2011) as well as an increase in average rates paid on loans and advances to customers (calculated in accordance with Nigerian GAAP)(which increased to 13.73 per cent. for 2012 from 11.56 per cent. for 2011). Interest income from investment securities increased to ₦74,866 million in 2012 from ₦35,455 million in 2011, due to a significant increase in average balances of treasury bills and other investment securities (calculated in accordance with Nigerian GAAP)(which increased by 40.1 per cent. to ₦646,461 million for 2012 from ₦461,278 million for 2011), partially offset by a small decrease in average interest rates earned on these securities (calculated in accordance with Nigerian GAAP)(which decreased to 8.5 per cent. for 2012 from 8.71 per cent. for 2011).

The increase in interest and similar income was partially offset by a decrease in interest income from placement and short term funds, which decreased to ₦2,795 million in 2012 from ₦20,183 million in 2011, due to a significant reduction in placement with banks and discount houses attributable to the expiry of the CBN's interbank credit guarantee to deposit money banks in 2011.

Interest expenses

The following table sets out information on the Group's interest expense for the periods indicated.

	Year ending 31 December					
	2012	% of total	2011	% of total	Change %	Difference
			(₦ millions except %)			
Time deposits	24,492	41.9	11,534	33.2	112.3	12,958
Current accounts	16,606	28.4	7,665	22.1	116.7	8,941
Saving accounts	4,350	7.4	3,866	11.1	12.5	484
Domiciliary deposits	4,591	7.8	3,840	11.1	19.6	751
Inter-bank takings	6,451	11.0	5,514	15.9	17.0	937
Borrowed funds	2,021	3.5	2,308	6.6	(12.4)	(287)
Interest and similar expense	**58,511**	**100.0**	**34,727**	**100.0**	**68.5**	**23,784**

The Group's interest and similar expense in 2012 was primarily related to interest expense incurred on time deposits, current accounts and inter-bank takings. In 2011, the Group's interest and similar expense was due to interest expense incurred on time deposits, current accounts, inter-bank takings, saving accounts and domiciliary deposits.

Interest and similar expense incurred by the group increased to ₦58,511 million in 2012 from ₦34,727 million in 2011. The increase in interest and similar expense was primarily due to a significant increase in the average volume of the Bank's deposits from customers in 2012 (calculated in accordance with Nigerian GAAP) (which increased by 23.0 per cent. to ₦1,916,797 million for 2012 from ₦1,558,917 million for 2011) as well as an increase in average rates paid on deposits from customers (calculated in accordance with Nigerian GAAP) (which increased to 2.3 per cent. for 2012 from 1.5 per cent. for 2011), due to higher rates offered by the Government on treasury bills and FGN bonds as part of its fiscal policy in 2012 that led to the average increase in rates paid on deposits (calculated in accordance with Nigerian GAAP).

Interest paid on time deposits comprised the most significant portion of interest and similar expenses in 2012 and 2011, constituting 41.9 per cent. of interest and similar expense in 2012 and 33.2 per cent. of interest and similar expense in 2011. This was a result of the higher average rates of interest (calculated in accordance with Nigerian GAAP) paid on term deposits (8.4 per cent. for 2012 and 3.1 per cent. in 2011) compared to the average rates of interest paid (calculated in accordance with Nigerian GAAP) on current accounts (2.3 per cent. for 2012 and 1.7 per cent. in 2011) and savings accounts (0.8 per cent. for 2012 and 0.8 per cent. in 2011).

Impairment charge for credit losses

	Year ending 31 December			
	2012	2011	Change %	Difference
		(₦ millions except %)		
Collective impairment	3,199	(2712)	(218.0)	5,911
Specific impairment	13,530	41,037	(67.0)	(27,507)
Impairment recoveries	(3,817)	(3,812)	0.1	(5)
Discontinued operations	—	(198)	(100.0)	198
Increase in impairment	—	3,696	(100.0)	(3,696)
	12,912	**38,011**	**(66.0)**	**(25,099)**

Impairment charge for credit losses was ₦12,912 million in 2012, compared to an impairment charge for credit losses of ₦38,011 million in 2011. This decrease was primarily a result of a significant decrease in the specific impairment charge, which mainly relates the clean-up of the Bank's loan books via write-off of accounts and remedial actions on non-performing status by the Group's Remedial Management team through restructuring and tailored loan workout strategies. The decrease in impairment charge for credit losses was partially offset by an increase in collective impairment due to growth in loans and advances to customers.

The following table sets out information on movements in the Group's impairment allowance on loans and advances to customers for the periods indicated.

	(₦ millions)
Impairment allowance on loans and advances:	
At 1 January 2011	
Specific impairment	26,031
Collective impairment	25,772
	51,803
Additional provision:	
Specific impairment	44,337
Collective impairment	(6,014)
Loans written off	(57,184)
Specific impairment	12,936
Collective impairment	20,006
Balance at 31 December 2011	**32,942**
Additional provision:	
Specific impairment	13,530
Collective impairment	3,199
Discontinued operations	(5,193)
Loans written off	(5,152)
Specific impairment	17,133
Collective impairment	22,193
At 31 December 2012	**39,326**

Impairment allowance on loans and advances decreased to ₦39,326 million as at 31 December 2012 from ₦32,942 million as at 31 December 2011 and ₦51,803 million as at 1 January 2011.

In 2012, impairment allowance on loans and advances included additional provisions for specific and collective impairments totalling ₦16,729 million, offset by write-offs of loans and discontinued operations related to the transfer of subsidiaries to FBN Holdings Plc during the 2012 corporate restructuring. In 2011, impairment allowance on loans and advances included additional provisions for specific and collective impairments totalling ₦38,323 million. However this was offset by write-offs of loans sold to AMCON.

Net fee and commission income

The following table shows the composition of the Group's net fee and commission income for the periods indicated.

	Year ending 31 December			
	2012	**2011**	**Change %**	**Difference**
	(₦ millions except %)			
Commission on turnover	28,935	18,477	56.6	10,458
Letters of credit commissions and fee	4,748	5,719	(17.0)	(971)
Credit related fees	2,532	4,406	(42.5)	(1,874)
Other fees and commissions	18,647	14,989	24.4	3,658
Net fee and commission income	**54,862**	**43,591**	**25.9**	**11,271**

The largest components of the Group's net fee and commission income in 2012 were commissions on turnover and other fees and commissions, which in the year ended 31 December 2012, amounted to 52.7 per cent. and 34.0 per cent. of the Group's net fee and commission income, respectively.

Net fee and commission income increased to ₦54,862 million in 2012 from ₦43,591 million in 2011 mainly as a result of an increase in commission on turnover and other fees and commissions. Commission on turnover (which are charges on customer account transactions) increased to ₦28,935 million in 2012 from ₦18,477 million in 2011 due to increased transaction volumes attributable to the Group's strategy to increase shorter tenor transactions that have a higher turnover rather than longer term transactions such as term loans. Other fees and commissions increased to ₦18,647 million in 2012 from ₦14,989 million 2011 due to increased effort by the Group to increase customer uptake in card usage and alternate banking channels such as electronic banking. The increase in net fee and commission income was partially offset by decreases in income from credit related fees and letters of credit commission and fee. Credit related fees decreased to ₦2,532 million in 2012 from ₦4,406 million in 2011 due to a reduction in credit fees to maintain competitiveness in the market. Letters of credit commissions and fee decreased to ₦4,748 million in 2012 from ₦5,719 million in 2011 due to slight reduction in business volumes in trade financing.

The following table shows the Group's bank's net gains from financial instruments classified as held for trading for the periods indicated.

	Year ending 31 December			
	2012	**2011**	**Change %**	**Difference**
		(₦ millions except %)		
Net gains / (losses) arising on:				
Equity securities	—	4,586	(100.0)	(4,586)
Derivatives	1,717	(470)	(465.3)	2,187
Debt securities	35	(1,288)	(102.7)	1,323
Net gains from financial assets classified as held for trading	**1,752**	**2,828**	**(38.0)**	**(1076)**

The Group recorded a net gain of ₦1,752 million from financial instruments at fair value in 2012, compared to a net gain of ₦2,828 million in 2011. The lower net gains from financial instruments at fair value in 2012 compared to 2011 were primarily due to fair value gains from the trading portfolio of subsidiaries in 2011 that were no longer part of the banking group in 2012 following the corporate restructuring whereby these subsidiaries were transferred to FBN Holdings Plc.

Net (losses) / gains on investment securities

The following table shows the net losses on investment securities for the periods indicated.

	Year ending 31 December			
	2012	**2011**	**Change %**	**Difference**
		(₦ millions except %)		
Net results on disposal of financial assets	(2,150)	1,046	(305.5)	(3,196)
Impairment of available for sale financial assets	981	(944)	(203.9)	1,925
Others	309	356	(13.2)	(47)
Net (losses) / gains on investment securities	**(860)**	**458**	**(287.8)**	**(1,318)**

The Group recorded a net loss of ₦860 million from investment securities in 2012, compared to a net gain of ₦458 million in 2011. Net losses from investment securities in 2012 were a result of losses from bonds in 2012 attributable to the sale of bonds with below market yields which were partly offset by gains in impairment of available for sale financial assets attributable to investments by the Bank in SMEs under the CBN's Small And Medium Enterprises Equity Investment Scheme ("**SMEEIS**"). SMEEIS is a legacy CBN programme that was launched in 2001 as a means to fund SMEs in Nigeria. The scheme required all banks to set aside 10 per cent. of their profit after tax annually to invest as equity in SMEs. SMEEIS was discontinued in 2008.

Other operating income

The following table shows the components of the Group's other operating income for the periods indicated.

	Year ending 31 December			
	2012	**2011**	**Change %**	**Difference**
		(₦ millions except %)		
Other income	3,398	12	(28216.7)	3,386
Other operating income	**3,398**	**12**	**(28216.7)**	**3,386**

The Group had other operating income of ₦3,398 million in 2012, as compared with other operating income of ₦12 million in 2011. The Group's other operating income of ₦3,398 million in 2012 was attributable to operating income from the Bank's subsidiaries FBN Mortgages and BIC.

Other operating expenses

The following table sets out the principal components of the Group's operating expenses for the periods indicated.

	Year ending 31 December 2012	% of total	2011	% of total	Change %	Difference
			(₦ millions except %)			
Personnel expenses	65,808	36.1	53,072	38.8	24.0	12,736
Maintenance, rent and insurance	25,338	13.9	21,853	16.0	15.9	3,485
Depreciation and amortization	10,540	5.8	10,174	7.4	3.6	366
Depositors insurance premium	9,159	5.0	6,504	4.8	40.8	2,655
Advert and corporate promotions	8,577	4.7	5,329	3.9	60.9	3,248
Banking sector resolution cost	7,391	4.1	5,872	4.3	25.9	1,519
Legal and professional fees	3,703	2.0	3,311	2.4	(11.8)	392
Directors' emoluments	2,910	1.6	3,294	2.4	(11.7)	(384)
Auditors' remuneration	251	0.1	193	0.1	30.1	58
(Profit)/loss on sale of PPE	(1,760)	(1.0)	107	0.1	(1744.9)	(1,867)
Other expenses[1]	50,412	27.6	26,959	19.7	87.0	23,453
Other operating expenses	**182,329**	**100.0**	**136,668**	**100.0**	**33.4**	**45,661**

(1) Other expenses comprise maintenance, travel & hotel expenses, cost of living reimbursement, donations, directors' emolument auditors' remuneration and other sundry charges.

Operating expenses increased to ₦182,329 million for the year ended 31 December 2012 from ₦136,668 million for the year ended 31 December 2011. This decrease was primarily due to an increase in personnel expenses and other expenses. Personnel expenses increased to ₦65,808 million in 2012 from ₦53,072 million in 2011 due to the increase in the number of employees in the period. Other expenses increased to ₦50,412 million in 2012 from ₦26,959 million in 2011 primarily due to cost of living reimbursement which increased to ₦15,320 million in 2012 from ₦9,702 million in 2011, outsourced cost which increased to ₦8,837 million in 2012 from ₦5,988 million in 2011 and travel and hotel expenses which increased to ₦4,469 million in 2012 from ₦2,866 million in 2011.

The following table sets out details of the Group's personnel expenses for the periods indicated.

	Year ending 31 December 2012	2011	Change %	Difference
		(₦ millions except %)		
Wages and salaries	45,572	44,919	1.5	653
Pension costs:				
—Defined contribution plans	2,404	3,737	(35.7)	(1,333)
—Defined benefit plans	17,832	4,416	303.8	13,416
Personnel expenses	**65,808**	**53,072**	**24.0**	**12,736**

Total personnel expenses increased to ₦65,808 million in 2012 from ₦53,072 million in 2011. This increase in personnel expenses was primarily attributable to two factors. First, in 2012 the Group incentivized 797 personnel to retire early as a part of its rejuvenation strategy, resulting in a one-time cost of ₦12,542 billion. Second, salary increases in 2011 resulted in a shortfall of ₦9,031 billion in the actuarial valuation for the Group's defined benefit plan, and the Group funded this shortfall in 2012. See Note 39 to the Annual IFRS Financial Statement for further details relating to the Group's retirement benefit obligations.

Maintenance, rent and insurance increased to ₦25,338 million in 2012 from ₦21,853 million in 2011, as a result of increase in rent paid for rented properties and increase in insurance premiums.

Advert and corporate promotions increased to ₦8,577 million in 2012 from ₦5,329 million in 2011, as a result of a general increase in spending on marketing as part of the Group's strategy to grow its retail business.

Depositors insurance premium increased to ₦9,159 million in 2012 from ₦6,504 million in 2011, as a result of increase in the deposit base of the Group.

Banking sector resolution cost (primarily contributions to the AMCON sinking fund) increased to ₦7,391 million in 2012 from ₦5,872 million in 2011, as a result of the increase in the balance sheet size of the Bank. Starting from 1 January 2013, the banking sector's contribution to AMCON's sinking fund was raised to 0.50 per cent. of total assets (from the previous level of .30 per cent. of assets). See "*—Significant factors affecting results of operations—Impact of non—performing loans and sales to AMCON*".

Other expenses increased to ₦50,412 million in 2012 from ₦26,959 million in 2011, as a result of increases in cost of living reimbursements of ₦5,618 million, increases in outsourced costs of ₦2,849 million, increases in travel and hotel expenses of ₦1,603 million and other increases of ₦13,383 million made up of sundry charges, currency sorting and processing fees, cash shortages, interbank settlement system charges, security expenses and cash movement expenses. The increases in other expenses were due to the increased level of transaction volumes in 2012 compared to 2011, attributable to the larger branch network in 2012 .

Income tax expense

The following table sets out details with respect to the Group's income tax expense for the periods indicated.

	Year ending December	
	2012	2011
	(₦ millions)	
Corporate tax	5,323	4,161
Contingent tax	9,577	5,644
Education tax	493	264
Technology tax	833	537
Capital gains tax	524	—
Under provision in prior years	(5)	221
Current income tax—current period	16,745	10,827
Origination and reversal of temporary deferred tax differences	(1,656)	1,637
Prior period adjustment on deferred tax	(171)	6,400
Income tax expense	**14,918**	**18,864**

The statutory corporate tax rate in Nigeria was 30 per cent. in 2012 and 2011. The Group's effective tax rate was 17.3 per cent. in 2012 and 48.2 per cent. in 2011. The Group's effective tax rate in 2012 was significantly below the statutory corporate tax rates in Nigeria primarily as a result of the tax exempt status of income from federal government bonds, partially offset by non-deductible expenses and effects of contingent tax. In 2011, tax exemption of income from federal government bonds was offset by non-deductible expenses and effects of contingent tax, minimum tax, change in profit before tax due to IFRS adjustments and tax loss effects.

Financial condition as at 31 March 2013, 31 December 2012, 31 December 2011 and 1 January 2011

Total assets

The following table presents data regarding the Group's assets as at the dates indicated.

	As at 31 March 2013	% of total	As at 31 December 2012	% of total	As at 31 December 2011	% of total	As at 1 January 2011	% of total
				(₦ millions except %)				
Assets								
Cash and balances with central banks	322,384	9.7	298,024	9.5	199,228	7.0	75,517	3.2
Loans and advances to banks	366,147	11.0	393,125	12.6	462,856	16.2	575,467	24.4
Loans and advances to customers	1,554,669	46.8	1,563,005	50.0	1,252,462	43.8	1,160,293	49.3
Financial assets held for trading	6,836	0.2	2,565	0.1	5,964	0.2	16,636	0.7
Investment securities								
Available-for-sale investments	575,480	17.3	351,374	11.2	356,933	12.5	222,822	9.5
Held to maturity investments	294,609	8.9	330,860	10.6	337,336	11.8	31,886	1.4
Asset pledged as collateral	49,558	1.5	50,109	1.6	72,129	2.5	122,009	5.2
Inventory	—	—	—	—	25,609	0.9	23,081	1.0
Interest in subsidiary	—	—	—	—	—	—	—	—
Investment in associates accounted for using the equity method	5,894	0.2	5,609	0.2	7,489	0.3	8,996	0.4
Other assets	48,276	1.5	33,733	1.1	62,272	2.2	39,282	1.7
Investment properties	—	—	—	—	4,055	0.1	2,440	0.1
Intangible assets	2,664	0.1	3,417	0.1	1,008	0.0	494	0.0
Property, plant and equipment	77,018	2.3	74,454	2.4	65,874	2.3	63,634	2.7
Deferred tax	7,538	0.2	7,955	0.3	6,954	0.2	12,274	0.5
Assets held for sale	12,736	0.4	12,978	0.4	—	—	—	—
Total assets	**3,323,809**	**100.0**	**3,127,208**	**100.0**	**2,860,169**	**100.0**	**2,354,831**	**100.0**

The Group's total assets increased to ₦3,324 billion as at 31 March 2013 from ₦3,127 billion as at 31 December 2012, ₦2,860 billion as at 31 December 2011 and ₦2,355 billion as at 1 January 2011. The overall increase in the Group's total assets was primarily attributable to the increase in the volume of loans and advances to customers and investment securities.

The increase in loans and advances to customers was primarily driven by the Group's increased exposure to the oil and gas, manufacturing, real estate and construction sectors of the economy, in part attributable to the regulatory framework in Nigeria including the Nigerian Local Content Act (enacted in April 2010) and the marginal field regime to increasing Nigerian participation in the Nigerian oil and gas industry. Loans and advances to customers remained relatively flat in the first quarter of 2013 due to repayments of certain loans and advances, as well as the Group reaching the cap of its quota for consumer lending in September 2012 on the back of the success of the Personal Loan Against Salary (PLAS) product. The Group has since undertaken a review of its consumer lending portfolio and has decided to expand the quota. The increase in investment securities was due to increased investments in Nigerian treasury bills and FGN bonds as a result of the increase in the Group's deposits from customers in the period.

Cash and balances with central banks

The following table sets out details of the Group's cash and balances with central banks as at the dates indicated.

	As at 31 March	As at 31 December		As at 1 January
	2013	2012	2011	2011
		(₦ millions)		
Cash and balances with central banks				
Cash	92,500	53,083	45,293	33,155
Balances with central banks other than mandatory reserve deposits	22,258	53,432	50,038	31,231
Mandatory reserve deposits with the Central Bank of Nigeria[1]	207,626	191,509	103,897	11,131
Total cash and balances with central banks	**322,384**	**298,024**	**199,228**	**75,517**

(1) Mandatory reserve deposits are not available for use in the Group's day-to-day operations. Mandatory reserve deposits are non interest-bearing and are calculated as a fixed percentage of the Group's liabilities.

The Group's cash and balances with central banks increased to ₦322,384 million as at 31 March 2013, as compared to ₦298,024 million as at 31 December 2012, ₦199,228 million as at 31 December 2011 and ₦75,517 million as at 1 January 2011.

The increase in cash and balances with central banks for the three months ended 31 March 2013 was primarily due to increases in cash in vault as a result of the Group's branch and ATM expansion and mandatory reserve deposits with the CBN, which were a result of an increase in customer deposits. This was partly offset by a decrease in balances with central banks other than mandatory reserve deposits, to ₦22,258 million as at 31 March 2013 from ₦53,432 million as at 31 December 2012 due to a decrease in overnight placements with the CBN in favour of Treasury bills.

The increase in cash and balances with central banks in 2012 to ₦191,509 million as at 31 December 2012 from ₦103,897 million as at 31 December 2011 as a result of the increase in the CBN cash reserve requirement from 4.0 per cent. to 8.0 per cent. in October 2011, and again from 8.0 per cent. to 12.0 per cent. in July 2012, and also an increase in deposit from customers to ₦2,406 billion as at 31 December 2012 from ₦1,951 billion as at 31 December 2011.

The increase in cash and balances with central banks in 2011 was primarily due to an increase in mandatory reserve deposits with the CBN to ₦103,897 million as at 31 December 2011 from ₦11,131 million as at 1 January 2011, as a result of an increase in deposit from customers to ₦1,951 billion as at 31 December 2011 from ₦1,448 billion as at 1 January 2011.

The level of cash on hand as at 31 December 2012, 31 December 2011 and 1 January 2011 also reflects Nigeria's status as significantly a cash economy, with most transaction settlements done on cash-and-carry basis. The Group also keeps a higher proportion of customer deposits in cash on hand during the Christmas period in December and early New Year in January to meet increased cash withdrawal needs of its deposit customers.

Loans and advances to banks

The following table sets out details of the Group's loans and advances to banks as at the dates indicated.

	As at 31 March	As at 31 December		As at 1 January
	2013	2012	2011	2011
		(₦ millions)		
Loans and advances to banks:				
Current balances with banks within Nigeria	44,537	15,749	11,291	86,841
Current balances with banks outside Nigeria	246,753	322,703	213,618	109,017
Placements with banks and discount houses	73,640	53,967	237,947	379,609
	364,930	392,419	462,856	575,467
Long term placements	1,217	706	—	—
Carrying amount	**366,147**	**393,125**	**462,856**	**575,467**

Total loans and advances to banks decreased to ₦366,147 million as at 31 March 2013 from ₦393,125 million as at 31 December 2012, ₦462,856 million as at 31 December 2011 and ₦575,467 million as at 1 January 2011.

The decrease in loans and advances to banks for the three months ended 31 March 2013 was due to decreases in current balances with banks outside Nigeria attributable to drop in volume of transactions, particularly cash-collateralized letters of credit.

The decrease in total loans and advances to banks in 2012 and 2011 was due to a shift in deposits held with Nigerian banks to Treasury Bills and FGN bonds which were earning higher rates than interbank deposits following the expiration of the CBN's guarantee of interbank borrowings (which expired in September 2011, except for banks negotiating merger and acquisition transactions within the Nigerian banking industry, which expired in December 2011). The CBN's interbank guarantee had resulted in the Group depositing large amounts of cash in high interest bearing deposit accounts with Nigerian banks. Partly offsetting the decrease in balances held with Nigerian banks was an increase in balances held with banks outside of Nigeria as a result of an increase onshore domiciliation of foreign currency proceeds attributable to rising local participation in the upstream oil and gas industry.

Loans and advances to customers

The following table sets out details of the Group's loans and advances to customers as at the dates indicated.

Loans and advances to customers	Gross amount	Specific impairment	Collective impairment	Total impairment	Carrying amount
			(₦ millions)		
31 March 2013					
Overdrafts	319,653	8,335	4,086	12,421	307,232
Term loans	1,209,441	9,483	17,382	26,865	1,182,576
Advances under finance lease	3,410	414	65	479	2,931
Staff loans	4,927	—	201	201	4,726
Project Finance	57,994	—	790	790	57,204
	1,595,425	**18,232**	**22,524**	**40,756**	**1,554,669**
31 December 2012					
Overdrafts	276,839	6,882	3,402	10,284	266,555
Term loans	1,256,019	10,251	17,372	27,623	1,228,396
Advances under finance lease	3,781	—	87	87	3,694
Staff loans	5,947	—	600	600	5,346
Project Finance	59,746	—	732	732	59,014
	1,602,332	**17,133**	**22,193**	**39,326**	**1,563,005**
31 December 2011					
Overdrafts	178,410	1,671	3,148	4,819	173,591
Term loans	1,083,167	11,263	16,068	27,331	1,055,836
Advances under finance lease	4,697	—	86	86	4,611
Staff loans	6,575	—	232	232	6,343
Project Finance	12,555	—	474	474	12,081
	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	922,512	12,680	17,970	30,650	891,862
Advances under finance lease	8,282	634	325	959	7,323
Staff loans	6,887	—	580	580	6,307
Project Finance	105,045	423	999	1,422	103,623
	1,212,096	**26,031**	**25,772**	**51,803**	**1,160,293**

The following table sets out the sector concentrations of the Group's gross loans and advances to customers as at the dates indicated (calculated in accordance with Nigerian GAAP). See note 3.2.5(b) to the Annual IFRS Financial Statements for details of the sector concentrations of the Group's loans and advances to customers by carrying amount.

	As at 31 March 2013	% of total	As at 31 December 2012	% of total	As at 31 December 2011	% of total	As at 1 January 2011	% of total
				(₦ millions except %)				
Concentration by sector								
Agriculture	55,762	3.5	54,006	3.4	21,057	1.6	12,546	1.0
Oil and gas	546,422	34.2	594,908	37.1	386,926	30.1	266,622	22.0
Consumer credit	141,622	8.9	148,808	9.3	226,777	17.6	70,970	5.9
Manufacturing	233,252	14.6	233,445	14.6	135,453	10.5	88,832	7.3
Real estate	135,336	8.5	129,498	8.1	49,622	3.9	111,443	9.2
Construction	41,602	2.6	35,131	2.2	8,162	0.6	8,674	0.7
Finance and insurance	51,062	3.2	11,718	1.1	51,018	4.0	211,182	17.4
Transportation	14,749	0.9	11,508	0.7	5,288	0.4	1,804	0.1
Communication	90,444	5.7	80,609	5.0	67,711	5.3	71,783	5.9
General commerce	75,828	4.8	80,691	5.0	92,204	7.2	188,023	15.5
Utilities	9,428	0.6	6,369	0.4	0	0.0	1,274	0.1
Retail services	85,535	5.4	90,683	5.7	129,478	10.1	114,176	9.4
Public sector	114,384	7.2	124,958	7.4	111,708	8.7	64,671	5.3
Gross loans	1,595,425	100.0	1,602,332	100.0	1,285,404	100.0	1,212,096	100

Loans and advances to customers was the largest component of the Group's total assets as at 31 March 2013, 31 December 2012, 31 December 2011 and 1 January 2011. Gross loans and advances to customers decreased slightly to ₦1,595,425 million as at 31 March 2013 from ₦1,602,332 million as at 31 December 2012, ₦1,285,404 million as at 31 December 2011 and ₦1,212,096 million as at 1 January 2011.

The slight decrease in loans and advances to customers as at 31 March 2013 was a result of the repayment of certain loans and advances, as well as the Group reaching the limit of its quota for consumer lending in September 2012. The increase in loans and advances to customers as at 31 December 2012 compared to 31 December 2011 was driven by increased exposure to the oil and gas, manufacturing, real estate and construction sectors of the economy. The oil and gas sector has witnessed growth in production in the period as a result of increased security in the Niger Delta brought about by the amnesty programme for militants implemented by the Government, as well as regulatory changes such as the Nigerian Local Content Act (enacted in April 2010) and the marginal field regime designed to increase indigenous participation in the Nigerian oil and gas industry which has led to increased lending to domestic participants in the industry, as they require more capital to augment their financial needs. The Bank's loan growth to the manufacturing sector was attributable to the Bank's fostering of client relationships with manufacturing concerns, while growth in the real estate sector was mainly in the commercial property segment of the sector which witnessed significant growth in light of the crash of the Nigeria capital market due to the spill-over effect of the global financial crisis. Construction activities by the Government have also increased as a result of the infrastructure deficit in Nigeria.

Total impairments on loans and advances to customers increased to ₦40,756 million as at 31 March 2013 from ₦39,326 million as at 31 December 2012 and ₦32,942 million as at 31 December 2011, but decreased from ₦51,803 million as at 1 January 2011. The increase in impairments in the first quarter of 2013 was due to an increase in specific impairments as a result of the Group's policy on prompt identification of delinquent loans with the aim of initiating remedial and recovery actions. The increases in impairments in 2012 was primarily due to the growth in the Group's loans and advances to customers, while the decrease in impairments in 2011 was due to write-offs of loans and sale of loans to AMCON in 2011.

The following table sets out the Group's loans and advances to customers by remaining contractual maturity dates as at 31 March 2013 and 31 December 2012 and 2011.

	As at 31 March		As at 31 December			
	2013	% of total	2012	% of total	2011	% of total
			(₦ millions except %)			
Less than 3 months	474,827	29.8	667,692	41.7	643,619	50.1
3 months to 6 months	77,481	4.9	99,116	6.2	54,656	4.3
6 months to 1 year	260,876	16.4	171,516	10.7	126,398	9.8
1 year to 5 years	700,429	43.9	580,610	36.2	378,348	29.4
More than 5 years	81,813	5.1	83,397	5.2	82,383	6.4
Total	**1,595,425**	**100.0**	**1,602,332**	**100.0**	**1,285,404**	**100.0**

Investments

The following table sets out details of the Group's investments as at the dates indicated.

Investments	31 March 2013	31 December 2012	31 December 2011	1 January 2011
		(₦ millions)		
Available for sale				
Treasury bills—At fair value	373,809	121,247	149,489	3,368
Government bonds—At fair value	157,711	182,629	155,351	136,578
Listed equity investments—At fair value	1,285	1,131	4,417	6,196
Unlisted equity investments—At fair value	42,675	46,367	47,676	76,680
	575,480	**351,374**	**356,933**	**222,822**
Assets pledged as collateral				
Treasury bills—At fair value	16,948	17,531	22,195	—
Government bonds—At fair value	1,582	1,515	10,191	109,100
	18,530	**19,046**	**32,386**	**109,100**
Total securities classified as available for sale	**594,010**	**370,420**	**389,319**	**331,922**
Held to maturity				
Treasury bills (At amortised cost)	3,089	—	—	6,997
Listed debt—(At amortised cost)	145,860	155,636	337,336	—
Unlisted debt—(At amortised cost)	145,660	175,224	—	24,889
	294,609	**330,860**	**337,336**	**31,886**
Assets pledged as collateral				
Treasury bills (At amortised cost)	—	—	—	12,909
Government bonds (At amortised cost)	31,028	31,063	39,743	—
	31,028	**31,063**	**39,743**	**12,909**
Total securities classified as held to maturity	**325,637**	**361,923**	**377,079**	**44,795**
Total investments	**919,647**	**732,343**	**766,398**	**376,717**

Total investments were ₦919,647 million as at 31 March 2013, ₦732,343 million as at 31 December 2012, ₦766,398 million as at 31 December 2011 and ₦376,717 million as at 1 January 2011.

The overall increase in investments in the periods under review was due to increased investment in Treasury bills and government bonds as a result of increased deposits from customers in the period that was invested in such bonds. Investments decreased slightly in 2012 due to significant growth in the Group's loan portfolio in 2012 resulting in decreased investments.

The change in listed and unlisted debt securities in 2012 were a result of reclassification of AMCON bonds to reflect that only the Series 1 AMCON bonds were listed and the other AMCON bonds were unlisted.

The decrease in Government bonds as assets pledged as collateral at fair value to ₦1,515 million as at 31 December 2012 from ₦10,191 million as at 31 December 2011 and ₦109,100 million as at 1 January 2011 was primarily due to the repayment of a U.S.$350 million loan from Standard Chartered Bank obtained in 2010.

Property and equipment

Property and equipment consist primarily of improvement and buildings, land, motor vehicles, office and computer equipment, furniture and fittings, plant and machinery and work in progress. Property and equipment was ₦76,292 million as at 31 March 2013, ₦74,454 million as at 31 December 2012, ₦65,874 million as at 31 December 2011 and ₦63,634 million as at 1 January 2011. The increase in property and equipment was primarily due to the increase in the number of branches, QSPs and ATMs as a result of the Group's expansion strategy in the period.

Intangible assets

Intangible assets consists of goodwill and computer software. Intangible assets were ₦3,205 million as at 31 March 2013, ₦3,417 million as at 31 December 2012, ₦1,008 million as at 31 December 2011 and ₦494 million as at 1 January 2011. The increase in intangible assets in 2012 was a primarily a result of goodwill from the acquisition of BIC. The increase in intangible assets in 2011 was primarily due to the acquisition of the Finacle 10 core banking application and other computer software.

Other assets

The following table sets out details of the Group's other assets as at the dates indicated.

	31 March	31 December		1 January
	2013	2012	2011	2011
	(₦ millions)			
Other assets				
Prepayments	13,457	8,459	9,276	8,583
Accounts receivables	14,873	17,330	32,802	22,790
Insurance receivables	—	—	111	—
Other receivables[(1)]	26,189	14,182	27,118	11,890
	54,519	**39,971**	**69,307**	**43,263**
Less specific allowances for impairment	(6,243)	(6,238)	(7,035)	(3,981)
Total	**48,276**	**33,733**	**62,272**	**39,282**

(1) Other receivables include money transfer receivables and other receivables.

Other assets comprise sundry receivables, prepayments and other receivables which are other financial assets such as deposit insurance premium and other inter-branch receivables due head office. The Group's other assets increased to ₦48,276 million as at 31 March 2013 from ₦33,733 million as at 31 December 2012, ₦62,272 million as at 31 December 2011 and ₦39,282 million as at 1 January 2011. The increase in the first quarter of 2013 was due to increases in prepayments related to deferred expenses on new branches awaiting opening and an increase in other receivables which was primarily provision for NDIC premium due from branches of ₦8,242 million for the period. NDIC premium is paid at the start of each financial year based on the closing deposit balances as at 31 December in the preceding year and then amortized monthly to each branch. The decreases in other assets in 2012 mainly reflected a decrease in accounts receivables and in other receivables reflecting a decline in inter-branch receivables due head office as a result of improved processes and processing efficiency. Inter-branch receivables due head office declined from ₦18,704 million as at 31 December 2011 to ₦6,599 million as at 31 December 2012 and ₦3,406 million in March 2013. The growth in account receivables in 2011 was driven by growth in prepaid rents, reclassified from prepaid expenses in 2010. In addition other receivables grew from ₦11,890 million to ₦27,118 million due to outstanding transit items over the reporting period related to treasury transactions subsequently reconciled in the subsequent reporting period.

Total liabilities

The following table presents data regarding the Group's liabilities as at the dates indicated.

	As at 31 March 2013	% of total	As at 31 December 2012	% of total	As at 31 December 2011	% of total	As at 1 January 2011	% of total
				(₦ millions)				
Liabilities								
Deposit from banks	78,029	2.7	87,551	3.2	183,500	7.4	148,352	7.6
Deposits from customers	2,604,062	89.7	2,405,858	88.0	1,951,321	78.3	1,447,600	74.1
Financial liabilities held for trading	6,332	0.2	1,796	0.1	2,857	0.1	1,639	0.1
Liability on investment contracts	—	0.0	—	0.0	49,440	2.0	76,446	3.9
Liability on insurance contracts	—	0.0	—	0.0	824	0.0	—	0.0
Borrowings	35,810	1.2	75,541	2.8	104,473	4.2	126,350	6.5
Retirement benefit obligations	18,559	0.6	18,648	0.7	15,081	0.6	11,426	0.6
Current income tax liability	24,796	0.9	22,374	0.8	24,254	1.0	20,052	1.0
Deferred tax	6	0.0	6	0.0	1,067	0.0	901	0.0
Other liabilities	132,610	4.6	118,066	4.3	158,773	6.4	120,470	6.2
	2,900,204	99.9	2,729,840	99.9	2,491,590	100.0	1,953,236	100.0
Liabilities held for sale	1,929	0.1	2,836	0.1	—	0.0	—	0.0
Total liabilities	**2,902,133**	**100.0**	**2,732,675**	**100.0**	**2,491,590**	**100.0**	**1,953,236**	**100.0**

The Group's total liabilities increased to ₦2,902,133 million as at 31 March 2013, from ₦2,732,675 million as at 31 December 2012, ₦2,491,590 million as at 31 December 2011 and ₦1,953,236 million as at 1 January 2011. The increase in total liabilities in the three months ended 31 March 2013 was due to an increase in deposits from customers attributable to the Group's strategy to grow its retail deposits and other liabilities as a result of an increase in accounts payable, provisions and accruals attributable to increases in deposit insurance premiums, third party payment and funds transfer products and provisions for staff incentive obligations. The majority of the increase in total liabilities in 2012 and 2011 were attributable to an increase in deposits from customers.

The Group has historically relied almost exclusively on deposits from customers to meet its funding needs as access to other funding sources, including the capital markets, has been limited. As the rates offered by the Government on Treasury bills and FGN bonds have risen in the periods under review as part of the Government's fiscal policy, rates paid on deposits by Nigerian banks, including the Bank, have also risen. This has caused an increase in the competition among Nigerian banks for customers deposits, particularly savings and current account deposits that pay a lower rate of interest compared to term deposits. The Group's branch expansion strategy is aimed at expanding its branch network in Nigeria in order to drive low-cost current and savings account deposit liability generation. See "*Business Description—Description of Business—Retail Banking SBU—Deposits*". However, the Group also expects that its interest expense on customer deposits will rise materially in future periods due to the CBN requirement that savings deposits earn at least 30 per cent. of the annual MPR. See "*Risk Factors—Risks Related to the Group—The Group operates in an uncertain regulatory environment and recent changes by the CBN are having a material adverse effect on the Group*".

Deposits from customers

As at 31 March 2013, 31 December 2012 and 31 December 2011, the Group's deposits accounted for 85.7 per cent., 83.8 per cent. and 76.5 per cent. of total funding (which is defined as deposit from banks, deposits from customers, borrowings, share capital, share premium and retained earnings), respectively.

The following table sets out details of the Group's deposits from customers as at the dates indicated.

	As at 31 March 2013	% of total	As at 31 December 2012	% of total	As at 31 December 2011	% of total	As at 1 January 2011	% of total
				(₦ millions except %)				
Current	850,927	32.7	805,222	33.5	746,118	38.2	607,252	41.9
Savings	570,800	21.9	548,391	22.8	495,777	25.4	387,808	26.8
Term	624,068	24.0	501,371	20.8	289,064	14.8	273,755	18.9
Domiciliary	553,187	21.2	541,210	22.5	417,715	21.4	177,497	12.3
Electronic purse	5,080	0.2	9,664	0.4	2,647	0.1	1,288	0.1
	2,604,062	100.0	2,405,858	100.0	1,951,321	100.0	1,447,600	100.0
Current	2,604,002	100.0	2,405,854	100.0	1,950,991	100.0	1,379,978	100.0
Non-current	60	0.00	4	0.0	330	0.0	67,622	0.0
Total deposits from customers	**2,604,062**	**100.0**	**2,405,858**	**100.0**	**1,951,321**	**100.0**	**1,447,600**	**100.0**

Deposits from customers increased to ₦2,604,062 million as at 31 March 2013 from ₦2,405,858 million as at 31 December 2012, after increasing from ₦1,951,321 million as at 31 December 2011 and ₦1,447,600 million as at 1 January 2011.

Deposits from customers in current accounts, savings accounts, term deposits and domiciliary accounts increased in each of the periods under review. Increases in deposits from customers were primarily driven by the Group's branch expansion strategy which aims to retain and increase the Bank's low cost funding base from current and savings account deposits. Term deposits and domiciliary account deposits increased as a proportion of total deposits from customers, while current and savings account deposits decreased as a proportion of total deposits from customers in the periods under review. The proportional increase in term deposits was driven by a rise in the interest rate environment as a result of higher rates offered by the Government on Treasury bills and FGN bonds, which induced more of the Bank's customers to deposit money in term deposits that paid a higher rate of interest, instead of current and savings accounts. The proportional increase in domiciliary accounts was attributable to the regulatory framework in Nigeria such as the Nigerian Local Content Act (enacted in April 2010) and the marginal field regime to increase Nigerian participation in the Nigerian oil and gas industry. These regulatory changes led to an increase in the Bank's financing of upstream oil and gas activities by Nigerian companies, and an increase in domiciliary account deposits due to the proceeds such activities being primarily denominated in U.S dollars.

In 2013, the increase in deposits from customers was primarily driven by an increase in term deposits and current and savings accounts deposits. The increase in term deposits was attributable to the increase in the average rate of interest paid on term deposits (calculated in accordance with Nigerian GAAP), which increased to 10.2 per cent. for the first quarter of 2013 from 8.4 per cent. in 2012. The increase in current and savings account deposits was driven by an expansion in the Bank's branch network.

In 2012, the increase in deposits from customers was primarily driven by an increase in term deposits, and domiciliary, current and savings accounts deposits. The increase in term deposits was attributable to the increase in the average rate of interest paid on term deposits (calculated in accordance with Nigerian GAAP), which increased to 8.4 per cent. in 2012 from 3.1 per cent. in 2011. The increase in domiciliary account deposits was attributable to an increase in the Bank's financing of upstream oil and gas activities by Nigerian companies. The increase in current and savings account deposits was driven by an expansion in the Bank's branch network.

In 2011, the increase in deposits from customers was primarily driven by an increase in domiciliary, current and savings accounts deposits. The increase in domiciliary account deposits was attributable to an increase in the Bank's financing of upstream oil and gas activities by Nigerian companies. The increase in current and savings account deposits was driven by depositors' flight to safety to larger banks that may have been perceived to be healthier than other Nigerian banks during the financial crisis.

The following table sets out the Group's deposits from customers by remaining contractual maturity dates as at 31 March 2013 and 31 December 2012 and 2011.

	As at 31 March		As at 31 December			
	2013	% of total	2012	% of total	2011	% of total
	(₦ millions except %)					
Less than 3 months	2,593,060	98.4	2,393,472	96.9	1,833,932	93.6
3 months to 6 months	30,298	1.1	35,682	1.4	75,076	3.8
6 months to 1 year	13,076	0.5	40,592	1.6	22,884	1.2
1 year to 5 years	51	0.0	4	0.0	28,422	1.4
More than 5 years	0	0.0	0	0.0	0	0.0
Gross nominal inflow/(outflow)[(1)]	**2,636,485**	**100.0**	**2,469,750**	**100.0**	**1,960,314**	**100.0**

(1) The gross nominal inflow/(outflow) is the contractual, undiscounted cash flow of the financial liability or commitment

Retirement benefit obligations

The following table sets out details of the Group's retirement benefit obligations as at the dates indicated, and the income statement charge for the years indicated.

	As at 31 March	As at 31 December		As at 1 January
	2013	2012	2011	2011
	(₦ millions)			
Consolidated statement of financial position asset for:				
—BIC gratuity scheme	132	132	—	—
—Defined contribution scheme	—	—	391	225
—Gratuity scheme	14,803	14,158	7,685	6,298
—Defined benefit scheme pension	3,624	4,358	7,005	4,903
Retirement benefit obligations	**18,559**	**18,648**	**15,081**	**11,426**

The Group's retirement benefit obligations decreased to ₦18,559 million as at 31 March 2013 from ₦18,648 million as at 31 December 2012, which in turn was an increase from ₦15,081 million as at 31 December 2011 and ₦11,426 million as at 1 January 2011. The decrease in retirement benefit obligations in the three months ended 31 March 2013 was due to the Group's employee rejuvenation strategy that resulted in the departure of some senior employees, who were replaced with junior employees. The increase in retirement benefit obligations in 2012 was primarily attributable to two factors. First, in 2012 the Group incentivized 797 personnel to retire early as a part of its rejuvenation strategy, resulting in a one-time cost of ₦12,542 million. Second, salary increases in 2011 resulted in a shortfall of ₦9,031 billion in the actuarial valuation for the Group's defined benefit plan, and the Group funded this shortfall in 2012.

Other liabilities

The following table sets out details of the Group's other liabilities as at the dates indicated.

	As at 31 March	As at 31 December		As at 1 January
	2013	2012	2011	2011
	(₦ millions)			
Customer deposits for letters of credit	46,129	47,401	61,102	41,885
Accounts payable	19,044	11,116	26,481	18,920
Provisions and accruals	24,394	17,048	11,489	6,013
Bank cheque	14,044	14,004	13,112	14,268
Collection on behalf of third parties	8,073	7,131	4,375	4,193
Other payables	20,926	21,366	42,214	35,191
Total	**132,610**	**118,066**	**158,773**	**120,470**

The Group's other liabilities was ₦132,610 million as at 31 March 2013, ₦118,066 million as at 31 December 2012, ₦158,773 million as at 31 December 2011 and ₦120,470 million as at 1 January 2011. The increase in other liabilities in the first quarter of 2013 was due to increases in account payables, primarily due to increases in payables of third party payments and fund transfer products attributable to the increasing adoption of electronic payment and funds transfer methods subsequent to the CBN's ban on cheques over the amount of ₦10 million, and also due to provisions and accruals attributable to provisions for increases in banking resolution cost and on staff incentives. The decrease in other liabilities in 2012 was due to decreases in customer deposits for letters of credit, accounts payable and other payables, which were largely attributable to the 2012 Nigeria oil subsidy investigations which caused a decrease in trade volumes in 2012. The increase in other liabilities in 2011 was due to increases in customer deposits for letters of credit, accounts payable and other payables, which were driven by increases in the volume of business.

Financial covenants

The Group, in its ordinary course of business, has entered into various loan agreements. The Group's loan agreements contain covenants that, among other things, require the Group to maintain:

- a minimum capital adequacy ratio;
- a maximum NPL ratio;
- a maximum related party lending ratio;
- a minimum liquidity ratio; and
- minimum provisions for NPLs.

In addition, the Group's loan agreements contain certain customary representations and warranties, affirmative covenants and events of default. If an event of default occurs, the lenders under the loan agreements will be entitled to take various actions, including the acceleration of amounts due under the loan agreements and all actions permitted to be taken by a secured creditor.

As of 31 March 2013, the Group was in compliance in all material respects with all covenants in the provisions contained in the documents governing its loan agreements.

Funding and Liquidity

The Group's funding needs arise primarily from the extension of loans and advances to customers. As at 31 March 2013, the Group's funding base consisted primarily of deposits from customers. While deposits from customers decreased slightly to 89.7 per cent. of total funding (defined as deposit from banks, deposits from customers, borrowings, share capital, share premium and retained earnings) as at 31 March 2013 from 88.0 per cent as at 31 December 2012, overall it increased from 78.3 per cent as at 31 December 2011 and 74.1 per cent as at 1 January 2011. Borrowings made up 2.5 per cent. of total liabilities as at 31 March 2013, which decreased from 2.8 per cent. as at 31 December 2012, 4.2 per cent. as at 31 December 2011 and 6.5 per cent. as at 1 January 2011. Please see "*—Financial condition as at 31 March 2013, 31 December 2012, 31 December 2011 and 1 January 2011*" above for more information on the Group's funding sources.

The following table sets out the liquidity ratios for the Group as at the dates indicated.

	As at 31 March	As at 31 December	
	2013	2012	2011
Liquid assets[(1)]/total assets	30.6%	25.8%	30.4%
Liquid assets[(1)]/total customer deposits	39.0%	33.5%	44.5%
Net loans to customers/total assets	46.8%	50.0%	43.8%
Net loans to customers/customer deposits	59.7%	65.0%	64.2%
Net loans to customers/total equity	3.7%	4.0%	3.4%

(1) Liquid assets consist of cash and cash equivalents, Treasury bills, trading assets and government bonds (available for sale and trading).

Off-balance sheet arrangements

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. These instruments, which include performance bonds and guarantees and letters of credit, involve varying degrees of credit risk and are not reflected in the balance sheet of the Group. The Group's total off-balance sheet assets were ₦817,475 million as at 31 March 2013, ₦564,467 million as at 31 December 2012 and ₦459,080 million as at 31 December 2011. The Group's maximum exposure to credit losses for off-balance sheet arrangements is reflected in the contractual amounts of these transactions. In accordance with the CBN Prudential Guidelines, the maximum amount that can be included in off-balance sheet is 150.0 per cent. of shareholders' funds, and was 143 per cent. as at 31 December 2012.

The Group does not create provisions for off-balance sheet liabilities so long as they are performing. However in the event that an off-balance sheet liability becomes non-performing, the Group would expect to take it on balance sheet and create a provision.

Contingencies and contractual commitments

The following table sets out the commitments and contingent liabilities of the Group as at the dates indicated.

	As at 31 March	As at 31 December	
	2013	2012	2011
		(₦ millions)	
Contingent liabilities:			
Performance bonds and guarantees	441,846	344,079	230,200
Letters of credit	375,629	220,388	228,880
Total contingent liabilities	**817,475**	**564,467**	**459,080**

Capital adequacy

The Group calculates its capital adequacy ratio as the quotient of the capital base of the Group and the Group's risk weighted asset base. The Group is regulated by the CBN and must meet the CBN's capital adequacy requirements. In accordance with CBN regulations, a minimum ratio of 15.0 per cent must be maintained. The Group, as a policy, works to maintain adequate capital cover for its trading activities, with a minimum internal target of 16 per cent. In addition, the Group has monitored its compliance with the capital requirements calculated in accordance with Basel II Accord guidelines in compliance with CBN Prudential Guidelines since 2008 with the implementation of its enterprise risk management system.

The following table sets forth the Group's capital adequacy as at the dates indicated, calculated in accordance with IFRS.

	As at 31 March	As at 31 December		As at 1 January
	2013	2012	2011	2011
	(₦ millions, except %)			
Tier 1 capital				
Share capital	16,316	16,316	16,316	16,316
Share premium	189,241	189,241	254,524	254,524
Retained earnings	114,882	94,991	41,587	47,304
Statutory reserve	45,932	42,972	32,144	28,508
SMEEIS reserves[(1)]	6,076	6,076	6,076	6,309
Less: intangible assets	(2,664)	(3,417)	(1,008)	(494)
Total qualifying Tier 1 capital	**369,783**	**346,179**	**349,639**	**352,467**
Tier 2 capital				
Fair value reserve	30,162	25,815	8,524	47,033
Contingency reserve	—	—	13	—
Statutory credit reserve	15,968	16,101	9,766	28,220
Treasury share reserve	—	—	(1,941)	(27,767)
Foreign currency translation reserve	1,511	1,668	606	—
Other borrowings	—	—	27,235	27,235
Non-controlling interest	1,588	1,353	964	1,148
Total qualifying Tier 2 capital	**49,229**	**44,937**	**45,167**	**75,869**
Total regulatory capital	**419,012**	**391,116**	**394,806**	**428,336**
Risk-weighted assets				
On-statement of financial position	1,766,381	1,801,823	1,554,279	1,471,543
Off-statement of financial position	324,246	216,117	160,876	207,981
Total risk-weighted assets	**2,090,627**	**2,017,940**	**1,715,155**	**1,679,524**
Risk weighted Capital Adequacy Ratio (CAR)	20.04%	19.38%	23.02%	25.50%
Tier 1 capital ratio	17.69%	17.16%	20.39%	20.99%

(1) SMEEIS is a legacy CBN programme that was launched in 2001 as a means to fund SMEs in Nigeria. The scheme required all banks to set aside 10 per cent. of their profit after tax annually to invest as equity in SMEs. SMEEIS was discontinued in 2008. SMEEIS Reserves represent the amount the Bank has set aside under SMEEIS.

BUSINESS DESCRIPTION

Introduction

The Group is the largest banking group by assets in Sub-Saharan Africa excluding South Africa (based on published financial statements of banks in this region as at and for the year ended 31 December 2012), with total assets of ₦3,127 billion as at 31 December 2012. The Group provides a wide range of banking and other financial services to individuals and corporate customers in Nigeria and the sub-Saharan Africa region, as well as the United Kingdom, and serves over 8.5 million customers accounts through a large distribution network of over 700 branches, 2,000 ATMs and 18,000 POS terminals. Headquartered in Lagos, Nigeria, the Bank also has a network of representative offices in Abu Dhabi, Beijing and Johannesburg set up to capture trade-related businesses between respective geographies.

The Bank is the principal bank subsidiary of FBN Holdings Plc**,** a Nigerian-based, non-operating financial holding company listed on the NSE, which was established in 2012 as a result of the CBN's repeal of the universal banking model, under which Nigerian banks could either opt for a commercial banking licence or a holding company structure. The Group constituted 98 per cent. of FBN Holdings Plc's consolidated total assets as at 31 December 2012 and 91 per cent. of its consolidated total operating profit for the year ended 31 December 2012. See "*—Compliance with Central Bank of Nigeria's Regulation on the Scope of Banking Activities*".

The Bank serves retail, corporate and public sector customers with a range of deposit, lending, transactional, trade and foreign exchange products, and also generates revenue from money market investments.

The Bank's main business activities are organised along five customer segments, each served by an SBU as follows:

- ***Retail Banking:*** The Retail Banking SBU serves SMEs, local governments, and the affluent and the mass market customer segments, and serves over 8.5 million customer accounts through a network of over 700 branches and other delivery platforms. The Retail Banking SBU also serves as the bedrock for stable and low-cost deposit mobilisation with about 50 per cent. of total deposits in the Bank. In the consumer finance sector, they key targets are salaried individuals employed in reputable organisations (as determined by the Bank);
- ***Institutional Banking:*** The Institutional Banking SBU serves institutional customers that represent the top-end of the business banking value chain—companies which have good corporate governance, annual turnover of at least ₦5 billion, are typically listed, and require a wide variety of sophisticated products and product specialisation). These customers comprise the largest organisations across the Bank's target industries, i.e. oil and gas; conglomerates; manufacturing; telecommunications, construction and infrastructure; and financial institutions and multilateral agencies;
- ***Corporate Banking:*** The Corporate Banking SBU serves the middle segment of the Nigerian corporate landscape, predominantly unrated and non-investment grade companies with annual turnover in the range of ₦500 million to ₦5 billion and usually a higher risk profile than the Institutional Banking customers. Corporate Banking clients are broadly split into two groups—emerging corporates (smaller corporates with annual turnover in the range of ₦500 million to ₦2 billion) and large corporates (corporate with annual turnover in the range of ₦2 billion to ₦5 billion annually);
- ***Private Banking:*** The Private Banking SBU serves the premium bracket of individual customers, i.e. high net worth individuals, providing them with wealth management services; and
- ***Public Sector:*** The Public Sector SBU provides integrated banking products, financing and collection services for the Federal and State Governments, as well as Federal Government departments and agencies.

The following table lists each SBU and their relevant share of the Bank's total net revenue, outstanding customer loans and deposits all as at 31 December 2012:

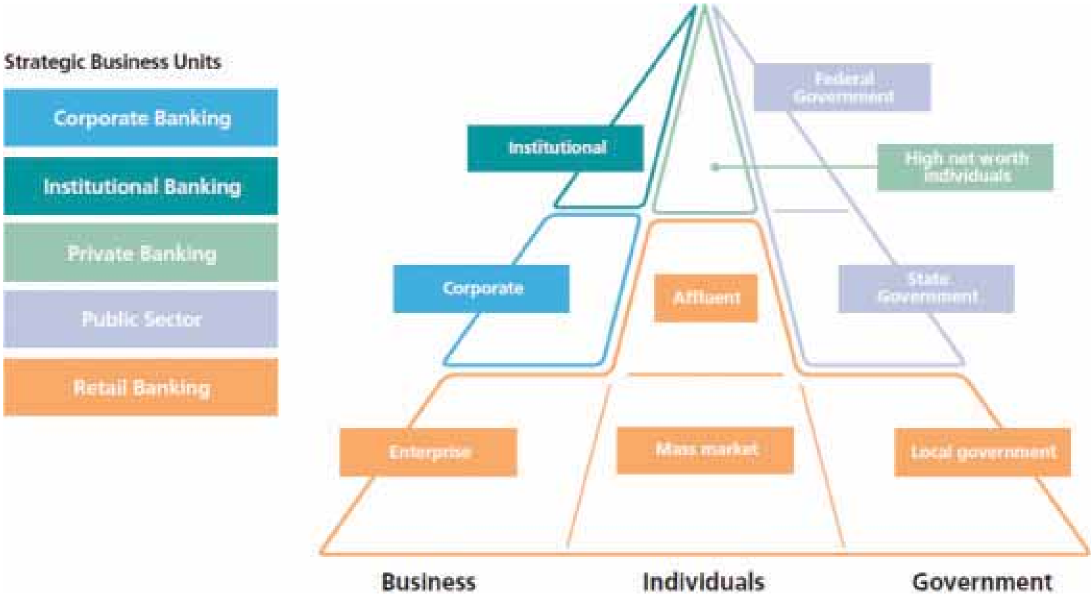
Strategic Business Unit	Net Revenue[2]	% of the Bank's Net Revenue	Loans	% of the Bank's Outstanding Loans	Deposits	% of the Bank's Deposits
			(₦ millions except %)			
Retail Banking SBU	142,843	54.5%	266,012	19.7%	1,015,530	46.8%
Institutional Banking SBU	44,245	16.9%	677,003	50.0%	318,690	14.7%
Corporate Banking SBU	33,756	12.9%	287,208	21.2%	172,540	7.9%
Private Banking Unit	1,828	0.7%	3,721	0.3%	22,870	1.1%
Public Sector SBU	43,045	16.4%	119,441	8.8%	614,200	28.3%
Corporate office[1]	(3,674)	(1.4)%	N/A	N/A	27,977	1.3%
Total	**262,044**	**100%**	**1,353,385**	**100%**	**2,171,807**	**100%**

(1) Corporate office includes the Treasury unit and other activities not allocated to specific SBUs. Corporate office deposits include deposits not yet allocated to specific SBUs. Negative revenues associated with the corporate office arise from the negative net interest revenue from subsidized staff loans and transfer pricing adjustments between SBUs.

(2) Net revenue is made up of net interest income, fee and commission income, foreign exchange income, net gain/(losses) on investment securities, net gain/(losses) from financial assets held for trading, gains from disposal of subsidiaries, dividend income and other operating income.

N/A:not applicable

The diagram below illustrates the customer segments served by the respective SBUs of the Bank:



The Bank's market-facing SBUs are supported by its non-market-facing Strategic Resource Functions ("**SRFs**"), which provides infrastructure and services support to the SBUs, such as operations, finance, legal, marketing, information technology, human capital management etc.

As at 31 March 2013, the Bank accounted for 87.0 per cent. of the Group's total assets and 90.1 per cent. of the Group's total operating profit. As at 31 March 2013, the Bank has five direct subsidiaries:

- ***FBN Bank (UK) Limited:*** FBN Bank (UK) Limited, a wholly owned subsidiary of the Bank, provides a range of domestic and international banking and financial services as well as trade services in support of commercial relations between Africa and the European Union. It is an authorised banking institution regulated by the Financial Conduct Authority (the "**FCA**");
- ***Banque Internationale de Crédit:*** Banque Internationale de Crédit, which is 75 per cent. owned by the Bank, is the fifth largest bank in the Democratic Republic of Congo by total assets and provides a wide range of financial solutions for individuals, SMEs, corporate institutions and public institutions operating in the Democratic Republic of Congo. Its principal activities are the provision of trade finance, project finance, Treasury, cards and other banking services to clients;

- ***FBN Bureau de Change Limited:*** FBN Bureau de Change Limited, a wholly owned subsidiary of the Bank, engages in currency trading and bureau de change services in Nigeria;
- ***First Pension Custodian Nigeria Limited:*** First Pension Custodian Nigeria Limited ("**FPC**"), a wholly owned subsidiary of the Bank, is a pension custodian in Nigeria, and offers services that covers its assigned responsibilities under the Nigerian Pension Reform Act 2004, which include, but are not limited to, pension contributions collection, investment transactions settlement, pensions and benefit payment, portfolio valuation, cash management and performance measurement and compliance monitoring assistance. FPC currently has custodial relationships with 15 pension fund custodians and three closed pension fund administrators and holds about 34 per cent. share of the Nigerian pension asset custody market; and
- ***FBN Mortgages Limited:*** FBN Mortgages Limited, a wholly owned subsidiary of the Bank, is licensed by the CBN under the Mortgage Institution Decree No. 53 of 1989 to carry out the business of mortgage banking in Nigeria, and provides integrated real estate and mortgage finance solutions.

For a further description of the Bank's subsidiaries, see "—*Subsidiaries*".

The Bank's registration number is RC 6290 and its registered office is located at 35, Samuel Asabia House, Marina, Lagos, in Nigeria and its telephone number is +234 1 4485500.

History of the Bank

The Bank, which commenced operations in Nigeria on 31 March 1894 as a branch of Bank of British West Africa Limited ("**BBWA**"), was incorporated as a private limited liability company in Nigeria in 1969. It was converted to a public company in March 1970. The Bank's shares were listed on the Nigerian Stock Exchange in March 1971. In 2012, the Group underwent a restructuring which resulted in the adoption of a holding company structure. Thus, the Bank was incorporated as a limited liability company with FBN Holdings Plc, a non-operating legal entity organised and domiciled in Nigeria which serves as the ultimate parent company of all companies in the Group, including the Bank. See "*—Compliance with Central Bank of Nigeria's Regulation on the Scope of Banking Activities*". In late 2011, the Bank acquired controlling interest (75 per cent.) in Banque Internationale de Crédit. See "*—Subsidiaries*".

Key Strengths

The Group believes the key strengths that differentiate it from other financial institutions in Nigeria include the following:

Leading banking franchise in Nigeria. The Group has the highest gross earnings, total deposits, total loans and total assets of any other banking institution in Nigeria, and third highest profits before tax for the year ended 31 December 2012 (based on financial statements of Nigerian banks as at and for the year ended 31 December 2012). The Bank's brand is recognisable, established and well-regarded throughout Nigeria, giving the Group a solid platform from which to provide a variety of banking services to customers and potential customers in its target markets. The Group has built a customer base of more than 8.5 million customer accounts by leveraging over 100 years of experience and its expansive branch network. The Group's focus on attaining the highest levels of customer service reinforces the Bank's brand and positive public perception, a strategy that has resulted in the numerous successful relationships with clients, individuals, corporations as well as state and federal government entities, and has resulted in the Bank being recognised with numerous awards, including "Best Bank in West Africa" by African Banker Magazine in 2013, "Best Bank in Nigeria" by Global Finance Magazine for eight consecutive years (from 2005 to 2021), "Best Local Bank in Nigeria" by EMEA Finance for three years (2009, 2010 and 2012), "Bank of the Year in Nigeria" by The Banker in 2012 and "Nigeria's Number One Banking Brand" by Brand Finance Top 500 Banking Brands in 2012 and 2013.

Stable funding and capital base. The Bank has historically maintained a strong liquidity and capital position as a result of its high volume of customer deposits held in low cost current and savings accounts, which amount to 46.8 per cent. of the Bank's funding base as at 31 March 2013. Renewed emphasis by the Bank in improving the service performance level in the retail sector and expansion of its branch network has resulted in a 21.7 per cent. increase in deposits of the Bank in 2012 and a 34.4 per cent. increase in 2011. The Bank maintains strong capital and liquidity ratios well in excess of regulatory requirements. This position is reinforced by recurring income generated from servicing over 8.5 million customer accounts, and the Group's customers have come to rely on its large and diverse set of product offerings. Continuing its position as a bank with a long history of maintaining a strong liquidity position, the Bank is a net lender into the Nigerian interbank market.

Large and growing distribution network. The Bank's distribution platform, including over 700 branches and over 2,000 ATMs as at 31 March 2013 is the largest in Nigeria. To facilitate access to its products and services, the Bank implemented a "click and mortar" strategy, which combines the reliability and convenience of branch banking with the cost savings and efficiency of accessing such services online. When the Bank enhanced its customer notification (SMS) and e-statement technology in 2010, the volume of the notifications more than doubled from 60 million to 140 million and the volume of e-statements increased from 250,000 to three million. The Bank's efforts at expanding its distribution network have proven successful, resulting in a 32 per cent. increase in the number of ATMs, a 10 per cent. increase in the number of internet banking users and a tripling in each of the average monthly call volume and average email volume to the contact centre when comparing in each instance 31 March 2013 to 1 January 2012. Through the Bank's wide network of branches and ATMs across Nigeria and expanding online banking capabilities, the Bank is able to reach an increasing number of Nigerian, which drives customer deposits in low cost current and savings accounts that serve as an important funding base for the Bank;

Solid financial performance and growth metrics. The Group has enjoyed strong financial results, generating net interest income of ₦49.84 billion for the three months ending 31 March 2013 and a net interest income year on year growth of 26.7 per cent. from 2011 to 2012. For the three months ending 31 March 2013, the Group achieved a cost to income ratio of 63.6 per cent., compared to 68.2 per cent. for the year ended 31 December 2012 and 77.1 per cent. for the year ended 31 December 2011. The Group also significantly improved its return on average equity from 4.8 per cent. for the year ended 31 December 2011 to 19.7 per cent. for the year ended 31 December 2012. Due to the Group's profitability, it has accumulated significant resources that it believes will allow it to continue investing in the Group's franchise and further develop the business both vertically and across products.

Reputation as a technological innovator in the Nigerian banking industry. The Bank was first-to-market in Nigeria with the multi-factor authentication technology, which enhanced the security of online transactions for its customers. The Bank has recently launched FirstMobile, its mobile banking service and Firstmonie®, its mobile payment product, permitting customers and non-customers (in the case of Firstmonie®) to conduct a growing variety of banking transactions through mobile phones, which have high market penetration in Nigeria, with over 110 million active lines as at 31 December 2012 according to statistics from the Nigerian Communications Commission. In 2010, the Bank became the first institution in Nigeria to attain the ISO27001 Information Security Certification. This commitment to technological innovation with the aim of improving the customer experience is a key tenet of the Group. The Group continues to invest in its technology infrastructure and initiate programs such as the automated cheque confirmation system, which expedites cheque-based transactions while reducing the instance of cheque fraud. The Group has recently completed a significant upgrade to its core banking application from Finacle 7 to Finacle 10, which will allow the Group to provide enhanced services and financial solutions for its customers, such as paperless deposits and withdrawals, enhanced security and convenience for Internet banking and instant card issuance at all branches. Other technology investments implemented throughout the Group streamline its operational processes, thereby lowering costs, which offsets the cost of such technology in the longer term. As part of its streamlining efforts, the Group is automating its back-office services, developing a workflow automation system that reinforces the benefits of its centralised processing centre and automating its bulk payment processing, all of which significantly reduce processing times, thereby improving the banking experience for the Group's customers.

Experienced management team. The Group's senior management team has extensive experience within the financial services sector in Nigeria, with an average of more than 20 years of experience gained in leading local and international banks and a combined experience of more than 400 years of executive management. The Group's Managing Director and Chief Executive Officer, Bisi Onasanya, has over 20 years of banking experience. The senior management team has a proven track record of implementing innovative and industry-leading initiatives, particularly guiding the Group to focus on best business practices and customer service, and contributing to its growth, being the largest banking group by assets in Sub-Saharan Africa excluding South Africa (based on published financial statements of banks in this region as at and for the year ended 31 December 2012). In particular, since 2011, the Bank has significantly cleaned up its balance sheet of legacy NPLs through AMCON and has delivered improved profitability in 2012 and the first quarter of 2013. The Group believes the experience of its senior management team will continue to be a key strength in succeeding in an increasingly competitive industry.

Strategy

The Group's strategic framework is aimed at optimising the growth potential in all of its core businesses. The key components of the Group's strategy are as follows:

Renewed emphasis on its retail business

The Group has prioritised increasing its retail business by expanding its branch network, enhancing its alternative distribution channels (particularly in mobile banking and mobile payment) and continuing to improve customer service. This expansion is intended to retain and increase the Bank's low cost funding base and to maintain fee revenues by increasing the volume of transactions, even as regulation reduces the amounts chargeable per transaction.

Increased focus on cost savings and efficiency

The Group will continue to focus on cost savings through containment of operating expenses, by driving productivity in key areas of its business, including extending the positive trends in faster volume growth relative to operating expenses due to process automation, as well as driving staff productivity by ensuring optimal personnel levels across major functions. The Group will also aim to maximise the benefits of efficiencies derived from its investment in technology, particularly in its electronic distribution channels, providing customers with more efficient ways of executing their transactions, such as instant online interbank transfers in both local and foreign currency, cardless ATM withdrawals, and bill payments, and thereby increasing the Group's fees and commissions from these distribution channels. The Group has also implemented a workforce rejuvenation plan, which is aimed at attracting younger, more productive and ultimately cheaper employees.

Comprehensive talent management

The Group will continue to improve its training programs and employee development techniques to help ensure the availability of highly skilled and motivated staff. The Group's training programs are also aimed at attracting a younger work force as part of the Group's workforce rejuvenation strategy.

Exploiting pockets of profitable growth

The Group is currently at an important juncture and is a leading player in the segments in which it is active. For each of the Bank's SBUs, the Bank has developed clear and distinctive value propositions linked to an understanding of the underlying economics and market dynamics with respect to the product portfolio, channel strategy, marketing, communications and Go-To-Market strategy (i.e. the channels that the Bank uses to reach its customers). In addition, the Group will consider selective acquisition opportunities in other countries in the region, where the scale of opportunity is appropriate and the quality and performance criteria of the Group are met.

Harnessing synergies within the Bank and across the Group

The Group has made an active effort to leverage natural synergies and cross-sell opportunities that exist between the Bank and the other banking subsidiaries (i.e. FBN Bank UK, BIC) and within the Bank (specifically, between Institutional Banking/Corporate Banking and between Public Sector and Private Banking). The Group has developed a framework for the SBUs and subsidiaries to cross-sell or collaborate in selling their products, thus improving overall profitability.

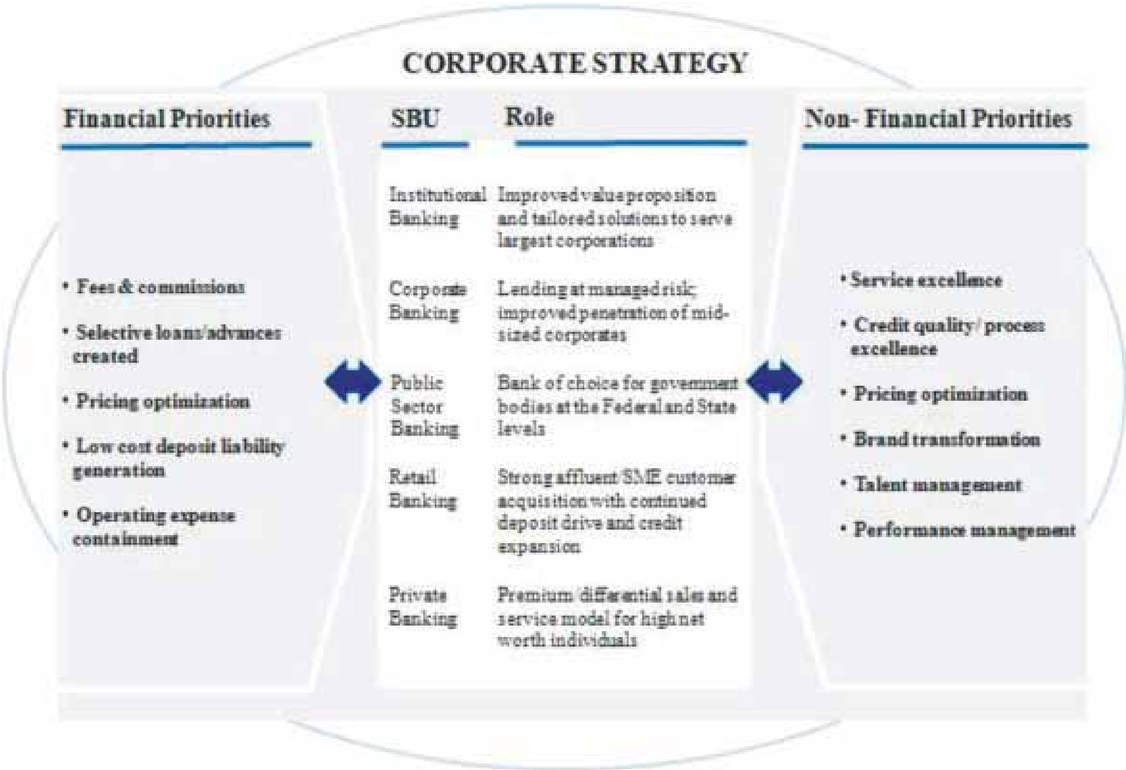
2013 Aspirations and Priorities

The Group continues to aspire to be the clear leader in the Nigerian banking sector and Nigeria's bank of choice. The Group has articulated its 2013 aspirations across four dimensions:

- ***Defend*** the Group's leadership position with respect to its balance sheet;
- ***Extend*** performance to attain a leading position in terms of profitability, capital efficiency and service and operational efficiency and effectiveness;
- ***Lead*** by attaining a market leadership position in each SBU and extend the Group's franchise into select promising markets in sub-Saharan Africa; and

- ***Balance*** short-term performance with long term health, delivering strong near-term earnings while making requisite investments for long-term growth.

The Group gives equal emphasis to 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 the Group's 2011 to 2013 strategy cycle.



Market Position and Competition

In July 2004, the CBN embarked on a recapitalisation and consolidation plan for the Nigerian banking sector, increasing the minimum capital requirement from ₦2 billion to ₦25 billion, which led to numerous capital raisings and consolidation within the industry, ultimately reducing the number of banks operating in Nigeria from 89 in July 2004 to 25 in September 2007. The subsequent global financial and economic crisis and the resulting decline in the Nigerian equities market in 2009 resulted in significant provisions and high NPL levels at a number of Nigerian banks, and this result, coupled with the declining oil price in the international markets, led to a number of Nigerian banks experiencing liquidity challenges. The CBN's Special Examination of the banking sector in 2009 identified the Intervened Banks as suffering from significant asset quality, capital adequacy, liquidity and corporate governance deficiencies. The CBN and AMCON intervened by providing bail-out funds to enable the Intervened Banks to meet their minimum capital adequacy ratios and continue operations. This resulted in opportunities for further sector consolidation, including acquisition of some of the Intervened Banks by stronger banks. Recent transactions include the acquisition of Intercontinental Bank by Access Bank and their subsequent merger, the acquisition of a majority shareholding in Finbank by First City Monument Bank Plc and their subsequent merger, the acquisition of a majority shareholding in Oceanic Bank by Ecobank Transnational Incorporated and the subsequent merger of Oceanic Bank and Ecobank Nigeria Plc, the merger of Equitorial Trust Bank and Sterling Bank and the acquisition of a majority shareholding in Union Bank by the African Capital Alliance Consortium. See also "*The Nigerian Banking Sector*".

Notwithstanding the significant changes in the competitive landscape of the Nigerian banking sector, the Group has continued to perform well. The Group has the highest total deposits (₦2.4 trillion) and gross earnings (₦338.9 billion) among Nigerian banks as at 31 December 2012. For the year ended 31 December 2012, the Bank maintained its dominance as the biggest bank in Nigeria in terms of total assets and customer loans and advances with 13 per cent. and 17 per cent. market share respectively (based on financial statements of Nigerian banks as at and for the year ended 31 December 2012). In 2012, the Bank also became the first financial institution in West Africa to issue over 5 million debit cards.

The Bank considers its main competitors to be GTBank and UBA in the retail market segment, taking into account the Bank's distribution network, number of customers and the range of retail products and services offered. In the corporate market segment, the Bank's main competitors are GTBank, Zenith Bank, and UBA, particularly in key industry sectors such as oil and gas, telecommunications and manufacturing. Foreign banks such as Citibank and Standard Chartered Bank also compete strongly with local Nigerian banks, particularly in the corporate banking sector. The Bank believes it has maintained its competitive position as a result of a number of factors, including its product expertise and innovation, growing its customer base through implementation of the value chain management, and providing high standards of customer service, customised solutions and advisory services.

Management believes that further sector consolidation is likely, aided by AMCON's plan to sell three banks that were nationalised in 2011 and recapitalised, which is expected to happen within approximately 18 months. This could have the effect of reducing the number of existing banks and changing the banking landscape in Nigeria, with possible mergers and acquisitions among existing banks, as well as the entry by more foreign banks into Nigeria. The concentration of capital among the non-Intervened Banks is expected to increase whereby increasing the market share of the larger, stronger banks (such as the Bank), and the sector transformation will be further facilitated by the CBN's repeal of the universal banking licence (see "*—Compliance with Central Bank of Nigeria's Regulation on the Scope of Banking Activities*"). Management believes that, despite maintaining strong capital levels historically (CAR of 19.4 per cent. calculated on the basis of IFRS as at 31 December 2012, well above the 15 per cent. minimum requirement), in order to meet the competition driven by a more concentrated Nigerian banking industry, it will be critical for the Bank to achieve economies of scale and be able to effectively offer the greatest reach and financial capacity of its competitors.

Compliance with Central Bank of Nigeria's Regulation on the Scope of Banking Activities

In October 2010, the CBN issued the Regulation on the Scope of Banking Activities and Ancillary Matters (the "**CBN Banking Activities Regulation**"), which took effect from November 2010 with a May 2012 compliance date which was subsequently extended to September 2012 and then extended later on a bank by bank basis. Pursuant to the CBN Banking Activities Regulation, the former universal banking guidelines were repealed and banking activities were segregated into commercial banking, merchant banking and specialised banking (including non-interest banks, microfinance banks, development banks and mortgage banks).

The CBN Banking Activities Regulation prohibits Nigerian banks from holding any interests in any subsidiary, associated company or enterprise unless such an entity is a custodian or a banking institution incorporated outside Nigeria with the permission of the CBN or a company jointly established by two or more banks with the approval of the CBN for the purpose of promoting the development of the money market or improving the delivery of banking services in Nigeria. The CBN Banking Activities Regulation also prohibits Nigerian banks from acquiring real estate or immovable property (except if such property is for its own use), granting any loan to any person to invest in the primary issues of any stock of any bank, granting a loan or any form of financial accommodation to any person to facilitate the acquisition of any of the bank's subsidiaries or granting any loan, donation, gift or other form of financial accommodation to a political party or for political purposes.

The CBN Banking Activities Regulation also required Nigerian banks initially by 14 May 2012 to divest all non-banking businesses and apply for a new type of banking licence or to adopt a non-operating holding company structure in compliance with the regime if they wish to engage in non-core banking activities. See "*The Nigerian Banking Sector—Banking Sector Reform—2009 to date*".

The Group opted to adopt a holding company structure and underwent restructuring in 2012, which resulted in FBN Holdings Plc, a non-operating legal entity organised and domiciled in Nigeria, becoming the ultimate parent company of all companies in the entire First Bank group, including the Bank. The CBN issued a provisional approval for the Group's compliance plan with the CBN Banking Activities Regulation on 7 June 7 2011 and a final approval on 28 December 2011. The Bank currently holds an international commercial banking licence.

FBN Holdings Plc was incorporated in Nigeria, as a limited liability company, on 14 October 2010 and converted to a public liability company on 13 August 2012.

At incorporation, FBN Holdings Plc issued 10 shares to First Trustees Nigeria Limited ("**First Trustees**") and FBN Capital Limited. As part of the restructuring in 2012, FBN Holdings Plc issued 32,632,084,355 shares to the shareholders of First Bank of Nigeria Plc ("**Old Bank**"), the former parent company of the Group to acquire 100 per cent. of its issued share capital. The shares were issued in a one-for-one share exchange for the 32,632,084,355 ordinary shares in Old Bank held by its shareholders (other than FBN Holdings Plc 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 Plc. Thus, the restructuring did not result in any dilution to Old Bank's shareholding.

As part of the restructuring, Old Bank's shareholdings in each of the investment banking and asset management subsidiaries (First Funds Limited and First Trustees) were transferred to FBN Capital Limited, which in turn was transferred under FBN Holdings Plc. Old Bank's shareholdings in each of the other subsidiaries (FBN Capital Limited, FBN Life Assurance Limited, FBN Insurance Brokers Limited and FBN Microfinance Limited) and other non-permissible assets (equity investments in Seawolf Oil Services Limited, Rainbow Town Development Limited, FBN Heritage Fund, IDF Fund, FRED Fund and Capital Alliance Property Investment Company) were also transferred to FBN Holdings Plc.

The shares of Old Bank were delisted on the floor of the Nigerian Stock Exchange on 23 November 2012 and the shares of FBN Holdings Plc were listed on 26 November 2012. Upon being delisted from the Nigerian Stock Exchange, Old Bank ceased to be a public company and converted to a limited liability company, renamed First Bank of Nigeria Limited.

See Note 26 to the Annual IFRS Financial Statements for additional information on the impact of the restructuring.

The Refocusing: Realigning Internal Processes

In 2010, prior to the time that the CBN implemented its new requirement that Nigerian banks divest their non-banking subsidiaries, the Bank had already scheduled a refocusing program (the "**Refocusing**") which centralised branch operations. Under the new operating model, rather than have the branch operations staff report to the branch manager, they report to the branch operations managers, who in turn report to the area and regional operations managers with reporting lines to the head of operations for the Group. With this change, the branch operations function has been separated from the marketing function, thus freeing relationship managers from all non-customer-facing functions. The new model allows operations staff to focus purely on delivering a high level of service to customers, while the creation of a centralised processing centre ("**Centralised Processing Centre**") allows the Bank to standardise the quality of service delivery across all branches, resulting in improved compliance and controls. As at 31 December 2012, the Centralised Processing Centre has been rolled out to 56 per cent. of the Bank's branches. Additional improvements to the Bank's capabilities include a 65 per cent. reduction in account opening cycle times and a 70 per cent. reduction in salary processing times and retail loan processing times.

This Refocusing also initiated several programs to improve staff effectiveness. The business units changed from a geography-based structure toward one that relied on customer segmentation, which management believes will enable the Bank to develop a deeper understanding of its customers' needs so that the Bank can subsequently develop targeted products and services that meet these needs.

In line with such operational changes, the existing management information systems were reconfigured to generate profit and loss accounts at the level of the SBUs as well as within each SBU at the team level, enabling managers at each level of the Bank's business to proactively monitor profitability and enabling Bank leadership to have visibility on its performance on a granular level.

As part of the Refocusing, the Bank's targeted growth will focus on efficient growth. Instead of focusing solely on opening new branches, the Bank intends to also increase automation within each branch, relying more readily on e-solutions, functional terminals and dealers. Certain responsibilities will be transferred to agents. Within the branches and outlets, the Bank aims to increase the number of "touch-points", (communication opportunities with each customer). Given that the goal of the transformation is to maximise the Bank's strengths, the Bank has implemented international standards as new benchmarks for areas in which the Bank already excels.

In addition, key performance indicators have been adjusted to suit the new operating model. The Group has established meaningful performance standards for staff that are tailored to the type of interaction each employee has with the Bank's customers. Programs the Bank has implemented include a Pay-for-Performance program, which offers staff in the back office function a monetary incentive that rewards higher performance. In addition, the Bank has made adjustments to its salary base so that staff that are not promoted qualify for incremental salary adjustments, which motivates employees and helps in the retention of productive employees. To ensure the groups are as productive as the individuals, the Bank implemented a program for reviewing the scorecards of various functions to ensure each unit had objective and measurable key performance indicators.

At the leadership level, the Bank created a new functional role called the Executive Vice President for non-executive directors who hold market-facing leadership positions. This functional role title has been designed to clarify reporting structures and responsibilities both externally and internally so that employees and customers can access the right individuals for the right need.

Given the breadth of initiatives already implemented and others that are still in progress, the Bank formed a Corporate Transformation department staffed with new hires and internal personnel. The department focuses on implementing big-ticket cross functional projects, such deployment of the centralised processing centre and tracks the progress of other major transformation initiatives across the Bank.

Description of Business Segments

Retail Banking SBU

The Bank's Retail Banking SBU services individual consumers and SMEs with an annual turnover or income of below ₦50 million and ₦500 million, respectively, as well as local governments. The Retail Banking SBU business is run out of over 700 branches and quick service points ("**QSPs**") spread across Nigeria, which is the largest bank branch network in Nigeria. The Retail Banking SBU has two geographic subdivisions—the North, supervising 19 states, and the South supervising 17 states, each headed by a senior executive.

Management categorises each customer within one of three customer segments—mass market customers, affluent customers and SMEs, accounting for 72 per cent., 14 per cent. and 14 per cent. of the Retail Banking SBU's revenues, respectively, for the year ended 31 December 2012. In response to this disparity, as well as the cashless initiative driven by the CBN, Management is pursuing strategies centred on a continued transitioning of a large segment of the Bank's retail banking customers from high-cost channels, such as branches, to the Bank's numerous self-service channels, such as ATMs, POS terminals and web and mobile money platforms. In 2011, the Bank also introduced QSPs, which are more streamlined branches. While QSPs make payments and receive deposits, they do not perform the full range of services carried out in a regular branch and thus have lower overhead costs compared to traditional branches. As at 31 December 2012, 40 of the Bank's branches were QSPs. Currently, over 65 per cent. of the Bank's customers' low-value cash transactions (e.g. TV subscription payments) take place on alternate channels, which management believes is indicative of a high level of customer receptivity to electronic channels and potential for significant reduction in the Retail Banking SBU's service costs.

The Retail Banking business is the major driver of low cost current and savings account deposits with about 46.8 per cent. of total deposits in the Bank as at 31 December 2012. As part of the Bank's strategy to deepen its retail footprint, and to continue to generate low cost deposits, the Bank is engaged in a strategic branch expansion strategy. The Bank's branch network grew by 26 branches and 38 QSPs in 2012. Another 40 to 50 locations are planned for 2013. Management also believes that a strategically expanded branch network will not only serve as a base for growth in low cost deposits, but also serve as a platform to build a wide agency network for the Bank's mobile money business. The Bank aims to expand its branch network strategically, and employs the latest advances in global positioning system mapping to superimpose macroeconomic data (including aggregate output of each state) on the industry's branch network, to build a 'city attractiveness' index that will drives its business location deployment.

The Retail Banking SBU has a large retail customer base in Nigeria with over 8.5 million customer accounts, and an extensive branch network across Nigeria, with over 700 branches. The Bank has also issued the highest number of debit cards of any financial institution in Nigeria with over 5 million cards issued as at November 2012. According to Interswitch, the largest integrated payment processing service provider in Nigeria, over 89 per cent. of the Bank's Verve domestic debit cards were active (defined as having carried out at least 1 transaction in the last 2 months) as at 31 December 2012, with the average rate across Interswitch around 70 per cent. In addition, the Bank is also the only retail bank in Nigeria with over ₦2 trillion in customer deposit as at 31 March 2013. In addition, as at 31 December 2012, the Bank maintained its leadership position as the Nigerian bank with the widest retail footprint in Nigeria with 1,865 ATMs and 18,581 POS terminals deployed nationwide. This wide reach makes it convenient for the Bank's customers to carry out banking transactions, and reduces travel time and cost. The Bank's ATMs dispensed over ₦1.3 trillion in 2012, a growth of 87 per cent. over 2011 (₦714.2 billion), with over 82 per cent. of such transactions undertaken by the Bank's customers. With its 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, the Bank aims to create new markets and offer quality and affordable financial products and services to its customers.

For the three months ended 31 March 2013, the Retail Banking SBU generated ₦39.4 billion, or 60 per cent., of the Bank's net revenue, compared to ₦30.2 million, or 51 per cent., of the net revenue for the three months ended 31 March 2012. For the years ended 31 December 2012 and 2011, the Retail Banking SBU generated net revenue ₦142.8 billion and ₦109.0 billion, respectively. The increase in net revenue generated by the Retail Banking SBU for the three months ended 31 March 2013 compared to the three months ended 31 March 2012 is 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.

The Retail Banking SBU accounted for ₦263 billion, or 20 per cent of the Bank's total loans and advances, or 11 per cent. of the Bank's total commercial assets (which are the Bank's interest earning assets, including loans and advances, financial assets held for trading excluding equity securities, investment securities and assets pledged as collateral, and excludes non interest earning assets such as fixed assets, intangible assets and cash in vault) as at 31 March 2013, ₦266.0 billion, or 19.7 per cent of the Bank's total loans and advances, or 12 per cent of the Bank's total commercial assets as at 31 December 2012 and ₦213.0 billion, or 18.2 per cent. of the Bank's total loans and advances as at 31 December 2011. The increase in the Retail Banking SBU's loans and advances in 2012 compared to 2011 was as a result of an increase in the volume of lending transactions, as well as the introduction of new consumer lending products, particularly payroll backed lending. The Bank's total loans and advances to customers experienced muted growth during the first quarter of 2013, reflecting the decision by the Bank to slow down the pace of asset creation due to the Group reaching the cap of its quota for consumer lending, on the back of the success of the Personal Loan Against Salary (PLAS) product. The Group has since undertaken a review of its consumer lending portfolio and has decided to expand the quota.

Lending and other products and services

The Retail Banking SBU extends credit to individuals consumers, SMEs and local governments. The Bank offers a range of lending products to its retail banking, customers, including:

- U-First Consumer Loans: The Bank lends to the Nigerian consumer finance sector, where the key target market are salaried individuals employed in reputable organisations (as determined by the Bank). Such consumer loans have repayment periods of between two and three years with automotive and personal loans comprising most of the longer maturity consumer loans and household asset loans comprising most of the shorter maturity consumer loans. These loans have an average loan-to-value of approximately 70 per cent.;
- U-First Retail (Business) Loans: The Bank offers a wide range of business-related loans, such as to purchase new vehicles for routine business purposes, to finance office equipment and to finance capital expenditure and working capital needs. These loans have repayment periods between one and three years and average loan-to-value of approximately 80 per cent. This division also finances SMEs for the execution of job orders from Bank-approved companies. Other product lines include contract financing, invoice discounting, revenue loans, overdrafts and cash-covered bonds;
- Credit Cards: The Bank was an early player in the credit card business in Nigeria (since 1991) and was one of the first banks in Nigeria to issue international payment cards. As a principal member of both MasterCard Worldwide and Visa International, the Bank is one of the only three banks in Nigeria that issues the Visa Infinite Credit Card (a Euro-denominated card). The Bank also issued the First Naira Credit Card, a Naira denominated credit card, as well as the First Visa Gold Card, a cash-collateralized credit card. The Bank's credit cards are currently only available to customers that already have a savings account with the Bank;
- Agri-Business: The Bank offers a wide range of agricultural financing products to support functions such as input supply and primary production to storage, processing and marketing of agricultural products. These agricultural financing products enable customers to take advantage of government incentive schemes such as the Commercial Agriculture Credit Scheme ("**CACS**") and the Agricultural Credit Guarantee Scheme, and are structured to bypass certain obstacles that prevent agricultural customers from accessing the credit markets, such as lack of collateral. CACS is a ₦200 billion fund established by the CBN and the Federal Ministry of Agriculture and Rural Development under which Nigerian banks receive funds to on-lend to farmers. The Agricultural Credit Guarantee Scheme guarantees credit facilities extended to farmers by banks up to 75 per cent. of the amount in default net of any security realized; and
- Wholesale loans: The Bank offers an array of wholesale loans to SMEs. The loans typically offer flexible repayment schedules and are aligned with business cash-flow especially where such cash-flow is promising and guaranteed. Such loans include but are not limited only to: Advance Payment Guarantees ("**APG**"), Cash-covered Bonds & Guarantees, Oil and Gas Contract Finance, Import Finance Facilities as well as Key

Distributorship Finance Schemes available to distributors in the telecommunications, cement, fast moving consumer goods industries and downstream petroleum subsectors with the aim of increasing their capacity and availability of related goods to consumers nationwide.

Currently, retail lending in Nigeria is constrained by the lack of a mature credit bureau system, a legal framework that makes it difficult to register and pledge land as collateral and the lack of a national identity card system. See "*Risk Factors—Risks relating to the Nigerian banking sector—The high credit risk of Nigerian borrowers and the lack of a fully-developed central credit bureau in Nigeria may adversely affect the Group's retail loan portfolio*". The Group has retained the XDS Credit Bureau Ltd, the CRC Credit Bureau Ltd and the CR Services Plc to assess prospective obligors, and also visits the CBN CRMS database for obligor assessment. Loans to individuals are only made when individuals pass certain credit reference checks in accordance with applicable regulations. See also "*Asset, Liability and Risk Management—Credit Risk—Credit risk measurement*" for details on how the Bank measures the credit risks of its potential obligors.

As at 31 March 2013, ₦133.6 billion or 10 per cent. of the Bank's total gross loans were loans to individuals, compared with ₦141.6 billion or 10 per cent. as at 31 December 2012 and ₦105.5 million or 9 per cent. as at 31 December 2011. As at 31 March 2013, ₦2.4 billion or 0.2 per cent of the Bank's total gross loans were loans to SMEs, compared with ₦3.4 billion or 0.3 per cent as at 31 December 2012 and ₦4.9 billion or 0.4 per cent. as at 31 December 2011. The increase in gross loans to individuals in 2012 was primarily due to increased volume of business activities in this segment, due in large part to the introduction of payroll backed loans. Gross loans to individuals decreased slightly in the first quarter of 2013, reflecting the decision by the Bank to slow down the pace of asset creation.

Other products and services offered by the Retail Banking SBU include:

- ATM/Debit Cards: The Bank introduced debit cards to Nigeria in 2002 and has issued over 5 million cards as at 31 December 2012 (representing a 31 per cent. share of the Nigerian debit card market based on data from Interswitch). As at the same time, the Bank was ranked the largest issuer of Nigeria's leading domestic debit card, Verve. Over the years, the Bank has broadened its debit card offerings to include international cards such as Debit MasterCard and Visa Debit (Dual Currency) cards. Each card expanded the range of services available to the Bank's customers, including checking accounts, ATM withdrawals, fund transfers, balance enquiries, retail purchases and utility payments.

  Because Nigerian ATM networks are not universally compatible with each other, maximising terminals can be pivotal to attracting and retaining customers. As at 31 December 2012, the Bank had the largest ATM infrastructure among all banks in Nigeria, with 1,865 ATMs, 312 of which were added in 2012. This represents a 17 per cent. market share of the Nigerian ATM market according to Interswitch. The Bank deploys two types of ATMs: cash dispensing ATMs, which dispense cash and perform other functions such as balance enquiry, top up mobile phones and pay bills; and cash deposit ATMs, which in addition to all the functions of cash dispensing ATMs, also allows customers to make deposits into their bank accounts. As at 31 March 2013, 5 per cent. of the Bank's ATMs are cash deposit ATMs.

  The Bank has also introduced the 'eXpressions on card' product, which allows customers to choose the look and feel of their cards, and was designed to appeal to the younger segment of the population and is expected to serve as an important driver for growing the Bank's market share among the younger segments of the population;

- Mobile Payments and Mobile Banking: As at 31 March 2013, the Bank is also one of 17 banks licensed by the CBN to make mobile payments, which enable customers to use their mobile devices to transfer funds from their account to pay bills. Firstmonie® was launched in the last quarter of 2012, and is the Bank's mobile money product, targeted at extending banking services to the unbanked and under-banked segments of the market, while enabling existing customers of the Bank to conveniently perform banking transactions from their mobile phones. Firstmonie® allows customers of the Bank to send money to any mobile phone user in Nigeria (irrespective of network) from any of the Bank's ATMs using a debit card or from their phones and allows the recipient, which can be a customer or non-customer of the Bank, to withdraw the cash from any of the Bank's ATM without a payment card by entering a unique code generated by the system for that transaction. Firstmonie® also enables phone users to buy mobile phone airtime, pay bills and carry out other transactions without having a bank account. FirstMobile is the Bank's mobile banking service that allows the Bank's customers to access their accounts and conduct various transactions using their mobile phone. The Bank is also extending the Bank's internet banking capabilities to allow customers to also send money to any mobile phone in Nigeria;

- Taxes & Bill Payments: The Bank's tax and bill payment service allows customers to make federal and state tax payments at branch locations by presenting their tax assessment forms, and provides the Bank's customers with an easy means to make bill and utilities payments, at a branch location, at an ATM, or through the Bank's online banking application. The Bank also provides a service for the collection of fees and other forms of payments for schools and educational organizations. The Bank's tax and bill payment service is integrated with its banking platforms. Management believes the Bank is a preferred bank for tax collection services on behalf of government entities due to the successful deployment of its customised collection system that facilitates the process of paying bills (the "**Collection Solutions System**"). Although the system for non-account holders is less streamlined than for the Bank's account holders, any person has the benefit of using any of the branches to pay such invoices automatically. To increase service access and customer convenience, the Bank has deployed alternative service delivery channels (POS terminals, ATMs and web payment services), in addition to its branches, where such payments can be made. For the year ended 31 December 2012, the Bank collected payments of ₦1,785 billion, of which ₦778 billion related to government levies paid through the Bank's delivery channels;
- Automated Payments Solutions: The Bank offers electronic or automated payment products for real-time payments to third parties such as employees, vendors, dependants and other beneficiaries. Customers can subscribe to the Bank's online banking system or utilise the Bank's e-payment platform called FirstPay to make payments electronically;
- Money Transfers: Relying on its branch network and secure technical integration among its branches, the Bank is the market leader for secure money transfers within Nigeria. The Bank introduced the Western Union money transfer service in 1996 as the first agent bank in Nigeria and remained until 2004 the only bank within Nigeria authorised by Western Union to pay remittances on its behalf. Now, the Bank faces competition in this market from other agent banks such as Diamond Bank, Guaranty Trust Bank and Zenith Bank. Despite increasing competition from these agent banks, the Bank continues to be the market leader in remittances (based on data from Western Union and MoneyGram, the leading money transfer operators in Nigeria). As an expansion strategy, in 2010, the Bank contracted with Money Gram (the second-largest money transfer operator in Nigeria) to provide money transfer services in Nigeria. That same year , the Bank won the "*Best Africa Receiving Agent*" award from MoneyGram. Management believes this ongoing relationship will solidify the Bank's leading position in this sector; and
- FirstDiaspora: The Bank also provides Nigerians living abroad with access to a wide range of products and services through its FirstDiaspora suite of products, including savings, current and domiciliary accounts, term deposits, internet banking, funds transfer and e-payment services; and
- Life Assurance: In May 2013, the Bank commenced a bancassurance partnership with FBN Life Assurance Ltd ("**FBN Life**"), which is the 65 per cent. owned life insurance subsidiary of FBN Holdings Plc in partnership with Sanlam Emerging Markets, a leading South African insurance company. Through this partnership with FBN Life, the Bank will make life assurance products and programmes available to its existing and prospective customers through the Bank's network of branches, and the Bank will receive a portion of the commission earned but will not underwrite the products.

Deposits

The Retail Banking business is the major driver of low cost current and savings account deposits with 47.9 per cent. of total deposits in the Bank as at 31 March 2013. As such, the Bank is engaged in a strategic branch expansion to deepen its retail footprint, and to continue to generate low cost deposits. While this deposit mobilisation strategy resulted in ₦455 billion of additional core deposits in 2012, the Bank's cost of funds also increased to 2.4 per cent. in 2012, compared to 1.8 per cent. in 2011 due to the growth in term deposits, which pay a higher rate of interest than demand deposits. In addition, the CBN released the Revised Guide to Bank Charges in April 2013 which, in part, stipulated that a minimum of 30 per cent. of the Monetary Policy Rate per annum as interest payable on savings account in Nigeria. This is expected to further increase the Bank's cost of funds in 2013. See "*Risk Factors—The Group operates in an uncertain regulatory environment and recent changes by the CBN are having a material adverse effect on the Group*". Regardless, management expects Retail Banking deposits from current and savings account to remain an important source of funding for new loans. Management also believes that a strategically expanded branch network will not only serve as a base for growth in low cost deposits, but also serve as a platform to build a wide agency network for the Bank's mobile money business.

The Bank offers a wide range of deposit products, including term deposits and a range of current and savings accounts, such as FirstSavings Plus (a hybrid savings/checking account), FirstInstant Account (a savings product designed for the unbanked and underbanked), FirstCurrent Business Account (for micro, small, and medium-scale enterprises) and domiciliary accounts (offering interest bearing foreign currency denominated accounts in U.S. dollars, pounds sterling and Euros).

As of 31 March 2013, ₦1,099 billion of the Bank's deposits from customers, representing 47.9 per cent. of the Bank's total deposits were from retail banking customers, compared to ₦1,015 billion, or 46.8 per cent. as of 31 December 2012 and ₦901 billion, or 50.5 per cent. as of 31 December 2011. The increase in deposits from retail banking customers in 2012 and the first quarter of 2013 was primarily due to an increased focus on innovative product development, aggressive marketing and a series of promotional campaigns undertaken during the period.

The Bank conducts its retail banking operations primarily through its network of over 700 branches and QSPs in Nigeria and other distribution channels such as ATMs and its online banking platform. See "*—Distribution Channels*".

Institutional Banking

The Institutional Banking SBU serves institutional customers that represent the top-end of the business banking value chain—companies which have good corporate governance, annual turnover of at least ₦5 billion, are typically listed, and require a wide variety of sophisticated products and product specialisation). These customers comprise the largest organisations across the Bank's five target industry sub-groups, i.e. oil and gas; conglomerates; manufacturing; telecommunications, construction and infrastructure; and financial institutions and multilateral agencies. Each of these industry sub-groups are described below:

- the oil and gas industry is capital intensive, requiring large amounts of credit for working capital, acquisition financing and reserve-based loans for financing assets which are already in production or are expected to commence production in the short term;
- the telecommunications, construction and infrastructure sectors comprise the core service providers in the telecommunications industry, as well as project finance opportunities in the power, road, rail and real estate industries, which are initiatives led by the Nigerian government. The telecommunications group serves corporate clients with loans and extends its offerings to service the suppliers, distributors and other parties that make up the company's value chain for sales collections and other transaction flows;
- conglomerates, which are a combination of two or more corporations engaged in various businesses yet have a single corporate structure;
- the manufacturing sub-sector includes corporate clients which require loans and trade finance products (e.g. letters of credit), providing the Bank an opportunity to finance not only the main manufacturing company but also service business associates and ancillary business lines that make up the manufacturing company's value chain for sales collections and other transaction flows; and
- the financial services and multilateral agencies sub-sector which comprises major financial institutions in the Nigerian financial services sector and foreign funding sources in order to support the financing capacity of the Bank.

The products and services available to institutional banking customers include financing for working capital, trade financing, corporate financing, cash management, guarantees, collection and payment, foreign facility remittance services, financial advisory, international syndication services and term loans. In 2012, 9.6 per cent. of the division's net revenue was derived from fees.

The key competitors for the Bank's Institutional Banking SBU include GTBank, Zenith Bank and Citibank.

For the three months ended 31 March 2013, the Institutional Banking SBU generated ₦13.1 billion, or 20.0 per cent., of the Bank's net revenue, compared to ₦11.5 billion, or 20.2 per cent., for the three months ended 31 March 2012. The increase in net revenue by the Institutional Banking SBU for the three months ended 31 March 2013 compared to the three months ended 31 March 2012 is primarily a result of improved margins due to cheaper deposits. For the years ended 31 December 2012 and 2011, the Institutional Banking SBU generated net revenue of ₦44.2 billion and ₦39.3 billion, respectively.

The Institutional Banking SBU accounted for ₦640.9 billion, or 48.5 per cent. of the Bank's total loans and advances as at 31 March 2013, ₦677.0 billion, or 50.0 per cent. of the Bank's total loans and advances as at 31 December 2012 and ₦575.3 billion, or 49.1 per cent. of the Bank's total loans and advances as at 31 December 2011. 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 decrease in assets in the first quarter of 2013 was due to the pay down of certain loans in the period.

Corporate Banking

The Corporate Banking SBU serves the middle segment of the Nigerian corporate landscape, predominantly unrated and non-investment grade companies with annual turnover in the range of ₦500 million to ₦5 billion and usually a higher risk profile than the Institutional Banking customers. Corporate Banking clients are broadly split into two groups—emerging corporates (smaller corporates with annual turnover in the range of ₦500 million to ₦2 billion) and large corporates (with annual turnover in the range of ₦2 billion to ₦5 billion annually). The Corporate Banking SBU also services large corporates that may have an annual revenue in excess of ₦5 billion that otherwise qualify as institutional banking clients, but who lack the requisite corporate controls or have key man risk. In addition, the Corporate Banking SBU serves private universities and other large private educational institutions. The Corporate Banking SBU has 13 groups focused on identified core customer clusters across Nigeria, and relationship managers operating from 49 locations across Nigeria.

As at 31 March 2013, the Corporate Banking SBU had over 11,350 customers. The majority of these customers are in the agriculture, oil and gas, manufacturing, import/export, power, transportation, communication, construction, real estate, hospitality or health care industries.

In addition to offering its clients loans and cash management services, the Corporate Banking SBU also provides trade, agriculture and project financing and advisory services in the medium-term. Key goals for the Corporate Banking SBU include adopting risk-adjusted pricing and acquiring clients in the energy and consumer goods industries in particular as management has identified these industries as having broad-based trade financing needs in Nigeria.

Each of the Bank's branches has the capacity to offer the entire suite of corporate banking products to customers. With a view to enhancing its understanding of its customer's diverse concerns and needs, the division segments customers into geographic hubs and creates a profile of the customer base within each hub. This system allows for efficient allocation of resources as the most profitable hubs are identified.

In addition to these hubs, the Corporate Banking SBU performs segmentation analysis at the industry level to better understand the sources of the division's revenue by industry, the risks related to each industry and the characteristics of customers in each industry segment. Such industry-level analysis is intended to facilitate the matching of appropriate products for customers in each industry segment, thereby increasing sales within this division.

Using customer and industry segmentation analyses, the Corporate Banking SBU develops core competencies related to each region where it operates to service the needs of the industries and specific customers prevalent in that region.

For the three months ended 31 March 2013, the Corporate Banking SBU generated ₦9.8 billion, or 15.0 per cent., of the Bank's net revenue, compared to ₦7.9 million, or 13.3 per cent., of the Bank's net revenue for the three months ended 31 March 2012. The increase in net revenue generated by the Corporate Banking SBU for the three months ended 31 March 2013 compared to the three months ended 31 March 2012 is primarily due to increased penetration in the emerging corporate segments with a 23 per cent. growth in the first quarter of 2013. For the years ended 31 December 2012 and 2011, the Corporate Banking SBU generated net revenue of ₦33.8 billion and ₦31.4 billion, respectively.

The Corporate Banking SBU accounted for ₦299.7 billion, or 22.7 per cent. of the Bank's total loans and advances as at 31 March 2013, ₦287.2 billion, or 21.2 per cent of the Bank's total loans and advances as at 31 December 2012 and ₦277 million, or 23.6 per cent of the Bank's total loans and advances as at 31 December 2011. The increase in the Corporate Banking SBU's loans and advances in 2012 and the first quarter of 2013 was a result of a renewed focus on the emerging corporates segment.

Public Sector Banking

The Public Sector SBU services the Federal Government, state governments and each of their MDAs, as well as the Nigerian armed forces and state and federal tertiary institutions, including oil subsidiaries owned by the

Nigerian government (such as the Nigerian National Petroleum Corporation), police, civil defence organisations and foreign embassies. The Bank takes deposits as liabilities and extends credit to government bodies by purchasing their bonds. As at 31 March 2013, the aggregate deposits taken by the Public Sector division accounted for 27.0 per cent. of the Bank's total deposits.

The core products and services in this division are the following:

- checking account management;
- management of tax collection on behalf of the Federal Government, IGRs and local governments as well as value added tax, excise tax, stamp duties, utility payments, customs duties and fees for public educational institutions;
- financing of specific long and short term projects;
- issuing letters of credit whereby payment is made to a beneficiary abroad;
- contract financing with government agencies secured by a state's ISPOs, including short-term bridging facilities to MDAs allowing them to benefit from short term financing for projects pending the receipt of revenue allocation from another government body;
- management of salary and pension payments;
- disbursement of allocations for companies that are either partially or completely controlled by the Nigerian government or an instrumentality thereof, including the maintenance of an expenditure account for disbursing the government allocations to MDAs;
- foreign exchange trade and bidding activities, including registration of Form M (which must be completed by an importer of goods into Nigeria and authorised by a bank in Nigeria), export trade services, funds transfers and bills of collection; and
- specialised products and services such as leasing, concessions, service management, asset management and advisory services.

Operationally, this SBU has two geographically-based groups—Public Sector South, or PSS, which oversees operations in the 17 states in southern Nigeria (including Lagos); and Public Sector North, or PSN, which oversees the 19 northern states and the FCT (including Abuja). Twenty larger branches strategically located around the country also cater to public sector businesses. The Bank believes that it has good relationships with its public sector clients, as well as with companies that are partially owned by the Nigerian government.

For the three months ended 31 March 2013, the Public Sector SBU generated ₦10.8 billion, or 17.0 per cent., of the Bank's net revenue, compared to ₦10.2 billion, or 17.4 per cent., of the Bank's net revenue for the three months ended 31 March 2012. For the years ended 31 December 2012 and 2011, the Public Sector Banking SBU generated net revenue of ₦43.0 billion and ₦30.4 billion, respectively. The increase in net revenue generated by the Public Sector SBU for year ended 2012 compared to 2011 and three months ended 31 March 2013 compared to the three months ended 31 March 2012 is primarily due to improved business relationships and services delivery through innovative alternative channels/platforms from existing businesses in addition to new businesses.

The Public Sector SBU accounted for ₦114.4 billion, or 8.7 per cent. of the Bank's total loans and advances as at 31 March 2013, ₦119.4 billion, or 8.8 per cent. of the Bank's total loans and advances as at 31 December 2012 and ₦102.0 billion, or 8.7 per cent. of the Bank's total loans and advances as at 31 December 2011. The increase in the Public Sector SBU's assets in 2012 and the first quarter of 2013 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 the such clients' collection accounts.

As at 31 March 2013, the Bank had over 9,883 public sector banking customers.

Private Banking

The Bank launched the Private Banking SBU in October 2010 to introduce high net worth customers (persons with investible income of ₦37.5 million and above) to a more attentive and customised service specifically suited to meet their service and wealth management needs. The introduction of the Private Banking SBU serves a growing market that management feels has been underserved in Nigeria. The Private Banking SBU operates in three hubs with teams located in nine clusters located in areas close to their clients.

The Private Banking SBU leverages the Bank's size and its network of branches throughout Nigeria to provide lifestyle banking and wealth management to its customers. The lifestyle banking service adopts a 'concierge' approach to providing service and has Visa International as a partner in providing services. This partnership yielded the Visa Infinite card with travel, dining, shopping and other lifestyle benefits the Bank's private banking clients can obtain, including a complimentary 24-hour concierge service available worldwide. Lifestyle banking is designed to enhance personal contact between relationship managers and customers, further building the trust required to ensure a mutually beneficial relationship between the Bank and its customers. Services provided in this division include the following:

- Standard banking and funds transfers in various currencies executed in an expedited manner;
- Cash delivery and pick-up;
- Cash-backed loans, which are loans extended to customers secured with investments held within or managed by the Group;
- Priority pass at Visa participating airport lounges; and
- Private jet hire, limousine rental services and personal security.

The Bank provides wealth management services within pre-determined investment guidelines, while managing the portfolios tailored to the risk appetite of each private banking customer. The variety of investments available as part of these services include municipal, corporate and Euro bonds, money market instruments, equities, hedge funds, mutual funds, structured products, commodities, real estate and private equity. The wealth management group has branches in each of Lagos, Port Harcourt and Abuja with satellite locations in certain other branches in Nigeria and the UK to service clients. Management seeks to grow the customer base and investment products portfolio of the Private Banking SBU with the aim of becoming "the private bank of first choice" within Nigeria. The Private Banking SBU recorded a 76 per cent. growth in assets under management in 2012 to close the year at ₦38.9 billion. The Private Banking SBU was named the Best Private Bank in Nigeria by World Finance Banking Awards 2012.

For the three months ended 31 March 2013, the Private Banking SBU generated ₦0.6 billion, or 0.9 per cent., of the Bank's net revenue, compared to ₦0.5 billion, or 0.8 per cent., of the Bank's net revenue for the three months ended 31 March 2012. For the years ended 31 December 2012 and 2011, the Private Banking SBU generated net revenue of ₦1.8 billion and ₦1.6 billion, respectively. The increase in net revenue generated by the Private Banking SBU for the three months ended 31 March 2013 compared to the three months ended 31 March 2012 is primarily due to improved earnings from increased asset under management.

As at 30 March 2013, the Bank had over 1,271 private banking customers.

Treasury

The Bank's Treasury division manages the funding and liquidity needs for the Bank and its Treasury clients, and in so doing administers the balance sheets and oversees proprietary trading activities for the Bank and trades securities on behalf of its clients as primary dealer. As at 31 March 2013, the Bank had over 2,500 treasury customers, which mainly comprised corporate and individual clients of the Bank, institutional clients such as other banks, Pension Fund Administrators and insurance companies who use the Bank's money market products, fixed income securities, bonds, T-bills and foreign currency products.

This division reports to the GMD. The Treasury division's compliance with Board-approved market risk limits is monitored by an independent Market and Liquidity Risk Department that oversees its risk limits on a daily basis and reports directly to the Bank's Chief Risk Officer.

The Treasury unit's structure is divided between the Sales & Trading and the Asset & Liability Management group.

- *Sales & Trading*. The Bank's Sales & Trading group primarily acts as an intermediary for a variety of products on behalf of its retail and corporate customers and maintains liquidity by quoting prices as a market-maker and by remaining an active player in the foreign exchange, money market and fixed income markets. In addition, the Sales & Trading group executes the Bank's proprietary positions in largely generic product and asset classes. To support these activities, the Bank is licensed as a Primary Dealer ("**PDMM**"), and Market Maker ("**MMD**"), by the Debt Management Office ("**DMO**") in the fixed income market.

The Sales & Trading group takes risk positions in interest rate, foreign exchange and debt markets within the parameters of the approved market risk limit framework defined by the Bank. Historically, the Bank has not taken positions for short term gain, largely because the Bank views itself as a partner to the CBN, playing a systemically important role. As a result, the group has a conservative approach toward its trading activities.

- *Asset & Liability Management*. The Bank closely monitors and manages its asset and liability positions in Naira and foreign currency, including available for sale investment securities, through Treasury's Asset & Liability Management group, which operates within defined approved market risk limit parameters. Treasury reports the balance sheet exposure to the Bank's Asset and Liability Management Committee ("**ALCO**"), which is chaired by the Bank's GMD and whose members include the executive heads of each strategic business unit of the Bank, General Management Committee ("**MANCO**") members and members from the Finance, Strategy and the Market Risk departments. ALCO receives daily reports on the Treasury Unit's compliance with its risk limits from the Market and Liquidity Risk department.

  In managing the Bank's portfolio, ALCO considers: (a) interest rate yields; (b) Naira and foreign currency balance sheet composition, including: (i) volume and duration of the Bank's loan portfolios, (ii) volume and duration of investment portfolios, (iii) volume and duration of time deposits, and (iv) volume of demand deposits; (c) inflation rate; (d) exchange rates; (e) national and international political and economic trends and (f) other macroeconomic factors.

  ALCO can affect the mix and the composition of the Bank's balance sheet, largely by altering the pricing mix of the various balance sheet items. Deposit and lending rates are determined tactically according to management-approved pricing models and are reviewed from time to time as the need arises. ALCO may impose notional limits on certain balance sheet items to comply with regulations, to maximise balance sheet yield and attain the targeted liquidity level.

For the three months ended 31 March 2013, the Treasury Unit generated ₦5.47 billion, or 6.0 per cent., of the Bank's net revenue, compared to ₦3.93 billion, or 5.2 per cent., of the Bank's net revenue for the three months ended 31 March 2012. For the years ended 31 December 2012 and 2011, the Treasury Unit generated net revenues of ₦20.45 billion and ₦17.20 billion, respectively. The increase in net revenue generated by the Treasury unit for the three months ended 31 March 2013 compared to the three months ended 31 March 2012 is primarily due to the realization of some available for-sale securities as well as a significant growth in the Group's securities portfolio on the back of increased customer deposits.

Strategic Resource Functions

The Bank has 15 non-market facing Strategic Resource Functions ("**SRFs**") that support the operations of each of the SBUs by providing the various infrastructure and back-office services such as operations, finance, human resources, legal, information technology and risk management, which provide a backbone and an operational infrastructure to drive efficiency and enhance responsiveness to the Bank's customers. Other SRF functions include marketing and corporate communications, e-business and card products, internal audit, products and marketing support and company secretariat services.

Distribution Channels

The Bank distributes its products and services through a variety of channels, including through its network of branches, QSPs and ATMs across Nigeria, as well as POS terminals, and through its internet and mobile banking platforms.

Branches and QSPs

As at 31 December 2012, the Bank had 714 branches and QSPs spread across Nigeria, which is the largest branch network of any financial institution in Nigeria. In 2012, the Bank deployed 64 new branches and QSPs. As at 31 March 2013, the Bank had 729 branches and QSPs throughout Nigeria with a further 40 to 50 locations planned for 2013.

In addition to the Bank's strategic expansion of its branch network, the Bank is also focused on improving its customers' experience of the Bank through various initiatives, especially rebranding and redefining the performance monitoring framework of its branches. The Bank's branch transformation project, which focused on redesigning the banking halls, improving the ambience in the banking halls and reducing waiting time in the Bank's branches and across all touch points, was aimed at creating a new and improved experience for the Bank's customers. In recognition of its rebranding initiatives, the Bank won the African Financial Brand of the Year Award by African Business Leadership Awards 2012.

ATM network

As at 31 March 2013, the Bank owned and operated 2,163 ATMs across Nigeria, making the Bank the largest provider of ATM infrastructure across Nigeria. This is a slight increase over the 1,865 ATMs as at 31 December 2012. The Bank currently plans to increase its ATM network to 2,315 ATMs by the end of 2013. In 2012, ATM transaction volumes increased by 45.7 million, or 67.1 per cent., to 113.8 million, from the 68.1 million recorded in 2011. Correspondingly, the aggregate amount dispensed through the Bank's ATMs grew by about 55.9 per cent. from ₦714.1 billion in 2011 to ₦1.3 trillion in 2012.

The Bank deploys two types of ATMs: cash dispensing ATMs, which dispense cash and perform other functions such as balance enquiry, top up mobile phones and pay bills; and cash deposit ATMs, which in addition to all the functions of cash dispensing ATMs, also allows customers to make deposits into their bank accounts. As at 31 March 2013, 5 per cent. of the Bank's ATMs are cash deposit ATMs.

Other distribution channels

Other distribution channels include electronic, online and mobile banking products and services, including POS terminals, telephone banking, internet banking, mobile banking and the FirstContact customer service center. Furthermore, in addition to being able to use its branches, QSPs, ATMs and the network of third party ATMs available throughout Nigeria, the Bank's customers are able to use the Bank's card products to pay for goods or services throughout Nigeria.

- *POS terminals*—POS terminals allow customers to make cashless payments for purchases. In response to the CBN's new policy on cash-based transactions and drive towards a "cashless economy" aimed at encouraging more electronic-based transactions, and thereby reducing the amount of physical cash circulating in the economy, the Bank has increased the number of its POS terminals significantly, from less than 2,500 terminals at the end of 2011 to 18,581 at the end of 2012. This represents 16.2 per cent. of the total industry installed base of about 114,589 terminals, making the Bank the leader in Nigeria in terms of the number of POS terminal installed. These POS terminals are placed with retail merchants across the nation and are owned by merchant acquirers. POS terminals support the businesses of the Bank's merchant customers by allowing their customers to pay for transactions without cash. The fees charged for the use of POS terminals are regulated by the CBN. Retail merchants are charged a standard transaction fee of 1.25 per cent. of the transaction amount. This transaction fee is shared among the card issuer, the acquirer, the terminal owner, the local switch and the terminal service aggregator.

- *FirstContact*—FirstContact is the Bank's customer service center and was initially launched in 2009 to give customers increased access to banking services. In 2012, FirstContact was upgraded to an interactive, multilingual and 24/7 customer service center. The new FirstContact allows customers to make enquiries, requests or complaints in any of the 3 major languages in Nigeria (Hausa, Igbo and Yoruba) as well as in English and Pidgin languages. If they choose to speak with a customer service agent in any of the five languages, they would also be able to do so, either through their mobile phones or through the Bank's Interactive Voice Response ("**IVR**") self-service option available in select branches across Nigeria. The Bank's IVR self-service option allows customers to carry out banking transactions such as listening to account balance, making intra and interbank fund transfers, making bill payments, reporting lost or stolen cards, stopping cheques, pre-confirming issued cheques as well as setting up SMS alerts for their accounts. The Bank's customers are also able to contact a FirstContact representatives online directly from its website through a live web chat function.

- *FirstOnline*—FirstOnline is the Bank's brand name for Internet banking. FirstOnline allows customers to perform banking transactions via the Internet 24 hours a day, 7 days a week, without the waiting and inconvenience associated with branch banking. Through FirstOnline, customers are able to view account balances, view and print account statements, transfer funds between accounts and to 3rd party accounts within First Bank, to other banks, and internationally. Through the live web chat function, customers are also able to contact a FirstContact representatives online.

- *Firstmonie®*—Firstmonie® was launched in the last quarter of 2012, and is the Bank's mobile money product. Firstmonie® is targeted at extending banking services to the unbanked and under-banked segments of the market, while enabling existing customers of the Bank to conveniently perform banking transactions from their mobile phones. Firstmonie® allows the Bank's customers as well as non-customers to withdraw money from any FirstBank ATM without a payment card, and enables phone users to send and receive money, buy mobile phone airtime, pay bills and carry out other transactions without having a bank account. Being a service targeted at the unbanked and the rural masses, Firstmonie® aims to reach customers through agents who are located very close to the customers, thereby reducing the overall cost of transactions to customers and increasing their willingness to use financial products. As at 31 December 2012, the Bank had about 10,000 agents that had signed on to the scheme. The Bank also aims to leverage on this growing agent network to offer branchless banking services.

Portfolio Concentrations

The Bank will continue to focus on maintaining a diversified portfolio to achieve an optimal dilution of portfolio concentration. As at 31 March 2013, the Bank's portfolio of ₦2,292 billion deposit liabilities were distributed 47.9 per cent. to Retail Banking, 16.1 per cent. to Institutional Banking, 7.5 per cent. to Corporate Banking, 27.0 per cent. to Public Sector, 0.5 per cent. to Treasury and 1.1 per cent. to Private Banking. During the same time period, the Bank's portfolio of ₦1,321 billion credit exposures were distributed 20 per cent. to Retail Banking, 48.5 per cent. to Institutional Banking customers, 23 per cent. to Corporate Banking customers, 8.7 per cent. to Public Sector customers, and 0.2 per cent. to Private Banking customers. In addition, as at 31 March 2013, the Bank's capital market exposures stood at ₦10.4 billion, which represented 0.8 per cent. of the total loan portfolio. As at 31 March 2013, ₦8.3 billion or 0.6 per cent of the Bank's total exposure is secured by securities that are not listed.

Subsidiaries

The Bank is the principal bank subsidiary of FBN Holdings Plc, which was established in 2012 as a result of the CBN's repeal of the universal banking model, under which Nigerian banks could either opt for a commercial banking licence or a holding company structure. See "*—Compliance with Central Bank of Nigeria's Regulation on the Scope of Banking Activities*". Consequently, the Bank's direct subsidiaries set forth below reflects a grouping of businesses directly related to commercial banking (except for the pension fund custody business, which is retained as a subsidiary of the Bank by statutory stipulations).

Subsidiary	Country of Incorporation	Principal activity	% held by the Bank	Profit before tax for the year ended 31 December 2012	% of the Group's profit before tax for the year ended 31 December 2012
				(in millions of ₦)	
FBN Bank (UK) Limited	United Kingdom	Banking	100%	6,554	7.6%
First Pension Custodian Nigeria Limited	Nigeria	Pension fund asset custodian	100%	1,316	1.5%
FBN Mortgages Limited	Nigeria	Mortgage banking	100%	1,074	1.2%
FBN Bureau de Change Limited	Nigeria	Bureau de change	100%	65	0.1%
Banque Internationale de Crédit	Democratic Republic of Congo	Banking	75%	671	0.8%

FBN Bank (UK) Limited

FBN Bank (UK) Limited ("**FBNUK**") was incorporated in the United Kingdom in November 2002 under the Companies Act 1985 as a UK registered bank authorised by the FCA to accept deposits and undertake banking business. The core of FBNUK's business involves financing imports and exports between African countries and the rest of the world with a particular focus on structured lending to companies in the oil and gas industry. FBNUK also has a branch in Paris. Additional services include the following:

- correspondent banking whereby FBNUK receives deposits from, makes payments on behalf of and provides trade finance facilities for other African financial institutions;
- corporate banking whereby FBNUK provides financing for large companies, governments or other institutions to carry out their daily functions;
- structured trade commodity finance whereby FBNUK provides import/export financing in emerging markets;
- structured project finance whereby FBNUK arranges and participates in financing solutions for a variety of infrastructure and other projects;

- treasury services whereby FBNUK provides principally foreign exchange and term deposit services for its customers;
- private banking whereby FBNUK provides international investment advice and related services to high net worth clients; and
- property investment whereby FBNUK provides mortgage finance for customers wishing to become owner occupiers or investors in UK non-commercial property.

First Pension Custodian Nigeria Limited

First Pension Custodian Nigeria Limited ("**First Pension**"), began operations in 2005 to provide custodial services on retirement savings accounts (RSAs). Its principal activity is to act as a custodian of pension fund assets in accordance with the Pension Reform Act, 2004. First Pension is the largest provider of custody services under the Pension Reform Act, as measured by the value of pension assets under custody, which amounted to ₦1,044 billion as at 31 December 2012. First Pension offers a variety of global services, including but not limited to the following:

- collecting pension contributions from employers on behalf of pension fund administrators, for the benefit of the contributors;
- settlement of investment transactions;
- safe keeping of assets;
- performance of corporate actions across all categories of assets;
- making payment on pensions and other applicable benefits nationwide;
- valuation of portfolios;
- cash management; and
- performance measurement and compliance monitoring assistance.

Custody fees are a major source of income for First Pension. Because the fee rate is regulated by the National Pension Commission ("**PenCom**"), custody fee income is directly correlated to the volume of the assets under custody. As at 2004, the CBN outsources the custody of all pension instruments to existing custodians, a change that came about as a result of the collaboration of the CBN and PenCom and that expanded opportunities for private companies in this sector.

FBN Mortgages Limited

FBN Mortgages Limited ("**FBN Mortgages**"), is a real estate development and finance company that commenced operations in May 2004 licensed by the CBN as a primary mortgage institution that provides financing for housing, engages in property trading and offers advisory services in the housing and real estate sectors.

As a CBN-regulated primary mortgage institution, FBN Mortgages Limited acts as a vehicle for the Federal Mortgage Bank of Nigeria in providing housing finance. As a provider of bridge financing, FBN Mortgages fills the timing gap between when capital must be deployed and when the Federal Mortgage Bank of Nigeria can dispense funds to the facility. Also, as a Nigeria Deposit Insurance Corporation-insured deposit entity, FBN Mortgages provides banking services, such as checking, savings and deposit accounts.

FBN Mortgages has a focused geographic participation model that sources business in three key cities, Lagos, Abuja and Port Harcourt. As a result of this strategy, FBN Mortgages has an 8 per cent. market share. The market for such products and services is competitive. In 2012 the CBN released the final Revised Guideline for Primary Mortgage Institutions ("**PMIs**"). The guideline 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 and created 2 categories of PMI; State and National PMIs. The minimum capital requirement for operating a State PMI licence is ₦2.5 billion, while a National license requires a minimum capital base of ₦5 billion. PMIs were given a deadline of December 31, 2013 for compliance with the revised guidelines. FBN Mortgages is finalizing the conditions towards full compliance of the guidelines by liquidating certain real estate investments.

FBN Bureau de Change Limited

FBN Bureau de Change Limited ("**FBN Bureau de Change**"), has been operated by the Bank since 2006 when the Bank obtained approval from the Central Bank of Nigeria to operate an exchange desk. The Bank capitalized on actions by the CBN during 2006 that liberalised reforms on the economy and allowed direct sale of foreign currency to exchange desks from the CBN in cash, developing the market for foreign exchange brokers. At the same time, reforms enabled Nigerian residents to use foreign exchange domiciliary accounts for transactions such as paying school fees abroad, credit card payments, medical bills and mortgage repayment.

In 2009, the CBN published a circular which reviewed the licensing requirements of Bureaux de Change ("**BDC**") and restricted the operators into two categories: Class 'A' BDCs and Class 'B' BDCs. Class 'A' operators can participate in transactions up to U.S.$1,000,000 per auction from the CBN, while Class 'B' operators can only participate in transactions up to U.S.$100,000 per auction. FBN Bureau de Change transitioned into a Class 'A' operator which also enlarged the business scope to include money transfer services, foreign exchange importation in addition to the traditional products and activities of the BDC. However, in 2010, the CBN withdrew all existing Class 'A' licenses and downgraded all operators in this category to Class 'B' license and disallowed money transfer and foreign exchange importation transactions. The regulatory authorities also significantly reduced weekly dollar sales to BDC operators further in 2012 where Class 'B' operators can only purchase up to U.S.$50,000 per auction.

During its normal course of business, FBN Bureau de Change buys, sells, imports for sale or otherwise deals in the foreign currency and money transfer business. The company can guarantee obligations and contracts to customers and issue and deposit any securities which FBN Bureau de Change has power to issue. Competition in this sector is formidable and ranges from other BDCs who successfully obtain licenses to unlicensed BDCs operating freely in the system.

Banque Internationale de Crédit

Banque Internationale de Crédit ("**BIC**") is a commercial bank in the Democratic Republic of Congo (DRC). BIC commenced business operations in 1994, when a presidential approval was granted for BIC to operate under the liquidated Barclays Bank licence it acquired. In late 2011, the Bank, as part of its regional expansion aspirations, acquired controlling interest (75 per cent.) from Thorens Limited which at the time controlled 99.9 per cent. stake in BIC. The transaction was approved by the CBN and the Central Bank of Congo 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 acquiring 75 per cent. of its shares and voting interest from Thorens Limited and thus accounted for the acquisition on that date.

BIC is rated the fifth largest bank by assets size in the DRC and provides a wide range of financial solutions for individuals, SMEs, corporate institutions and public institutions operating in DRC. Its target markets are affluent and high net worth individuals, mass market, mid-tier to large corporate institutions and government institutions. The principal activities are the provision of trade finance, project finance, Treasury, cards and other banking services to clients.

The acquired company contributed interest income of ₦2,123 million and net fee commission of ₦2,251 million to the Group for the period ending 31 December 2012 as well as profit before tax of ₦671 million. BIC contributed ₦1,732 billion to the Group's impairment charge in 2012. See Note 25 to the Annual IFRS Financial Statements for additional information on the acquisition of BIC.

Anti-Money Laundering

The Group has implemented a know your customer ("**KYC**"), anti-money laundering ("**AML**") and combating financing of terrorism ("**CFT**") programme to help ensure compliance with the provisions of the Money Laundering (Prohibition) (Amendment) Act of 2012, the Terrorism (Prevention) (Amendment) Act of 2013, the CBN Anti-Money Laundering/Combating the Financing of Terrorism Regulation No. 79 of 2009, the CBN Circular FPR/CIR/GEN/Vol1 /028. "Additional KYC Requirement for Designated Non-Financial Businesses and Profession", the CBN's "Know Your Customer" Manual of 2003 and CBN's "Know Your Customer" Directive of 2001.

The KYC/AML/CFT policies and procedures were also formulated to align with the Group's business strategy and industry standards, principles, practices, guidelines and regulations from the CBN, the Nigerian Deposit Insurance Corporation, the Nigerian National Drug Law Enforcement Agency (the "**NDLEA**"), the EFCC, the Nigerian Financial Intelligence Unit (the "**NFIU**"), the Basel Committee on Banking Supervision, the Wolfsberg

Group, the Intergovernmental Action Group against Money Laundering in West Africa (GIABA) and the Financial Action Task force ("**FATF**"). The Group's KYC/AML/CFT programme was designed to ensure that there are appropriate systems in place to prevent, promptly detect and report any suspected money laundering activities within the Group.

The objectives of the KYC/AML/CFT programme are to engender a compliance culture, mitigate the impact of certain operational, reputational and legal risks, protect the safety and soundness of the Group, and protect employees from risks that may be occasioned from carrying out their duties and obligations in compliance with the KYC/AML/CFT programme.

The Group's senior management team includes a Chief Compliance Officer who is in charge of overseeing the KYC/AML/CFT programme and reports to the Board. The Chief Compliance Officer is responsible for training employees on KYC procedures and AML/CFT awareness, aligning the Group's KYC/AML/CFT policies and procedures with statutory and regulatory directives and other relevant international laws and standards, representing the Group at meetings of law enforcement agencies and regulatory bodies (including the CBN, NDLEA and EFCC), reviewing suspicious transactions and returns and determining whether such transactions require disclosure to EFCC, NFIU and CBN, ensuring that the Group makes routine reports to CBN and NDLEA in respect of weekly returns or any specific suspicious reports, and ensuring that the Group is in compliance with all relevant AML/CFT laws and regulations. The Group also has branch compliance officers that have similar obligations as the Group's Chief Compliance Officer at their respective branches. Employees of the Group are made familiar with the KYC/AML/CFT programme as part of their induction, and trainings are conducted on an annual basis.

In addition, the Group has an internal audit team that monitors compliance within the Group with the KYC/AML/CFT policies and procedures. The internal auditors seek to ensure that appropriate internal controls are in place and that the Group is fully compliant with supervisory and regulatory guidance and requirements. The review process includes a review of the policies and procedures as well as a review of customer files and the sampling of customer accounts. The internal audit team carries out annual AML audits of all branches and reports to management to seek to ensure the effectiveness of the measures taken to enforce the provisions of the Money Laundering (Prohibition) (Amendment) Act of 2012. Quarterly reports on the KYC/AML/CFT compliance status of the Group are presented to the Board for its information and necessary action. The Group is also required to submit a report of compliance to the CBN and the NFIU on 31 December every financial year. Any identified weaknesses or inadequacies are required to be promptly addressed by the Group.

The Board and senior management of the Group are ultimately responsible for KYC/AML/CFT compliance. Senior management is responsible for formulating a comprehensive operational KYC/AML/CFT compliance manual which is approved by the Board annually. The Chief Compliance Officer is responsible for ensuring that the KYC/AML/CFT compliance manual reflects and complies with applicable legislation. The KYC/AML/CFT compliance manual sets out the KYC/AML/CFT policies and procedures which are adopted across the Group. The KYC/AML/CFT compliance manual is also forwarded to the CBN and NFIU within six months of its release and update.

Representative Offices

The Bank has three representative offices, in Johannesburg, South Africa established in 2003, in Beijing, China, established in 2009 and in Abu Dhabi, United Arab Emirates, established in 2011. These offices were set up primarily to facilitate cross-border trade and investment flows to areas where the Bank does not have branches.

Information Services

The information technology systems used by the Group are crucial to its business operations, and the Group strives to maintain the highest level of information and data security. In 2010, the Group became the first organisation in Nigeria to be awarded the ISO/IEC 27001:2005 Information Security Management Systems certification by the British Standards Institution (BSI), an internationally recognized organization in the field of auditing management systems and processes. In 2012, the Group also received the enhanced certification for ISO27001 which expanded the scope of ISO 27001 certification to include its network of branches and other key infrastructures such as the Group's Document Management Centre, the Centralized Processing Centre and the Disaster Recovery Centre. The Group also received the ISO38500 IT Governance Certification, which provides guiding principles for the Group on the effective, efficient and acceptable use of Information Technology within the Group.

The Group also complies with the global standard for the Payment Card Industry—Data Security Standards ("**PCI-DSS**") in the storage, processing and transmitting of cardholder account data. The PCI-DSS is a framework of specifications, tools, measurements and support resources for developing a robust payment card data security process formed by the PCI Security Standards Council, which consists of the five major card payment brands: Visa, MasterCard, American Express, Discover and JCB.

In June 2013, the Group successfully upgraded its core banking application from Finacle 7 to Finacle 10. The upgrade is aimed to help enhance services and financial solutions for the Group's customers, such as paperless deposits and withdrawals, enhanced security and convenience for Internet banking and instant card issuance at all branches.

The Group maintains a disaster recovery centre in Lagos. To date the Group has not experienced any material security breaches or information technology systems malfunctions.

Commitment to Social Responsibility

As Nigeria's oldest bank with over 119 years of banking experience, the Group has always endeavoured to exhibit good corporate citizenship. The Group's long-term success is closely connected to being a productive member of and being trusted by local communities. Management believes that this holds particularly true in Nigeria, where the Group is the largest financial services provider. With over ₦1 billion committed in 2012, the Group's corporate social initiatives were conducted through sponsorships, donations, partnerships and employee volunteering, and are focused on the key areas of education, economic development and health and welfare.

Through the Employee Engagement and Volunteering Scheme platform, the Group encourages its employees to volunteer for charitable causes and initiatives approved and supported by the Group. Employee-driven programmes supported under the scheme aim to connect the Bank with the community, while addressing social issues in the communities in which the Bank is present.

The International Organisation for Standardization ("**ISO**"), through its national member body, the Standards Organisation of Nigeria, commenced the adoption process of an international standard on Social Responsibility, ISO 26000 in Nigeria in 2012. The Group is a technical partner in the adoption process. As a technical partner, the Group is committed to the seven core subjects of the ISO 26000 guidance, namely: community involvement and development; human rights; labour practices; the environment; fair operating practices; consumer issues and organisational governance. The Group expects its subsequent reports on social responsibility to be ISO 26000 based after the adoption ceremony scheduled to take place in July 2013.

In January 2013, the Group also became a participant of the United Nations Global Compact with the goal of supporting the principles of the United Nations in the areas of human rights, labour, environment and anti-corruption.

Insurance

The Group maintains thirteen insurance policies to provide for a variety of occurrences, including loss as a result of accidents, fire, foreign currency risk, and cash and transit risk, among others. These policies are maintained through local Nigerian third party insurance companies. See "*Risks Related to the Group—The Group may be subject to operational risk and fraud and may not have adequate insurance to cover losses*".

Property

As at 31 March 2013, the Group leased 33.4 per cent. of its premises from third parties pursuant to medium term renewable leases and owned the remaining branch network buildings, including the Group's head office in Lagos. For the years ended 31 December 2012 and 2011, the Group paid a total amount of ₦1,019 million and ₦818 million under its leases, respectively.

Property and equipment (comprising improvement and buildings, land, motor vehicles, office and computer equipment, furniture and fittings, plant and machinery and work in progress) of the Group amounted to ₦76,292 million as at 31 March 2013, ₦74,454 million as at 31 December 2012 and ₦65,874 million as at 31 December 2011.

Legal Proceedings

From time to time and in the ordinary course of business, the Group is subject to legal actions and complaints. The Bank believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition and the results of future operations of the Group.

The Bank is subject to certain claims arising from its offering of hybrid securities in May 2007 (the "**Hybrid Offer**"). These claims allege that the Bank failed to properly allot securities to certain subscribers in the Hybrid Offer, and that certain subscription funds for securities that were not ultimately allotted were not returned to subscribers in a timely fashion or with sufficient interest. The Bank has repaid the subscription funds to those subscribers who were not allotted securities along with interest at the rate of 5 per cent. While the Bank believes that its allotment of securities in the Hybrid Offer was properly executed and in accordance with relevant SEC regulations, and further that the rate of interest repaid on unused subscription funds is sufficient, there can be no assurance that these claims will be dismissed or that the Bank will have to make additional interest payments to certain subscribers.

Pension Plans

The Group has both defined benefit and defined contribution plans.

Under the Group's defined contribution plan, the Group and its employees make a joint contribution of 15 per cent. of an employee's basic salary, housing and transport allowance to such employee's retirement savings account maintained with their nominated pension fund administrators. The Group has no further payment obligations once the contributions have been paid.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent factors such as age, years of service and compensation. The Group has a non-contributory defined gratuity scheme whereby on separation, staff who have spent a minimum number of 5 years are paid a sum based on their qualifying emoluments and the number of periods spent in service of the Bank. The Bank also has an old defined benefit scheme which was discontinued in March 2001. The funds for the old defined benefit scheme are placed with fund managers and the Bank is under obligation to fund the deficit, and has elected to do this over five years commencing January 2010 with an annual contribution of ₦1.2 billion.

See Note 39 to the Annual IFRS Financial Statements for information on the Group's retirement benefit obligation.

Employees

As at 31 March 2013, the Group employed a total number of 9100 employees. The average number of persons employed by the Group during the years ended 31 December 2012 and 2011 is set forth below:

	Year ended 31 December	
	2012	**2011**
Executive directors	7	5
Management	161	219
Non-management	8,451	8,202
Total	**8,619**	**8,426**

Related Party Transactions

The Group is controlled by FBN Holdings Plc, which owns 99.9% of its ordinary shares.

Save as disclosed in Note 45 to the Annual IFRS Financial Statements appearing elsewhere in this Prospectus, the Group has not entered into any transactions with any related party during the years ended 31 December 2012 or 31 December 2011, or during the period between 31 December 2012 and 31 March 2013.

As at 31 March 2013, 31 December 2012 and 31 December 2011, 8.8 per cent., 7.9 per cent. and 8.5 per cent. of the Bank's loans and advances to customers were made to related parties, respectively

ASSET, LIABILITY AND RISK MANAGEMENT

General

Following is a summary of the Group's asset, liability and risk management policies. Further details of the Group's financial risk management policies are contained in Note 3 of the Financial Statements. The principal risks inherent in the Group's business are credit risk, liquidity risk, market risk, operational risk, information security risk, legal risk and compliance risk.

The Group's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of the major risks inherent in its business activities. 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.

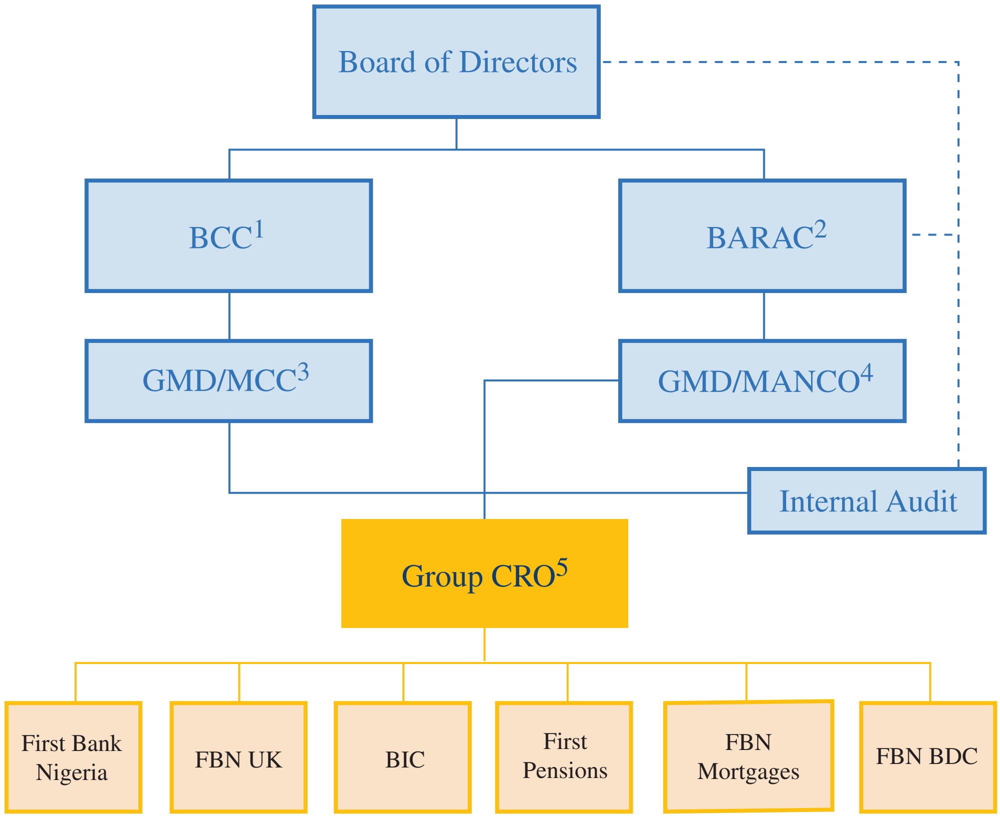
Although the ultimate responsibility for risk management in the Group is fully vested in the Board, which in turn delegates such to senior management, the Board and management seeks to instil awareness of risk and risk management across the Group, and promote a responsible approach to risk and ensure that the sustainability and reputation of the Group are not jeopardised while expanding its market share.

The Group's risk management policies and processes are regularly evaluated, modified and enhanced as appropriate to reflect changes in markets, products and international best practices such as the adoption in 2012 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.

The Group received the BS 25999 certification from the British Standard Institution ("**BSI**") on its BCMS in 2011. Following the publication of ISO 22301 (Business continuity management systems—Requirements) by the International Standardization Organization ("**ISO**") in May 2012, the BSI withdrew the "requirements" portion of BS 25999 (BS 25999-2) in November 2012 to support the adoption of the ISO 22301 standard. The Group is currently carrying out a gap analysis of the BS 25999-2 against the ISO 22301, with a view to transitioning to ISO 22301 by 31 March 2014.

Risk Management

The Group's risk management governance framework is outlined in the diagram below.



1 Board Credit Committee
2 Board Audit & Risk Assessment Centre
3 Group Managing Director/Management Credit Committee
4 Group Managing Director/Management Committee
5 Chief Risk Officer

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 ("**BARAC**") and the Board Credit Committee ("**BCC**"). The BARAC evaluates the processes for identifying, assessing, monitoring and managing key risk areas; it also evaluates the adequacy of the banking group's risk management systems and control environment. The BCC is responsible for approving the banking group's credit risk management strategies, policies, standards, products, approval limits/authorities and risk appetite.

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

The roles and responsibilities of the Board and board and management committees under the risk management governance framework are outlined below.

Board of Directors

The Board is responsible for approving and periodically reviewing the Group's risk strategy and policies, approving the Group's risk appetite annually, monitoring the Group's risk profile against the appetite, and ensuring that the Group's overall risk exposure is maintained at prudent levels and consistent with available capital. The Board reviews and approve changes/amendments to the risk management framework, risk management procedures and control for new products and activities, and ensures that the Group implements a sound methodology that facilitates the identification, measurement, monitoring and control of risk and that detailed policies and procedures for risk exposure creation, management and recovery are in place.

The Board is also responsible for ensuring that the management as well as individuals responsible for risk management possess the requisite expertise and knowledge to accomplish the risk management function, and appoints credit officers and delegate approval authorities to individuals and committees. The Board receives risk reports from the management at least once every quarter highlighting key risk areas, control failures and remedial action taken by the management, and ensures that executive management takes steps necessary to monitor and control risks within the Group, that management maintains an appropriate system of internal control, reviewing its effectiveness, and that the Group's risk strategy reflects its tolerance for risk.

While the responsibilities of the Board are discharged primarily by two committees of the Board, namely the BARAC and BCC, the full Board retains ultimate responsibility for risk management within the Group.

Board Audit & Risk Assessment Committee

The primary role of the BARAC is to report to the Board and provide appropriate recommendations on matters relevant to risk management and internal audit. This committee is made up of the GMD, 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, this committee performs the following functions for risk management:

- Evaluates 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.
- Tests the adequacy of the banking group's risk management systems and the determines the Group's control environment with management, and the internal and external auditors;
- Defines the Group's risk profile, the action plans in place to manage risks, and progress against plan to achieve these actions; and
- Approves the provision of risk management services by external providers.

Board Credit Committee

The BCC ensures effective management of credit risk in the Group. It is also responsible for approving the Group's credit risk management strategy, policies and standards, credit risk appetite and limits, approving credit products, processes and approving authorities, and credit requests above MANCO Credit level, including those going to the full Board as a recommendation. The BCC is made up of the GMD/CEO, all the executive directors and five non-executive directors. The Chairman is a non-executive director.

Management Committee

For all categories of risk, the Management Committee is responsible for formulating policies, monitoring implementation and reviewing risk reports for presentation to the Board and committees of the Board (the "**Board Committees**") as well as implementing Board decisions across the Group.

Specifically, the Management Committee is responsible for the implementation of risk strategy approved by the Board, developing policies and procedures for identifying, measuring and controlling risk, providing appropriate resources to evaluate and control risk, reviewing risk reports on a regular and timely basis and providing all reports required by the Board and its committees for the effective performance of risk management oversight functions.

Management Credit Committee

The MANCO Credit is responsible for establishing and maintaining an effective risk management environment in the Group, reviewing proposals in respect of credit policies and standards and endorsing them to the Board for approval, defining the Group's risk and return preferences and target risk portfolio, monitoring on an ongoing basis the Group's risk quality and performance, defining credit approval framework and assigning credit approval limits in line with the banking group policy, reviewing defined credit product programmes and endorsing to the Board for approval, reviewing credit policy changes initiated by the management of the Group and endorsing to the Board for approval, ensuring compliance with the Group credit policies and statutory requirements prescribed by the regulatory/supervisory authorities, approving credit facility requests within limits defined by the Group credit policy, and within the statutory requirements set by the regulatory/supervisory authorities, reviewing and recommending to the BCC facilities beyond management approval limits, reviewing periodic credit portfolio reports and assessing portfolio performance, requesting rapid portfolio reviews or sector/industry reviews from Credit Units where deemed appropriate, and approving exceptions/write-offs, waivers and discounts on nonperforming credit facilities within specified limits.

Risk Appetite

The Group's risk appetite describes the quantum of risk that it would assume in pursuit of its business objectives at any point in time. The risk appetite of the Group is set by the Board annually, at a level that seeks to minimise erosion of earnings or capital due to avoidable losses in the banking and trading books, or from frauds or operational inefficiencies.

The Group's appetite for risk is governed by the following:

- Asset quality measured by four key indicators:
  - (i) ratio of NPLs to total loans;
  - (ii) ratio of loan loss expenses to interest revenue; and
  - (iii) ratio of loan loss provision to gross NPLs.

  The Group's aim is to be among the top three Nigerian banks with respect to (i) and (ii) above and for (iii) maintain a ratio that ensures that there are adequate provisions for all non-performing assets based on their levels of classification;
- diversification targets and credit limits for aggregate large exposures;
- losses due to frauds and operational lapses pegged at a maximum of a specified percentage of gross earnings and which in any case must be lower than the industry average;
- financial and prudential ratio targets pegged at a level more conservative than regulatory requirements and better than the average of benchmark banks—includes 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 limit are set at a percentage of the balance sheet total and subject to overriding maximum amounts.

Credit Risk

The Group defines credit risk as the risk that an obligor will fail to perform its obligation under a trading or loan contract or when the ability to perform such obligations are impaired. Credit risk arises mainly from commercial and consumer loans and advances and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances. Credit risk is the single largest risk for the Group's business.

Credit risk management

Credit risk management verifies and manages the credit process from origination to collection. The credit division under risk management is structured to ensure the separation of policy, monitoring, reporting and control functions from credit processing functions. To this end, the functions of the division are handled at different levels by five departments, namely:

- Credit Analysis & Processing ("**CAP**")—responsible for the appraisal of non-specialised credit requests and processing to obtain requisite approvals in line with the Group's policy. CAP also engages in the review of wholesale/retail/consumer credit product programmes;
- Specialised Lending Department ("**SLD**")—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). The portfolio of credit requests handled by SLD include project finance (power, oil and gas, utilities, transportation, commercial real estate projects and infrastructure), agricultural credit product programmes, financial institutions credit requests and the public sector;
- Credit Risk Management ("**CRM**")—responsible for the planning, monitoring and reporting of the credit portfolio. The CRM monitors loans on obligor and portfolio basis and reports to the management and the Board. The monitoring unit is delineated along the SBUs to provide independent support and guidance to the relationship teams in the management of facilities, by ensuring early warning signs of deterioration are promptly picked up and remedial action is set in motion. The credit control unit is responsible for ensuring adherence to control measures, confirming approval of credit, conveying approvals and ensuring conditions are satisfied. CRM has ownership of all rating systems/scorecards and recommends and monitors the credit risk appetite for the year and reports periodically to the Board and management. CRM also serves as the credit secretariat and manages the documentation and other credit process initiatives for the Group;
- Remedial Management ("**RMD**") is responsible for proactive work-out of accounts showing early signs of weakness. The team performs remedial action on non-performing and delinquent credits to minimize losses to the bank in the event of further declines in credit quality. RMD aims 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. Facilities are considered delinquent when normal repayment of principal and/or interest is in arrears for more than 180 days but less than 360 days. The remedial process involves liaising with the relationship management function to develop tailored loan workout strategies, restructuring exposure as appropriate by varying the terms and conditions of the credit, subject to the appropriate level of approval and implementing the agreed loan workout strategy, monitoring, tracking and reporting on such loans.
- Classified Assets Management ("**CAM**")—responsible for the recovery of classified retail loans that are 90 days past due, wholesale accounts classified lost with days past due ("**DPD**") of over 540 days and accounts written off from on-balance sheet into CAM SOL. CAM liaises with debt recovery agents, receivers/ managers and solicitors to ensure effective recovery of bad loans.

The Group's credit approval process aims to ensure that each credit undergoes approval at the appropriate level as defined by the bank's credit policy. A First Bank branch office cannot solely process all types of loans. Retail and consumer credits within the limits defined by their respective approved credit programs are processed using the automated loan origination system FINNONE. For the select branches that have not implemented FINNONE, the Branch Credit Committee processes the request, utilising the same approval logic. Credit approval will be predicated on the customer's ability to meet the requirements of the target market definition and risk acceptance criteria as defined by risk management in the credit program. Once the loans are approved, they are setup by the centralised processing unit after verification and confirmation of the customer's compliance with the conditions precedent to drawdown by the resident internal control officer.

Individually assessed credits (institutional, corporate and retail loans outside the product programs and specified thresholds) are assessed centrally by credit analysts at the Bank's head office and approved at pre-defined approval levels which are graduated up to the Board. See "*—Credit risk limits—Single obligor limits*".

Credit decisions at the head office are then conveyed by credit risk management to the respective relationship team of the various business units who liaise with the customer to execute the offer. On acceptance of the offer and loan terms, the credit documents are forwarded to the credit risk management team who review documentation and verify confirmation of resolution of all conditions precedent and transaction dynamics to drawdown. Upon confirmation, the facility is forwarded to the centralised processing unit for set up and disbursed through the branches.

Credit risk measurement

In measuring the credit risk of loans and advances to customers and to banks at a counterparty level, the Group reflects the following components:

- the character and capacity to pay of the client or counterparty on its contractual obligations;
- current exposures to the counterparty and its likely future development; and
- credit history of the counterparty and likely recovery ratio in case of default obligations—value of collateral and other ways to recover.

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 ORR grids have a minimum of nine risk buckets to provide a pre-set, objective basis for making credit decisions, with one additional bucket specifically included to categorise obligors in default. Each risk bucket may be denoted alphabetically and by 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%	
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%	Investment
Acceptable—moderately high risk	BB	5	5.00-5.99	50-59%	4%	
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%	Non-Investment
Default risk	D	10				
Sub-standard	D				25%	
Doubtful	D				50%	
Lost	D				100%	Default

- Collateral Risk Rating ("**CRR**")/Facility Risk Rating ("**FRR**")—the 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 collateral is, the lower the estimated portion of the exposure that may not be covered in the event of default. Therefore, for highly illiquid collateral, a higher loss given default is assumed. The CRR grid below indicates the acceptable collateral types rated 1–8 from best to worst in order of liquidity. Under the internal rating systems, all facilities should have a FRR, which is different from the ORR to the extent of the perceived value of the collateral provided.

Collateral Risk Rating	Collateral type
1	Cash/Treasury Bills
2	Marketable securities, guarantee/receivables of investment grade banks and corporates
3	Enforceable Lien on fast moving inventory in bonded warehouses
4	Legal mortgage on residential business real estate in prime locations A and B
5	Legal mortgage or debenture on business premise, factory assets or commercial real estates in locations A and B
6	Equitable mortgages on real estate in any location
7	Letters of comfort or awareness, guarantee of non-investment grade banks and corporates
8	Hypothecation, negative pledge, personal guarantee, clean

The Group uses the FinnOne credit scoring software from Nucleus Software for retail loans. For individually assessed credits, the Group utilizes the Moody's Risk Analyst Solution, which was recently deployed. Previously, the Group utilized the rating model developed by Agusto & Co.

In line with prudential guidelines, the Group has also signed on the XDS Credit Bureau Ltd, the CRC Credit Bureau Ltd and the CR Services Plc to assess prospective obligors, and also visits the CBN CRMS database for obligor assessment.

Credit risk limits

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 on the recommendation of the Executive Director/Chief Risk Officer. Credit Risk Management monitors compliance with approved limits.

Portfolio limits

The Group engages in a detailed portfolio plan annually. In drawing up the plan, it reviews the macro-economic factors, identifies the growth sectors of the economy and conducts a risk rating of the sectors to determine its acceptable target market industries and exception. The Group's target loan portfolio is then distributed across acceptable target market industries, SBUs and approved product programmes. Portfolio limits are set on:

- aggregate large exposure limit as a percentage of shareholders' funds of not more than 400 per cent.;
- public sector exposure limit of not more than 10 per cent. (including contingent liability) of the Bank's loan portfolio; and
- industry/economic sector limits, in line with the following policies:
    - the target market is companies operating in industries rated 'BB' or better unless on an exception basis.
    - the Group would not have more than 25 per cent. 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 per cent. of its loan portfolio and such industry must be rated 'BBB' or better.
    - no more than 15 per cent. of the Group's portfolio would be in any industry rated 'BB' or worse.
    - no more than 10 per cent. of the Group's portfolio in any single industry rated 'B' or worse.

Geographic limits

Presently, the Group's exposures outside Nigeria are taken by its subsidiaries in the United Kingdom and Congo, which operate within country limits defined by their boards of directors. However, the Group has a fully developed country risk rating system that could be employed, should the need arise. In such eventuality, limits will be graduated on country risk rating.

Single obligor limits

Limits are imposed on loans to individual borrowers. The Group as a matter of policy does not lend above its regulatory lending limit, which is 20 per cent. of its shareholders' funds unimpaired by losses. The internal guidance limit is, however, set at 18 per cent. of shareholders' funds to create a prudent buffer. The Group will also not ordinarily advance beyond 50 per cent. of customers' shareholders' fund/net worth in cases of loans offered under individual assessment. Product programmes contain guidelines on single obligor limits in order to promote diversification of the loan portfolio.

Except with the approval of the Board, the Group does not lend more than 20 per cent. of the shareholders' funds to any company. Only companies rated 'A' or better may qualify for this level of exposure. No single retail loan should amount to more than 0.2 per cent. of total retail portfolio, and no single retail loan should amount to more than 0.5 per cent. 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 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.

	Approval levels	**Investment grade**	**Non-investment grade**
		(₦ thousands)	
1	Board of Directors	>58,000,000	>58,000,000
2	Board Credit Committee	58,000,000	58,000,000
3	Management Credit Committee	30,000,000	15,000,000
4	Group Managing Director, Chief Risk Officer and Business Unit Senior Credit Officer level 1 or 2	10,000,000	3,000,000
5	Risk Unit Senior Credit Officer level 1 and Business Unit Senior Credit Officer level 1 or 2	8,000,000	2,500,000
6	Business Unit Senior Credit Officer level 1 and Risk Unit Senior Credit Officer level 2	5,000,000	1,000,000
7	Risk Unit Senior Credit Officer Level 3 and Business Unit Senior Credit Officer Level 2	500,000	250,000
8	Risk Unit Senior Credit officer Level 4 and Business Development Manager or Group Head	100,000	100,000

Collection and Recovery

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.

The table below sets forth details of the Group's gross loans and advances to customers that are secured as at 31 December 2012:

Nature of security	**Gross loans and advances**
	(₦ millions)
Secured against real estate	457,582
Secured by shares of quoted companies	14,713
Otherwise secured[(1)]	1,019,792
Unsecured	110,245
	1,602,332

(1) Otherwise secured loans include loans which are secured with domiciliation of proceeds, guarantees, debentures on fixed and floating assets, lien on assets and trust deeds.

When loans are past due or impaired, the RMD teams work with customers to work out a repayment plan or to restructure the affected loans where possible. The Group's remedial and recovery management teams also work with independent consultants that are knowledgeable in specific loan segments as well as recovery agents that assist with the Group's collection and recovery efforts. The Group may also sell the impaired loans to alternative asset investors (e.g. as it did formerly to AMCON in 2010 and 2011) when such opportunity arises, or pursue legal remedies or actions to take interest in the assets that secure the loans.

Liquidity Risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligation as they fall due or will have to meet the obligations at excessive costs. This risk could arise from mismatches in the timing of cash flows.

Funding risk is a form of liquidity risk that arises when the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms and when required.

The objective of the Group's liquidity risk management is to ensure that all anticipated funding commitments can be met when due and that access to funding sources is coordinated and cost effective.

Liquidity Risk Management

The Group's liquidity management process includes:

- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- active monitoring of the timing of cash flows and maturity profiles of assets and liabilities to ensure mismatches are within stipulated limits;
- monitoring the liquidity ratios against internal and regulatory requirements; and
- managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets. Particular attention is also paid to the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

The Group is funded primarily by a mix of retail, corporate and public sector deposits. This funding base provides stability and low funding cost with minimal reliance on more expensive tenured deposit and interbank takings as significant sources of funding. The Bank places considerable importance on the current, savings and domiciliary deposits which account for over 75 per cent. of its funding base. Although these accounts are repayable on demand, they have historically been stable and have formed a core component of the Bank's liabilities. The Bank strives to achieve a deposit mix of a minimum 45 per cent. from current accounts, a minimum of 30 per cent. from savings accounts and a maximum of 20 per cent. from term deposits.

The BARAC and the full Board are responsible for the approval of liquidity risk management framework, policies, strategies, guidelines and philosophy and providing Board oversight for the implementation of liquidity risk management policies.

The ALCO, made up of executive directors and other relevant divisional heads, is responsible for the following:

- review of policies relating to liquidity risk management;
- recommendation of liquidity risk policies to the Board;
- review of liquidity risk strategy and recommendation of the same for Board approval;
- provision of management oversight on the implementation of policies relating to liquidity risk;
- monitoring of liquidity risk inherent in the maturities mismatch of assets and liabilities;
- development of policies, procedures, tools and systems for identifying, measuring, controlling and reporting liquidity risks;
- ensuring compliance with statutory and regulatory requirements relating to liquidity risks;
- approval of liquidity risk-related limits for the Bank and subsidiaries; and
- approving stress scenarios and contingency funding plan assumption.

Implementation of the Group's market and liquidity risk management policies, procedures and systems is delegated to the Head of Group Market and Liquidity Risk Management department who reports to the Group Chief Risk Officer. Each banking subsidiary in the Group also has an ALCO with the above responsibilities specifically for the entity alone. Implementation of each bank's liquidity risk management policies, procedures and systems is delegated to the entity's Chief Risk Officer.

The principal mechanism for implementing the banking group's liquidity policy is the maintenance of liquid assets to deposit ratio over and above the CBN regulatory requirement, being 30.0 per cent. as at the date of this Prospectus. The liquidity ratio is interpreted in conjunction with cash flow projection and liability concentration ratios to measure the banking group's exposure to liquidity risk. The cash flow technique used is the maturity ladder, which assesses all the Bank's cash inflows against its outflows to identify potentials for net shortfalls or net funding requirements. The liquidity and funding management process also includes the preparation of multicurrency balance sheets, assessing cash flows by major currencies and projecting cash flows under stress scenarios. The Bank's use of concentration ratios prevents it from relying on a limited number of depositors or funding sources.

The following table shows the Bank's liquidity ratio, which is the ratio of net liquid assets (defined as cash and cash equivalents and marketable securities less current liabilities) to deposits from customers (calculated on the basis of Nigerian GAAP) as at the dates indicated:

	As at 31 December		
	2012	2011	2010
		(%)	
At end of period	49.53	55.38	44.10
Average for the period	46.07	46.50	44.02
Maximum for the period	63.17	56.63	54.02
Minimum for the period	34.42	36.55	34.00

Contingency funding plan

The Group's contingency funding plan aims to ensure that adequate funding arrangements in the event of an adverse funding situation. An adverse funding situation could arise from a sudden deterioration of the perceived safety and credibility of the Group leading to sudden withdrawal of funds by depositors (bank specific risk). It could also arise due to macroeconomic changes which adversely affects the Group's ability to generate cash flows (systemic risk). The Group's contingency funding plan specifies the trigger points that activate the contingency funding plan, as well as the roles and responsibilities of the various departments within the Group during the management of an adverse funding situation.

As part of its strategy, the Bank maintains lines of credit with at least 10 primary correspondent banks. The Treasurer has the responsibility for maintaining the Bank's lines of credit which are reviewed on a quarterly basis to reflect the current local and international financial market direction. The Bank also aims to maintain adequate stock of highly marketable securities which can be pledged or discounted during adverse funding situations.

Maturity analysis

Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the consolidated statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Group manages the liquidity risk based on a different basis not resulting in a significantly different analysis.

	0-30 days	31-90 days	91-180 days	181-365 days	Over 1 year but less than 5 years	Over 5 years	Total
				(₦ million)			
31 December 2012							
Financial liabilities							
Deposits from banks	—	90,134	—	—	—	—	90,134
Deposits from customers	2,205,868	187,604	35,682	40,592	4	—	2,469,750
Financial liabilities held for trading	—	579	616	40	561	—	1,796
Borrowings	—	45,442	2,210	3,478	25,187		76,317
Other liabilities	21,052	16,991	71,713	8,310	—	—	118,066
Loan commitments	27,111	—	—	—	—	—	27,111
Letters of credit and other credit related obligations	2,838	23,200	48,952	141,678	3,719	—	220,388
Total financial liabilities	**2,256,869**	**363,950**	**159,173**	**194,098**	**29,471**	**—**	**3,003,562**
Assets held for managing liquidity risk	**764,666**	**76,914**	**31,604**	**60,678**	**126,781**	**317,918**	**1,378,561**
31 December 2011							
Financial liabilities							
Deposits from banks	—	188,913	—	—	—	—	188,913
Deposits from customers	179,629	296,410	252,678	288,109	943,489	—	1,960,315
Financial liabilities held for trading	14	1,995	84	50	714	—	2,857
Borrowings	—	10,047	6,002	5,494	84,394	—	105,937
Other liabilities	19,228	72,691	46,146	4,795	12,219	3,683	158,762
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
Total financial liabilities	**224,107**	**642,340**	**339,933**	**407,429**	**1,041,653**	**3,683**	**2,659,145**
Assets held for managing liquidity risk	**435,498**	**270,111**	**96,778**	**119,315**	**165,798**	**291,571**	**1,379,071**
1 January 2011							
Financial liabilities							
Deposits from banks	—	152,728	—	—	—	—	152,728
Deposits from customers	511,663	360,991	212,051	224,495	146,844	—	1,456,044
Financial liabilities held for trading	13	—	—	—	1,187	439	1,639
Borrowings	—	—	1,478	20,362	80,078	26,359	128,277
Other liabilities	58,763	4,792	41,728	900	14,287	—	120,470
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
Total financial liabilities	**592,234**	**541,029**	**267,560**	**348,230**	**244,947**	**26,798**	**2,018,798**
Assets held for managing liquidity risk	**636,439**	**32,425**	**24,974**	**31,221**	**161,053**	**70,198**	**956,310**

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.

The interest rate swap and the accumulator foreign exchange 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.

	At 31 December 2012						
	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
	(₦ millions)						
Derivative Liabilities							
Interest rate swap		(61)	—	—	—	—	(61)
Accumulator-Forward FX contract		—	—	—	(260)	—	(260)
	—	(61)	—	—	(260)	—	(321)
Derivative Assets							
Interest rate swap	—	—	—	—	—	—	—
	—	—	—	—	—	—	—
	—	(61)	—	—	(260)	—	(321)

	At 31 December 2011						
	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
	(₦ millions)						
Derivative Liabilities							
Interest rate swap	—	(282)	—	—	(158)	—	(439)
Accumulator-Forward FX contract	—	—	—	—	(556)	—	(556)
	—	(282)	—	—	(714)	—	(995)
Derivative Assets							
Interest rate swap	—	665	—	—	—	—	665
Accumulator-Forward FX contract	138	—	—	—	—	—	138
	138	665	—	—	—	—	802
	138	383	—	—	(714)	—	(193)

	At 1 January 2011						
	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
	(₦ millions)						
Derivative Liabilities							
Interest rate swap		—	—	—	(834)		(834)
Accumulator-Forward FX contract		—	—	(354)	(439)		(792)
		—	—	(354)	(1,273)	—	(1,626)
Derivative Assets							
Interest rate swap		—	—	—	1,927	—	1,927
Accumulator-Forward FX contract		—	—	—	—	—	—
	—	—	—	—	1,927	—	1,927
		—	—	(354)	654	—	300

The Group's derivatives that will be settled on a gross basis are foreign exchange derivatives. The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cash flows on all derivatives including derivatives classified as 'liabilities held for trading'. The amounts disclosed in the table are the contractual undiscounted cash flows.

	At 31 December 2012						
	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
	(₦ millions)						
Derivatives held for trading							
Foreign exchange derivatives:	4	105	(41)	13	—	—	81
Put options	—	—	—	—	329	—	329
	4	105	(41)	13	329	—	410

	At 31 December 2011						
	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
	(₦ millions)						
Derivatives held for trading							
Foreign exchange derivatives:	11	(1,574)	(84)	(50)	—	—	(1,697)
Put options	—	—	—	—	—	157	157
	11	(1,574)	(84)	(50)	—	157	(1,540)

	At 1 January 2011						
	Up to 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Total
	(₦ millions)						
Derivatives held for trading							
Foreign exchange derivatives:	31	(9)	—	—	—	—	22
	31	(9)	—	—	—	—	22

Market Risks

Market risk is the potential for adverse changes in the value of a trading or an investment portfolio due to changes in market risk variables such as equity and commodity prices, interest rates, and foreign exchange rates. Market risk arises from positions in currencies, interest rate and securities held in the Group's trading portfolio and from the Group's retail banking business, investment portfolio, and other non-trading activities. The movement in market risk variables may have a negative impact on the balance sheet and or income statement.

In 2012, the Bank was exposed to market risk in its trading, and non-trading activities mainly as a result of:

- interest rate movements in reaction to monetary policy changes by the CBN, fiscal policies changes, and market forces;
- foreign exchange fluctuations arising from demand and supply as well as government policies; and
- equity price movements in response to market forces and changing market dynamics, such as market.

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 per cent. and a 10-day holding period. The confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced three times per year in every 250 days. Only the Bank is subject to the VaR methodology. The interest rate exposure of the other subsidiaries is considered insignificant to the Group. Thus, the VaR of the Bank is deemed to be fairly representative of the Group.

The Bank continues to use VaR to estimate the potential losses that could occur on its positions as a result of movements in market factors. The Bank uses the parametric method as its VaR methodology with an observation period of two years obtained from published data from pre-approved sources. VaR is calculated on the Bank's positions at close of business daily.

The table below shows the trading VaR of the Bank. The major contributors to the trading VaR are 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 per cent. in the interbank market.

	12 months to 31 December 2012		
	Average	High	Low
VAR Summary			
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		
	Average	High	Low
VAR Summary			
Foreign exchange risk	76	276	1
Interest rate risk	57	214	0
Total VAR	**133**	**490**	**1**

	1 January 2011		
	Average	High	Low
VAR Summary			
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 Bank augments other risk measures with stress testing to evaluate the potential impact of possible extreme movements in financial variables on portfolio values. Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress-testing methodology is applied to trading and non-trading books. Stress scenarios are regularly updated to reflect changes in risk profile and economic events.

The ALCO is responsible for reviewing stress exposures and where necessary, enforcing reductions in overall market risk exposure. The stress-testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs. Regular stress-test scenarios are applied to interest rates, exchange rates and equity prices. This covers all asset classes in the financial markets banking and trading books. Ad hoc scenarios are also prepared reflecting specific market conditions and for particular concentrations of risk that arise within the businesses.

Non-trading portfolio

The principal objective of market risk management of non-trading portfolios is to optimise net interest income. Due to the size of the Bank's holdings in rate-sensitive assets and liabilities the Bank is exposed to interest rate risk. Non-trading interest rate risk results mainly from differences in the mismatches or re-pricing dates of assets and liabilities, both on- and off-balance sheet as interest rate changes.

The Bank uses a variety of tools to measure non-tradable interest rate risk such as:

- interest rate gap analysis (which allows the Bank to maintain a positive or negative gap depending on the perceived interest rate direction). The size of the gap is then adjusted to either hedge net interest income against changing interest rates or to speculatively increase net interest income;
- forecasting and simulating interest rate margins;

- market value sensitivity;
- calculating earnings at risk (“**EaR**”) using various interest rate forecasts; and
- re-pricing risk in various portfolios and yield curve analysis.

Hedged non-trading market risk exposures

The Bank’s books have some key market risk exposures, which have been identified and are being managed using swaps and options.

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. See “*Risk Factors—Risks Related to the Group—The Group is subject to foreign exchange risk and is affected by changes in the value of the Naira against other currencies*”. 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.

	31 December 2012					
	Naira	**USD**	**GBP**	**Euro**	**Others**	**Total**
			(₦ millions)			
Financial assets						
Cash and balances with Central Banks	277,976	8,291	1,110	786	9,861	288,024
Loans and advances to banks	36,213	265,384	71,602	9,325	10,601	393,125
Loans and advances	945,656	364,671	225,694	8,245	18,739	1,563,005
Investment securities	632,271	—	50,389	—	574	683,234
Asset pledged as collateral	50,109	—	—	—	—	50,109
Financial assets held for trading	680	1,262	623	—	—	2,565
Other assets	13,894	17,714	198	37	1,890	33,733
	1,956,799	**657,322**	**349,616**	**18,393**	**41,665**	**3,023,795**
Financial liabilities						
Customer deposits	1,721,106	531,591	113,633	3,436	36,092	2,405,858
Deposits from banks	17,799	654	69,088	10	—	87,551
Financial liabilities held for trading	—	1,278	518	—	—	1,796
Borrowings	19,401	52,772	12	3,352	4	75,541
Other liabilities	17,681	63,661	26,818	5,500	411	118,065
	1,775,987	**649,956**	**210,069**	**12,298**	**40,501**	**2,688,811**

	31 December 2011					
	Naira	**USD**	**GBP**	**Euro**	**Others**	**Total**
			(₦ millions)			
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
Asset pledged as collateral	72,129	—	—	—	—	72,129
Financial assets held for trading	3,903	1,931	130	—	—	5,964
Other assets	19,686	42,201	204	171	10	62,272
	2,090,132	**489,515**	**149,769**	**17,509**	**2,255**	**2,749,180**
Financial liabilities						
Customer deposits	1,368,657	397,838	172,278	12,456	2	1,951,231
Deposits from banks	50,124	1,161	132,194	18	3	183,500
Financial liabilities held for trading	—	1,143	1,714	—	—	2,857
Borrowings	35,381	65,033	186	3,873	—	104,473
Other liabilities	32,122	78,673	41,597	3,245	3,135	158,772
	1,486,284	**543,848**	**347,969**	**19,592**	**3,140**	**2,400,833**

	1 January 2011					
	Naira	USD	GBP	Euro	Others	Total
			(₦ millions)			
Financial assets						
Cash and balances with Central Banks	65,223	7,164	2,058	1,068	4	75,517
Loans and advances to banks	280,163	96,495	180,463	17,949	398	575,467
Loans and advances	824,288	222,523	113,469	11	2	1,160,293
Investment securities	245,584	—	9,124	—	—	254,708
Asset pledged as collateral	122,009	—	—	—	—	122,009
Financial assets held for trading	14,674	1,962	—	—	—	16,636
Other assets	8,040	30,902	249	82	9	39,282
	1,559,980	**359,046**	**305,363**	**19,110**	**413**	**2,243,912**
Financial liabilities						
Customer deposits	1,151,322	288,573	4,126	3,577	2	1,447,600
Deposits from banks	148,336	—	—	13	3	148,352
Financial liabilities held for trading	—	1,639	—	—	—	1,639
Borrowings	41,111	79,511	254	5,474	—	126,350
Other liabilities	47,458	58,336	1,578	12,636	462	120,470
	1,388,227	**428,059**	**5,958**	**21,700**	**467**	**1,844,411**

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.

	As at 31 December 2012			
	US dollar	GBP	EUR	Other currencies
		(₦ millions)		
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 GBP, US dollar and Euro.

The following table details the Group's sensitivity to a 5 per cent. increase and decrease in Naira against the US dollar, GBP and Euro. Management believes that a 5 per cent. movement in either direction is reasonably possible at the balance sheet date. The sensitivity analyses below include outstanding US dollar, GBP and Euro denominated financial assets and liabilities. A positive number indicates an increase in profit where naira strengthens by 5 per cent. against the US dollar, GBP and Euro. For a 5 per cent. weakening of Naira against the US dollar, GBP and Euro, there would be an equal and opposite impact on profit.

	31 December		1 January
	2012	2011	2011
Naira strengthens by 5% against the US dollar Profit/(loss)	(368)	2,717	3,451
Naira weakens by 5% against the US dollar Profit/(loss)	368	(2,717)	(3,451)
Naira strengthens by 5% against the Euro Profit/(loss)	(305)	104	130
Naira weakens by 5% against the Euro Profit/(loss)	305	(104)	(130)
Naira strengthens by 5% against the GBP Profit/(loss)	(6,977)	9,910	(14,970)
Naira weakens by 5% against the GBP Profit/(loss)	6,977	(9,910)	14,970

Interest rate risk

Interest rate risk is the risk of loss in income or portfolio value as a result of changes in market interest rates. The Group is exposed to interest rate risk in its fixed income securities portfolio, as well as on the interest sensitive assets and liabilities in the course of banking and or trading. The Board sets limits on the level of mismatch of interest rate repricing and value at risk that may be undertaken, which is monitored daily by the Asset and Liability Committee.

The table below summarises the Group's interest rate gap position showing its exposure to interest rate risks. Value at risk exposure is disclosed under *"—Market Risks—(a) Value at risk ("**VaR**")"* above.

	31 December 2012			
	Carrying amount	**Variable interest**	**Fixed interest**	**Non-interest bearing**
		(₦ millions)		
Financial assets				
Cash and balances with Central Banks	298,024	—	—	298,024
Loans and advances to banks	393,125	—	53,967	338,452
Loans and advances	1,563,005	1,563,005	—	—
Investment securities	682,234	—	634,736	47,498
Assets pledged as collateral	50,109	—	50,109	—
Financial assets held for trading	2,565	—	680	1,885
Other assets	25,274	—	—	25,274
	3,014,336	**1,563,005**	**739,492**	**711,133**
Financial Liabilities				
Customer deposits	2,405,858	1,894,823	501,371	9,664
Deposits from banks	87,551	—	87,551	
Financial liabilities held for trading	1,796	—	61	1,735
Borrowings	75,541	2,560	72,981	—
Other liabilities	118,066	—	—	118,065
	2,688,811	**1,897,383**	**661,964**	**129,465**
Interest rate mismatch		**334,377**	**77,528**	**(581,669)**

	31 December 2011			
	Carrying amount	**Variable interest**	**Fixed interest**	**Non-interest bearing**
		(₦ millions)		
Financial assets				
Cash and balances with Central Banks	199,228	—	—	199,228
Loans and advances to banks	462,856	—	237,947	224,909
Loans and advances	1,252,462	1,252,462	—	—
Investment securities	694,269	—	642,176	52,093
Assets pledged as collateral	72,129	—	72,129	—
Financial assets held for trading	5,964	—	1,558	4,406
Other assets	52,996	—	—	52,996
	2,739,904	**1,252,462**	**953,810**	**533,632**
Financial Liabilities				
Customer deposits	1,951,321	1,659,610	289,064	2,647
Deposits from banks	183,500	—	183,500	—
Financial liabilities held for trading	2,857	—	439	2,418
Liability on investment contracts	49,440	—	49,440	—
Borrowings	104,473	36,855	67,618	—
Other liabilities	158,773	—	—	158,773
	2,450,364	**1,696,465**	**590,061**	**163,838**
Interest rate mismatch		**(444,003)**	**363,749**	**369,794**

	1 January 2011			
	Carrying amount	Variable interest	Fixed interest	Non-interest bearing
	(₦ *millions*)			
Financial assets				
Cash and balances with Central Bank of Nigeria	75,517	—	—	75,517
Loans and advances to banks	575,467	—	379,609	195,858
Loans and advances	1,160,293	1,160,293		—
Investment securities	254,708	—	171,832	82,876
Assets pledged as collateral	122,009	—	122,009	—
Financial assets held for trading	16,636	1,927	9,523	5,186
Other assets	30,699	—	—	30,699
	2,235,329	**1,162,220**	**682,973**	**390,136**
Financial Liabilities				
Customer deposits	1,447,600	1,172,557	273,755	1,288
Deposits from banks	148,352	—	148,352	—
Financial liabilities held for trading	1,639	1,187	—	452
Liability on investment contracts	76,446	—	76,446	—
Borrowings	126,350	60,482	65,868	—
Other liabilities	120,470	—	—	120,470
	1,920,857	**1,234,226**	**564,421**	**122,210**
Interest rate mismatch		**(72,006)**	**118,552**	**267,926**

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. This definition includes legal risk but excludes reputational risk. Therefore, in line with the Basel II risk management framework and best practices, operational risk in the Group is composed of the following risk types: operations risk, legal risk, regulatory compliance risk, financial crime risk, people risk, property, technology, vendor, financial and environmental risk.

The Group's operational risk management practice, culture and environment is predicated on the three line of defence principle. The first line of defence being the line management made up of all staff of the SBUs and support functions with the responsibility for risk identification, assessment, mitigation, management and compliance with standards and policies. The MANCO, Business Risk and Compliance Committee ("**BRCC**") and the respective corporate risk and control functions such as operational risk management, internal control, legal and compliance, financial control, information security, 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, the Group seeks to manage operational risk within acceptable levels through appropriate management focus and resources aimed at minimising operational losses in the Group.

The general security situation in Nigeria remains a concern. See "*Risk Factors—Risks related to Nigeria and other regions in which the Group operates—There are risks related to political instability, religious differences, ethnicity and regionalism in Nigeria*". The Group continues to work at ensuring safety and protection of assets, staff and customers' investments through implementation of a robust BCMS in line with global best practice. In 2011, the Group received the BS 25999 certification from the BSI on its BCMS, and the Group passed the first surveillance audit of the BCMS carried out in the last quarter of 2012. The Group is the first and only organisation in Nigeria to have earned this certification.

Major operational risks faced by the Group are financial crimes (internal fraud, external fraud and money laundering). Each incident is analysed, control failures identified and new controls designed. Management believes that the quality of people and their integrity is key to mitigating these key operational risks. As a result, the Group has adopted and developed a competency-based recruitment framework in which attitude, skills and knowledge are tested through background checks, psychometric 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 KYC drive and background checks on employees;
- issuance of appropriate and deterrent circulars;
- job rotation and segregation;
- dissemination of email and SMS alerts to the Bank's customers for each debit on their account;
- imposition of stiff disciplinary measures including prosecution of fraudulent staff;
- installation of panic alarm system, CCTV, deadman doors, etc.; and
- implementation of a rules-based anti-fraud solution.

Operational Risk Management

The overall responsibility for operational risk management in the Group resides with the Board. The responsibility of the day-to-day management is delegated as described below. 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 (BARAC and 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 SBUs, SRFs, BDOs, branches, departments/business units and control and support units and the day-to-day management of operational risks is owned by their respective management and executed through their management structure supported by the operational risk relationship managers and nominated coordinators reporting into the respective senior management officials or their designates.

Information Security Risk

Information security risk is the risk of unauthorised access, use, disclosure, modification, perusal, inspection, recording or destruction of information assets which could cause possible disruption of operations.

The Group has gone through its third BSI surveillance audit since it became the first organisation in Nigeria to be awarded the ISO 27001 certification by the BSI in the year 2010. The Group also expanded its scope of ISO 27001 certification to include its network of branches and other key infrastructures. The Group is presently engaged in extensive work in the implementation of the PCI DSS as part of its effort to implement global standards and best practices that would in turn ensure strong risk governance.

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. The BARAC performs an oversight function spanning the entire information security organisation in the Bank. Its function also includes ensuring that detailed policies, procedures and standards are created, updated regularly and effectively communicated to stakeholders.

Legal Risk

Legal risk management is an integral part of the Bank's Enterprise Risk Management framework. The Bank recognises that all aspects of its business activities are fraught with legal risks, the rise of which may not only outstrip its business growth, but may also threaten the entire franchise. To this end, there is a dedicated Legal Services department with responsibility for the effective management of this aspect of the Bank's overall risk profile. The department's responsibilities include the formulation of the strategy for the Bank's legal risk management, the provision of legal advisory services on all aspects of the Bank's businesses in the context of extant laws and regulations, asset security documentation and litigation management, among others.

The Legal Services department oversees the Bank's global legal risk function and reports directly to the Chief Risk Officer. The department is sub-divided into four hubs, each of which is headed by a unit head, who reports to the head of Legal Services. The respective hubs are as follows:

- ***Corporate and Contracts***—this hub ensures the preparation and review of transaction documentation, especially for the Bank's Institutional/Corporate clients. It also provides documentation and structuring support to the Bank's General Services, Treasury, Strategy, E-Channel initiatives and all the SBUs.
- ***Litigation***—this hub handles the entire value chain of investigation activities up to the decision-making point for the prosecution of the Bank's claims against third parties and/or the Bank's defence of adverse claims against it. The unit monitors and manages the Bank's litigation portfolio, including the evaluation, recommendation and pursuit of alternative dispute resolution mechanisms with extensive external counsel interface.
- ***Security documentation and management***—this hub reviews security assets offered by customers as collateral for their facilities and advises the Bank on the suitability, effectiveness and realizability of same. It also has responsibility for the documentation and perfection of the various security collaterals used to support credit facilities extended to Bank customers.
- ***Regional coordination/operational efficiency***—this desk coordinates and supervises the activities of our area legal managers outside the head office. These area legal managers whose offices are spread across the country provide real-time support to the Bank's Business Development Offices (BDOs) within their respective areas of coverage. The structure of these area legal manager offices was streamlined from nine locations to six as part of our efficiency optimisation initiatives.
- ***Bond and guarantees***—this is a sub-hub which is responsible for the preparation of all bonds and guarantees issued by the Bank and the review of such instruments issued in the Bank's favour.

Compliance Risk

The establishment of an independent compliance function in the Group is in line with international best practice. The Compliance function operates from the head office and some selected hubs, each of which is supervised by dedicated Compliance officers whose primary responsibility in the Group is to ensure compliance with established rules and regulations.

Highlights of the scope of coverage of the Compliance function include:

- regulatory compliance;
- AML/CFT compliance (including KYC, Know Your Customers' Business ("**KYB**") principles); and
- corporate governance compliance monitoring.

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 the Group.

Certain internal rules are of such importance that the 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.

SELECTED STATISTICAL AND OTHER INFORMATION

The following tables present certain selected statistical information and ratios for the Group as at the dates and for the periods indicated. The selected statistical information should be read in conjunction with the Financial Statements and the information included in "*Management's Discussion and Analysis of Results of Operations and Financial Condition*". Investors should note that certain financial information and data (including daily average balances and interest rates) presented in this section of the Prospectus were prepared based on the unaudited management accounts of the Group which are maintained in accordance with Nigerian GAAP (see "*Presentation of Financial and Certain Other Information*"). It is stated in the disclosure below where such Nigerian GAAP information or data is presented in this section. Investors should note that financial data prepared in accordance with Nigerian GAAP is not directly comparable with, and may differ materially from, financial data prepared in accordance with IFRS. Investors should also note that certain information included in this section of the prospectus (including daily average balances and interest rates) is not extracted from the Group's audited Financial Statements and is not audited.

The Group prepared its consolidated financial statements as at and for the three months ended 31 March 2013, as at and for the years ended 31 December 2012 and 2011, and as at 1 January 2010 in accordance with IFRS on a consolidated basis. However, the daily average financial information and data presented in this section were prepared in accordance with Nigerian GAAP using the historical financial information of the Bank only. As at 31 March 2013, 31 December 2012, 31 December 2011 and 1 January 2011, assets of the Bank accounted for 85.8 per cent., 88.6 per cent., 86.4 per cent. and 86.5 per cent. of the Group's total assets, respectively.

Average Balance Sheet and Interest Rate Data

The following tables set forth the consolidated average balances of interest-earning assets and interest-bearing liabilities of the Bank for the three months ended 31 March 2013 and 2012, and for the years ended 31 December 2012, 2011 and 2010. The tables also sets forth the amount of interest income earned and interest expense incurred by the Bank for the same periods, as well as the average interest rates at which interest income was earned on such assets and interest expense was incurred on such liabilities. For the purposes of these tables, the average balances of assets and liabilities for the Bank have been calculated on the basis of daily averages. Average interest rates are distinct from the effective interest rates presented in the Financial Statements. The information provided in these tables have been compiled based on the management accounts of the Bank which are maintained in accordance with Nigerian GAAP (see "*Presentation of Financial and Certain Other Information*").

	Three months ended 31 March 2013			Three months ended 31 March 2012		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate %	Average Balance	Interest Income/ Expense	Average Yield/ Rate %
	(unaudited) *(in ₦ millions, except percentages)*					
Interest-earning assets:						
Loans and advances to banks	334,373	11,249	13.46	321,100	7,171	8.93
Loans and advances to customers	1,284,271	44,444	13.84	1,138,358	39,067	13.73
Investment securities	784,498	13,722	7.11	733,571	13,038	7.11
Trading assets	3,138			1,308		
Total interest-earning assets	**2,406,282**	**69,415**	**11.54**	**1,874,955**	**59,276**	**10.80**
Interest-bearing liabilities:						
Deposit from banks	1,521	78	20.5%	56,061	2,581	18.4%
Deposit from customers	2,259,779	17,947	3.2%	1,752,186	7,076	1.6%
Other borrowings	13,536	48	1.4%	66,708	726	4.4%
Total interest-bearing liabilities	**2,274,836**	**18,073**	**3.2%**	**1,874,955**	**10,383**	**2.2%**
Net interest spread			8.36%			8.59%
Net interest income		51,343			48,893	
Net interest margin			8.53%			8.91%

	Year ended 31 December 2012			Year ended 31 December 2011			Year ended 31 December 2010		
	Average Balance	Interest Income/ Expense	Average Yield/Rate %	Average Balance	Interest Income/ Expense	Average Yield/Rate %	Average Balance	Interest Income/ Expense	Average Yield/Rate %
					(unaudited) *(in ₦ millions, except percentages)*				
Interest-earning assets:									
Loans and advances to banks	362,173	22,455	6.20	320,413	11,645	3.63	270,752	9,694	3.58
Loans and advances to customers	1,220,140	167,570	13.73	1,164,972	134,711	11.56	943,048	119,187	12.64
Investment securities	646,461	54,935	8.51	461,278	39,945	8.71	357,555	34,112	9.81
Trading assets	770			9,085			17,688		
Total interest-earning assets	**2,229,544**	**244,960**	**10.99**	**1,955,748**	**186,302**	**9.53**	**1,589,042**	**162,993**	**10.26**
Interest-bearing liabilities:									
Deposit from banks	36,804	6,487	17.6%	12,438	3,996	32.1%	14,627	3,974	27.2%
Deposit from customers	1,916,797	43,399	2.3%	1,558,917	23,328	1.5%	1,294,116	39,176	3.0%
Other borrowings	59,099	1,457	2.5%	82565	3,023	3.7%	64,583	2,790	4.3%
Total interest-bearing liabilities	**2,012,700**	**51,343**	**2.6%**	**1,653,920**	**30,347**	**1.8%**	**1,373,326**	**45,940**	**3.3%**
Net interest spread			8.44%			7.69%			6.91%
Net interest income		193,617			155,955			117,053	
Net interest margin			8.68%			7.97%			7.37%

Changes in Interest Income and Interest Expense—Volume and Rate Analysis

The following tables provide a comparative analysis of net changes in interest income and interest expense of First Bank by reference to changes in the average volume and average rates for the periods indicated. Net changes in net interest income are attributed to either changes in average balances (volume change) or changes in average rates (rate change) for interest-earning assets and interest-bearing liabilities on which interest is earned or incurred. Changes in interest income or interest expense are attributed to either (i) changes in average balances (volume change) of interest bearing assets or interest bearing liabilities or (ii) changes in average rates (rate change) at which interest income was earned on such assets or at which interest expense was incurred on such liabilities or (iii) changes in rate/volume. Volume change is calculated as the change in volume multiplied by the previous rate, while rate change is the change in rate multiplied by the previous volume. The rate/volume change (change in rate multiplied by change in volume) is allocated between volume change and rate change at the ratio each component bears to the absolute value of their total. See "*—Average Balance Sheet and Interest Rate Data*" above for an explanation of the calculation of the average balances. The information provided in this table has been compiled based on the management accounts of the Bank which are maintained in accordance with Nigerian GAAP.

	Change from three months ended 31 March 2013 compared to three months ended 31 March 2012			
	Increase/(decrease) Due to changes in			
	Volume	Rate	Volume/Rate	Net Change
		(in ₦ millions)		
Interest-earning assets:				
Loans and advances to banks	1,186	14,525	600	16,312
Loans and advances to customers	20,030	1,310	168	21,508
Investment securities	3,620	1,025	1	4,646
Total	**24,837**	**16,860**	**769**	**42,466**
Interest-bearing liabilities:				
Deposits from banks	(6,311)	5,013	(4,877)	(6,175)
Deposits from customers	12,572	12,263	3,552	28,388
Other borrowings	(1,161)	(511)	407	(1,265)
Total	**5,100**	**16,765**	**(917)**	**20,948**

	Change from year ended 31 December 2012 compared to year ended 31 December 2011			
	Increase/(decrease) Due to changes in			
	Volume	Rate	Volume/Rate	Net Change
	(in ₦ millions)			
Interest-earning assets:				
Loans and advances to banks	1,518	8,221	1,071	10,810
Loans and advances to customers	6,379	25,282	1,197	32,858
Investment securities	16,127	(918)	(368)	14,840
Total	**24,024**	**32,585**	**1,900**	**58,509**
Interest-bearing liabilities:				
Deposits from banks	7,829	4,773	9,351	21,952
Deposits from customers	4,976	119,749	25,542	150,267
Other borrowings	(859)	5,119	(1,455)	2,805
Total	**11,945**	**129,641**	**33,438**	**175,024**

	Change from year ended 31 December 2011 compared to year ended 31 December 2010			
	Increase/(decrease) Due to changes in			
	Volume	Rate	Volume/Rate	Net Change
	(in ₦ millions)			
Interest-earning assets:				
Loans and advances to banks	1,778	147	27	1,951
Loans and advances to customers	28,048	(10,138)	(2,386)	15,524
Investment securities	10,174	(3,936)	(1,142)	5,097
Total	**40,000**	**(13,928)**	**(3,501)**	**22,572**
Interest-bearing liabilities:				
Deposits from banks	(595)	14,824	(2,219)	12,010
Deposits from customers	7,368	39,364	7,404	54,136
Other borrowings	777	6,668	1,857	9,302
Total	**7,550**	**60,856**	**7,042**	**75,448**

Interest Earning Assets: Yield, Margin and Spread

The following table sets forth the Bank's total net interest income, yields on interest-earning assets and interest-bearing liabilities, net interest margins and net interest spreads for the three months ended 31 March 2013 and the years ended 31 December 2012, 2011 and 2010. The information provided in this table has been compiled based on the management accounts of the Bank which are maintained in accordance with Nigerian GAAP (see "*Presentation of Financial and Certain Other Information*").

	Three months ended 31 March		Year ended 31 December		
	2013	2012	2012	2011	2010
	(in ₦ millions, except percentages)				
Net interest income	51,343	48,893	193,617	155,955	117,053
Yield on interest earning assets	11.54%	10.81%	10.99%	9.53%	10.26%
Yield on interest bearing liabilities	3.18%	2.22%	2.55%	1.83%	3.35%
Net interest margin	8.53%	8.91%	8.68%	7.97%	7.37%
Net interest spread	8.36%	8.59%	8.44%	7.69%	6.91%

Deposits

The following table shows the composition of the Bank's average deposits from customers, and the average rate paid on such deposits, as at the dates and for the periods indicated. For the purposes of this table, the average deposits and average rates on deposits for the Bank have been calculated on the basis of daily averages, in accordance with Nigerian GAAP.

	For the three months ended 31 March				For the year ended 31 December					
	2013		2012		2012		2011		2010	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(in ₦ millions, except percentages)									
Deposits from customers:										
Demand deposits	802,118	3.0%	698,531	2.0%	698,678	2.3%	629,085	1.7%	531,421	2.5%
Savings deposits	553,409	0.8%	497,778	0.7%	517,394	0.8%	454,458	0.8%	312,437	1.6%
Time deposits	368,807	10.2%	143,535	4.6%	218,628	8.4%	176,063	3.1%	273,203	7.3%
Domiciliary deposits	535,445	1.0%	412,342	1.1%	482,097	0.9%	299,312	1.2%	177,055	0.8%
Total deposits	**2,259,779**	**3.2%**	**1,752,186**	**1.6%**	**1,916,797**	**2.3%**	**1,558,917**	**1.5%**	**1,294,116**	**3.0%**

The following table shows the Naira and foreign currency amounts of the Bank's average deposits from customers. For the purposes of this table, the average deposits for the Bank have been calculated on the basis of daily averages, in accordance with Nigerian GAAP.

	As at 31 March		As at 31 December		
	2013	2012	2012	2011	2010
			(in ₦ millions)		
Deposits from customers					
Naira	1,724,334	1,339,844	1,434,700	1,259,606	1,117,061
Foreign Currency	535,445	412,342	482,097	299,312	177,055
Total	**2,259,779**	**1,752,186**	**1,916,797**	**1,558,917**	**1,294,116**

The following table sets forth the maturity analysis of time deposits of the Bank as at 31 March 2013, calculated in accordance with Nigerian GAAP.

	Three months or less	From over three months to six months	From over six months to 12 months	Over 12 months
		(₦ millions)		
Total	366,481	19,151	7,285	43

Loan portfolio

Distribution of loans by economic sector

The following sets forth the Bank's gross loans and advances to customers by economic sector as at the dates indicated, calculated in accordance with Nigerian GAAP.

	As at 31 March	As at 31 December		As at 1 January
	2013	2012	2011	2011
	(₦ millions)			
Agriculture	28,627	27,196	21,057	12,546
Oil and gas	479,006	528,997	377,555	266,622
Consumer credit	133,629	141,637	89,961	67,812
Manufacturing	146,288	158,175	132,014	88,832
Real estate	86,351	83,689	83,035	109,792
Construction	41,072	34,512	8,162	7,996
Finance and insurance	50,981	18,091	68,036	229,840
Transportation	4,741	4,924	5,288	6,178
Communication	88,898	78,970	67,711	72,348
General commerce	60,055	62,603	92,869	86,437
Utilities	4,813	5,308	4,123	1,274
Retail services	84,810	89,842	120,329	83,133
Public sector	108,754	119,441	102,203	64,671
Total	**1,318,025**	**1,353,386**	**1,172,343**	**1,097,481**

Maturity profile of the Bank's loan portfolio

The following table sets forth the maturity analysis of the gross loans and advances to customers as at the dates indicated, calculated in accordance with Nigerian GAAP.

	Due within 1 month	Due within 1 to 3 months	Due within 3 to 6 months	Due within 6 to 12 months	Due within 12 months to 3 years	Due within 3 to 5 years	Over 5 years	Total
				(₦ millions)				
As at 31 March 2013	267,137	150,788	66,588	276,810	308,380	211,925	36,397	1,318,025
As at 31 December 2012	203,027	237,040	99,116	171,516	359,830	199,460	83,397	1,353,386
As at 31 December 2011	322,096	224,373	53,569	126,752	191,398	164,477	89,679	1,172,343
As at 31 December 2010	167,466	116,575	50,285	327,218	251,886	119,642	64,409	1,097,481

Loan concentration

The following table sets forth information on the Bank's exposure to borrowers with the ten largest balances of outstanding loans, which constituted 24.6 per cent. of total loans and advances, as at 31 March 2013, calculated in accordance with Nigerian GAAP.

	As at 31 March	As at 31 December		As at 1 January
	2013	2012	2011	2011
	(₦ millions)			
Loans and advances extended to the Bank's 10 largest borrowers	324,414	305,170	298,317	368,045
Loans extended to other borrowers	993,611	1,048,216	874,026	729,436
Total gross loans and advances	**1,318,025**	**1,353,386**	**1,172,343**	**1,097,481**

Geographical distribution of the Bank's loan portfolio

The following table sets forth the geographical distribution of the Bank's gross loans and advances to customers as at the dates indicated, calculated in accordance with Nigerian GAAP.

	As at 31 March	As at 31 December		
	2013	2012	2011	2010
		(₦ millions)		
Abuja & North West	81,266	73,722	52,001	44,517
North Central	18,577	18,427	17,244	17,037
North East	15,400	14,744	13,656	10,063
South East	34,519	35,723	31,140	33,683
South South	170,021	168,378	154,230	127,060
South West	998,243	1,042,392	904,072	865,121
Nigeria	**1,318,025**	**1,353,386**	**1,172,343**	**1,097,481**
Rest of Africa	—	—	—	—
Europe	—	—	—	—
Others	—	—	—	—
Total	**1,318,025**	**1,353,386**	**1,172,343**	**1,097,481**

Credit quality of loans

Loans by credit quality classification

The following table sets forth the breakdown of the Bank's non-performing loans and past due but not impaired loans as at the dates indicated, calculated in accordance with Nigerian GAAP.

	As at 31 March	As at 31 December		As at 1 January
	2013	2012	2011	2011
		(₦ millions)		
Neither past due nor impaired	1,051,602	1,142,365	950,380	804,458
Past due but not impaired	221,602	173,723	193,848	201,667
Impaired	44,821	37,298	28,115	91,356
Total	**1,318,025**	**1,353,386**	**1,172,343**	**1,097,481**

1 Interest accruals on impaired loans is suspended and recognised only on cash basis.

2 All non-performing/impaired credit facilities are maintained on non-accrual basis as advised by the CBN prudential guidelines.

3 Interest previously accrued and uncollected but taken into revenue is reversed and credited into suspense account specifically created for this purpose which is called "interest in suspense account" unless paid in cash by the borrower. Future interest charges are credited into same account until such facilities begin to perform.

4 Once the facilities begin to perform, interest previously suspended and provisions previously made against principal debts should be recognized on cash basis only.

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 Bank. See "*Asset, Liability and Risk Management—Credit Risk—Credit risk measurement*" for an explanation of the internal rating system).

	As at 31 March	As at 31 December		As at 1 January
	2013	2012	2011	2011
		(₦ millions)		
Grades:				
AAA	—	—	—	—
AA	37,015	46,703	90,000	62,000
A	13,657	16,135	16,000	17,000
BBB	114,616	158,044	171,000	353,000
BB	345,972	418,171	373,343	119,000
B	532,418	492,548	271,037	253,458
CCC	7,894	10,587	12,000	—
CC	—	—	3,000	—
C	30	177	14,000	—
Total	**1,051,602**	**1,142,365**	**950,380**	**804,458**

Distribution of non-performing loans by sector

The following table presents the Bank's non-performing loans by sector as at the dates indicated, calculated in accordance with Nigerian GAAP.

	As at 31 March	As at 31 December		As at 1 January
	2013	2012	2011	2011
		(₦ millions)		
Agriculture	3,246	2,550	2,236	2,788
Oil and gas	16,117	13,322	8,660	14,602
Consumer credit	4,204	3,404	3,153	9,042
Manufacturing	3,044	3,006	171	1,615
Real estate activities	2,377	2,329	4,564	39,082
Construction	760	625	170	1,247
Finance and insurance	123	106	625	5,154
Transportation and storage	189	132	108	213
Communication	2,137	2,115	88	1,701
General commerce	2,621	1,812	838	4,800
Retail services	10,003	7,897	7,503	11,157
Total	**44,821**	**37,298**	**28,115**	**91,401**

Distribution of non-performing loans by geography

The following table presents the Bank's non-performing loans by geography as at the dates indicated, calculated in accordance with Nigerian GAAP.

	As at 31 March	As at 31 December		As at 1 January
	2013	2012	2011	2011
		(₦ millions)		
Nigeria:				
Abuja & North West	1,944	1,673	1,255	4,432
North Central	1,221	1,106	723	2,010
North East	1,217	498	473	911
South East	2,233	1,830	3,735	4,359
South South	15,305	12,440	10,533	16,656
South West	22,901	19,751	11,396	63,033
Nigeria	**44,821**	**37,298**	**28,115**	**91,401**
Rest of Africa	—	—	—	—
Europe	—	—	—	—
Total	**44,821**	**37,298**	**28,115**	**91,401**

Changes in provision for loan impairment

The following table sets out details of movements in the Bank's provision for loan losses for the three months ended 31 March 2013 and for years ended 31 December 2012 and 2011, calculated in accordance with IFRS.

	Three months ended 31 March	Year ended 31 December	
	2013	**2012**	**2011**
		(₦ millions)	
Balance at the beginning of the period/year	36,978	27,882	50,560
Impairment loss for period/year			
Charge for the year/period	2,389	14,828	37,013
Recoveries	(798)	(1,164)	(4,449)
Net impairment for the period/year	**1,591**	**13,664**	**32,564**
Effect of foreign currency movements	—	—	—
Write-offs	—	(4,568)	(55,242)
Balance at the end of the period	**38,569**	**36,978**	**27,882**

Investment securities

The following table sets out details of the Group's investment securities as at the dates indicated, calculated in accordance with IFRS.

	As at 31 March	As at 31 December		
	2013	**2012**	**2011**	**2010**
		(₦ millions)		
Bonds	481,841	546,067	542,621	270,567
Listed equity securities	1,285	1,131	4,417	6,196
Unquoted equity securities	42,675	46,367	47,676	76,680
Treasury bills	393,846	138,778	171,684	23,274
Total investment securities	**919,647**	**732,343**	**766,398**	**376,717**

The following table sets out details of the Bank's investment securities as at the dates indicated, by investment securities at fair value through profit and loss, available for sale and held to maturity, calculated in accordance with IFRS.

	As at 31 March	As at 31 December		As at 1 January
	2013	2012	2011	2011
	(₦ millions)			
Securities available for sale				
Debt securities—at fair value				
—Treasury bills	373,809	121,247	149,489	3,368
—Government bonds	157,711	182,629	155,351	136,578
Equity securities—at fair value:				
— Listed	1,285	1,131	4,417	6,196
—Unlisted	42,675	46,367	47,676	76,680
	575,480	**351,374**	**356,933**	**222,822**
Assets pledged as collateral				
Debt securities—at fair value:				
—Treasury bills	16,948	17,531	22,195	—
—Government bonds	1,582	1,515	10,191	109,100
	18,530	19,046	32,386	109,100
Total securities classified as available for sale	**594,010**	**370,420**	**389,319**	**331,922**
Securities held to maturity				
Debt securities—at amortised cost:				
—Treasury bills	3,089	—	—	6,997
—Listed debt	145,860	155,636	337,336	—
—Government bonds	145,660	175,224	—	24,889
	294,609	**330,860**	**337,336**	**31,886**
Assets pledged as collateral				
Debt securities—at amortised cost:				
—Treasury bills	—	—	—	12,909
—Government bonds	31,028	31,063	39,743	—
	31,028	31,063	39,743	12,909
Total securities classified as held-to-maturity	**325,637**	**361,923**	**337,079**	**44,795**
Total Investment Securities	**919,647**	**732,343**	**766,398**	**376,717**

The following table shows the contractual maturity distributions of investment securities held as at the dates indicated, calculated in accordance with Nigerian GAAP.

	Due within 3 months	Due within 3 to 12 months	Over 12 months	Total net	Allowance for impairment	Total gross
			(₦ millions)			
31 March 2013	212,931	164,185	410,354	787,470	—	787,470
31 December 2012	137,775	86,849	406,587	631,211	—	631,211
31 December 2011	55,677	184,104	430,843	670,624	—	670,624
1 January 2011	900	22,699	221,895	245,494	—	245,494

MANAGEMENT

Overview of Nigerian Company Law

CAMA regulates the affairs of companies in Nigeria while the BOFIA regulates the conduct of banking operations and business. Under Nigerian law, a company acts directly through its shareholders or its board of directors or indirectly through officers or agents appointed by, or under the authority derived from, the shareholders or the board of directors. Every company is required to register a copy of its Memorandum and Articles of Association with the Corporate Affairs Commission. Once registered, the Memorandum and Articles of Association have the effect of a contract under seal between the company and its shareholders and officers and between the shareholders and officers themselves. The Memorandum of Association, among other things, states the nature of the business of the company and any restrictions on its powers. The respective powers of the shareholders and the board of directors are contained in the Articles of Association of the company. Except as otherwise contained in the articles, the business of a company is to be managed by the board of directors, who may in turn delegate its powers to board committees or the Managing Director. The Articles of Association prescribe the regulations of the company.

The Board

In April 2011, the Nigerian Securities and Exchange Commission adopted a new Code of Corporate Governance (the "**SEC Code**"), which contains stronger corporate governance, transparency and accountability standards. The changes to the SEC Code include the removal of a maximum limit for the number of directors of a company, more robust provisions on risk management and audit requirements, the requirement to establish a whistle-blowing mechanism, and increased disclosure requirements. The SEC Code also prescribes that not more than two members of a family should serve on the same board, requires that every director attend at least two-thirds of board meetings, and prohibits directors and their immediate family members from dealing in the company's securities where doing so would amount to insider trading under Nigerian law. Further, the CBN began enforcing regulations that prohibit non-executive directors from remaining on the board of a bank continuously for more than three terms of four years each.

During 2009, the Bank amended its corporate governance code and restructured the composition of the Board. This amendment indicates that the number of non-executive directors should be more than that of executive directors such that the Bank must maintain a 1:2 ratio of executive directors to non-executive directors on its 16-person Board. As a result, the Board currently has 11 non-executive directors (previously nine) and five executive directors (previously eight). One of the 11 non-executive directors chairs the Board. In making these new appointments, special attention was paid to broadening the range of skills and expertise.

The Bank's business and operations are conducted in an open and transparent manner in line with international best practices and in accordance with the provisions of the relevant laws. The Group complies with the provisions of the CBN Code of Corporate Governance (the "**CBN Code**"), the SEC Code and its corporate code in all material aspects.

Tenure for directors on the Board varies. Executive directors have an initial tenure of three years when first appointed, subject to satisfactory performance and annual assessment. This initial term is renewable for on additional term of three years for a maximum aggregate term of the earlier of six years or the executive director attaining 60 years of age. In comparison, non-executive directors have a maximum tenure of ten years, in line with CBN regulation subject annual assessments and satisfactory performance.

Responsibilities of the Board

The Board regularly reviews group performance, matters of strategic concern and any other matter it regards as material. The Board meets on a monthly basis in addition to special meetings and its core responsibilities are as follows:

- approve the Group's strategy and financial objectives and monitor the implementation of those strategies and objectives;
- review and approve the Group's capital and liquidity positions and approve proposals for the allocation of capital and other resources within the Group;
- oversee the establishment, implementation and monitoring of a Group-wide risk management framework to identify, assess and manage credit, market, compliance, strategic, reputational and operational risks, among others;

- decide and approve the expenditure authorisation, investment and credit lending limits to be delegated to committees of the Board as well as executive and senior management;
- review, on a regular and continuing basis, the succession planning for the Board and senior management (especially the GMD and other executive management members);
- approve all appointments of directors to the board of directors of each of the Bank's subsidiaries and affiliate companies;
- review the recommendations of the independent consultants on the annual appraisal of the Board's performance and approve action steps as required;
- maintain a sound system of internal controls to safeguard shareholders' investments and the assets of the Group;
- review significant audit and compliance issues and approve action and remediation plans;
- establish and maintain appropriate accounting policies for the Group;
- approve any significant changes in the organisational structure of the Group;
- approve the Group's performance-based compensation policy; and
- approve the Group's secondment policy.

The Chairman's principal function is to lead and manage the Board to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. Non-executive directors are required to review, monitor and approve the strategies and policies.

Board Committees

The Board carries out its responsibilities through its six standing committees: the Board Finance & General Purpose Committee ("**BFGPC**"), the BARAC, the Board Governance Committee ("**BGC**"), the BCC, the Audit Committee and the Executive Committee ("**EXCO**"). Each committee has a charter that clearly defines its purpose, composition and structure, frequency of meetings, duties, tenure and reporting lines to the Board. The Board monitors these responsibilities to ensure effective coverage of, and control over, the operations of the Group. In line with best practice, the Chairman of the Board does not sit on any of the committees.

Board Finance & General Purpose Committee ("BFGPC")

Role and focus

The BFGPC considers and approves the Bank's capital expenditure plan and specific capital projects above the approval limit of the MANCO and makes recommendations for the consideration of the Board. The BFGPC also advises the Board on its oversight responsibilities in relation to recruitment, compensation and benefits, promotions and disciplinary issues affecting senior officers of the Bank on principal manager grade and above.

Key responsibilities

The BFGPC is responsible for the following:

- approval of capital expenditure within the monetary amounts specified by the Board;
- regularly reviewing and recommending to the Board, limits of capital expenditure for the various levels of management, subsidiaries and committees;
- recommending capital expenditures exceeding the approval limits granted to the committee to the Board;
- recommending approval of the Bank's procurement policy to the Board;
- ensuring that the Bank complies with all laws and regulations in respect of director-related party transactions;
- reviewing and recommending the Group's organisation structure, remuneration policy, and the Group's policies covering the evaluation, compensation and provision of benefits to employees and any other human capital issues for approval by the Board;
- reviewing and recommending the Bank's human resource strategies for approval by the Board; and
- reviewing and recommending the Group's secondment and mobility policy (i.e. policy on the movement of staff within the group) and any proposed amendments for approval by the Board.

Board Audit & Risk Assessment Committee ("BARAC")

Role and focus

The overall purpose of the BARAC is to protect the interests of the Bank's shareholders and other stakeholders by overseeing on behalf of the Board the:

- integrity of financial reporting;
- adequacy of the control environment;
- management of risk;
- internal and external audit function; and
- compliance function—by monitoring regulatory risks of the Group.

Board Governance Committee ("BGC")

Role and focus

The primary purpose of the BGC is to oversee and advise the Board on its oversight responsibilities, determine the composition of the Board and Board Committees, design and execute the process for appointment of new Board members and removal of nonperforming Board members.

Key responsibilities

The responsibilities of the BGC are to:

- develop and maintain an appropriate corporate governance framework for the Group;
- develop and maintain an appropriate policy on remuneration of directors, both executive and non-executive;
- evaluate the role of the Board Committees and Boards of subsidiary companies, and ratify the performance appraisals of the executive directors as presented by the Group MD/CEO;
- ensure proper succession planning for the Group; and
- ensure compliance with the CBN Code.

Board Credit Committee ("BCC")

Role and focus

The BCC is responsible for approval of credit product programmes and individual/business credits in line with the Bank's credit approval authority limits. The purpose of the BCC is to advise the Board on its oversight responsibilities in relation to the Bank and subsidiary companies' credit exposure, management and lending practices, and provide strategic guidance for the development and achievement of the Bank and subsidiary companies' credit and lending objectives. In performing this oversight role, the BCC shall work with management.

Key responsibilities

The BCC has the responsibility to:

- approve risk management policies and standard proposals on the recommendation of the MANCO Credit;
- approve definition of risk and return preferences and target risk portfolio;
- approve assignment of credit approval authority on the recommendation of the MANCO Credit;
- approve changes to credit policy guidelines on the recommendation of the MANCO Credit;
- approve credit facility requests and proposals within limits defined by the Bank's credit policy and within the statutory requirements set by the regulatory/supervisory authorities; and
- recommend credit facility request above stipulated limit to the Board.

Audit Committee

Role and focus

The Audit Committee is a statutory committee pursuant to Section 359(4) of the CAMA. The Audit Committee has oversight responsibility for the Bank's financial statements. The Audit Committee is, however, not answerable to the Board. The Audit Committee comprises six members (three are nominated by the shareholders and three are non-executive directors) whose tenure must be renewed annually.

The CBN requires that the tenure of the Bank's external auditors shall be for a maximum period of 10 years, after which the audit firm shall not be reappointed in the Bank until after a period of another 10 years. The Bank makes use of the services of both PricewaterhouseCoopers and Pannell Kerr Forster as joint auditors; both of whom have worked for the Bank for three and nine years respectively.

The requirement for the establishment of an Audit Committee is limited by CAMA to public companies. While the Bank started the year as a public company, it has since completed its reorganisation as a limited liability company and is no longer required statutorily to have an Audit Committee. As a result of this transition, the Audit Committee has ceased to operate, and audit related affairs are now covered by BARAC.

Executive Committee ("EXCO")

Role and focus

The EXCO is the highest management body within the Bank. The purpose of the Committee is to deliberate and take policy decisions on the effective and efficient management of the Bank. Its primary responsibility is to:

- ensure the implementation of the Bank's strategic and business plan approved by the Board;
- ensure efficient deployment and management of the Bank's resources; and
- provide leadership to the management team.

Key responsibilities

The responsibilities of the EXCO are to:

- develop and review on an ongoing basis the Bank's business focus and strategy subject to the approval of the Board;
- confirm alignment of the Bank's plan with the overall Group strategy;
- recommend proposals on the issue of shares, bonds, debentures and any other securities to the Board for approval;
- track and manage strategic and business performance against approved plans and budget of the Bank;
- make proposals to the Board and Board Committees on major policies and principles (e.g., recruitment, promotion and termination of senior management staff, disciplinary measures against erring senior management staff, compensation matters, major capital spending, organisational structure, etc.);
- track and monitor progress and accomplishments on major Bank initiatives and projects;
- recommend opening and closing of new branches to the Board;
- articulate appropriate response to environmental factors, regulation, government policies, competition, etc. affecting the Bank;
- develop high-level policies to assist in the successful achievement of the Bank's overall business objectives;
- make recommendations to the Board on dividends to be paid out to shareholders at year end; and
- make important decisions in all areas where delegation of authority is granted to the EXCO.

Management Committees

The Bank has the following management committees that are vital to the application of sound governance principles within the Bank:

Management Committee—General ("MANCO")

MANCO discharges the responsibilities of the EXCO as detailed above, but shall not be responsible for any matters relating to the Board or Directors, including appointment of Directors, remuneration or termination of Directors and modifications to Board Committees.

Key responsibilities

These include all the responsibilities of the EXCO with the exception of all matters relating to the Board.

Management Committee—Credit ("MANCO Credit")

Role and focus

The MANCO Credit is the highest management credit approval body in the Bank and performs the dual role of credit policy articulation and credit approval.

The Committee reviews and recommends to the Board for approval, credit policy direction including articulation of risk and return preferences at corporate level and for individual asset-creating business units in the Bank. The MANCO Credit also, on an ongoing basis, ensures compliance of the credit environment in the Bank with approved policies and framework.

Key responsibilities

In the credit policy articulation and direction setting role, the MANCO Credit:

- establishes and maintains effective risk management environment in the Bank;
- reviews proposals in respect of credit policies and standards and endorses to the Board for approval;
- defines the Bank risk and return preferences and target risk portfolio;
- monitors on an ongoing basis the Bank's risk quality and performance, reviews periodic credit portfolio reports and assesses portfolio performance;
- defines credit approval framework and assigns credit approval limits in line with Bank policy;
- reviews defined credit product programmes on recommendation of the head of Credit Analysis & Processing and endorses to the Board for approval;
- reviews credit policy changes initiated by management and endorses to the Board for approval; and
- ensures compliance with the Bank's credit policies and statutory requirements prescribed by the regulatory/ supervisory authorities.

Group Management Committee ***("GMC")***

The purpose of the Committee is to deliberate and take policy decisions on the effective and efficient management of the Group.

Key responsibilities

The GMC is responsible for the following:

- developing and reviewing on an ongoing basis the Group's business focus and strategy subject to the approval of the Board;
- ensuring efficient deployment and management of the Group's resources;
- confirming alignment of each subsidiary company's plan with overall Group strategy;
- recommending proposals on the issue of shares, bonds, debentures and any other securities to the Board for approval;
- tracking and managing strategic and business performance against approved plans and budget of the Group;
- tracking and monitoring progress and accomplishments on major Group initiatives and projects at subsidiary level;
- articulating appropriate response to environmental factors, regulations, government policies, competition, etc. across the Group; and
- recommending high-level policies to assist in the successful achievement of the Group's overall business objectives.

Assets & Liabilities Management Committee ("ALCO")

Role and focus

ALCO is the highest technical body responsible for market risk management. ALCO is responsible for the following:

- reviewing policies relating to market risk management;
- recommending market risk policies to the Board;
- providing management oversight for the implementation of policies relating to foreign currency rates, interest rates and equity prices risks;
- reviewing market risk strategy and recommending the same for Board approval;
- developing policies, procedures, tools and systems for identifying, measuring, controlling and reporting market risks;
- evaluating market risk inherent in new products;
- ensuring compliance with statutory and regulatory requirements relating to market risks; and
- reviewing and recommending for approval market risk-related limits, i.e., position, concentration, currency, dealing gap, total portfolio and counterparty limits and approving appointment of dealers.

Group IT Steering Committee ("GITC")

Role and focus

The purpose of the GITC is to assist the Board to oversee IT-related activities. The primary responsibilities of the GITC are to:

- ensure that the Bank derives optimal value from its investments in IT;
- set strategic direction for IT and ensure alignment of IT to business objectives and priorities;
- ensure that the Board is regularly informed on the status of major IT projects or initiatives; and
- ensure the Board has adequate information to make informed decisions about IT investments and operations.

Key responsibilities

The GITC is also responsible for the following:

- review and recommend the IT strategy and architecture for the Bank;
- review and recommend the IT policy, procedures and standards of the Bank;
- determine prioritisation of IT investment programmes in line with the enterprise's business strategy and priorities;
- review and recommend appropriate IT budget to the Board;
- monitor on an ongoing basis the achievement of IT strategy including application of and leverage on technology in the Bank;
- establish framework to measure and monitor IT performance;
- review on an ongoing basis the Group's IT focus and strategy subject to the approval of the Board;
- coordinate priorities between the IT department and user departments;
- monitor service levels of the IT department and service improvements initiatives;
- promote effective relationship between the business groups and IT by encouraging communication of business requirements to IT management, addressing IT capacity requirements, demanding routine discussions on IT service delivery and continuous service improvement;
- review the adequacy and allocation of IT resources in terms of funding, personnel, equipment and service levels;
- review, ratify and monitor the implementation of training programmes for end-users and IT personnel;
- confirm alignment of IT plan with overall Group strategy;

- provide oversight on activities of the Group IT Management Committee ("**GITMC**"); and
- recommend to EXCO for approval of specific IT spending/expense.

The Board of Directors

The following table sets out the current members of the Bank's Board, the date of their initial appointment to the Board and the expiration date of their current term, though the Bank intends to appoint a second independent director in the medium- to short-term:

Name	Title	Date of Appointment
Prince Ajibola Afonja	Chairman	23 August 2005 (Chairmanship: 29 December 2010)
Bisi Onasanya	GMD/CEO	1 January 2009 (appointed as ED); 4 June 2009 (appointed as GMD)
Bello Maccido	Non-Executive Director	1 January 2011 (appointed as ED) 13 December 2012 (appointed as NED).
Urum. K. Eke	Executive Director (Public Sector South)	24 March 2011
Adebayo Adelabu	Executive Director/Chief Financial Officer	13 December 2012
Dauda Lawal	Executive Director (Public Sector North)	11 September 2012
Gbenga Shobo	Executive Director (Retail South)	11 September 2012
Ibiai Ani	Non-Executive Director	20 August 2008
Ibukun Awosika	Non-Executive Director	28 October 2010
Ambrose Feese	Non-Executive Director	28 October 2010
Lawal Ibrahim	Non-Executive Director	28 October 2010
Ebenezer Jolaoso	Non-Executive Director	28 October 2010
Khadijah Alao-Straub	Non-Executive Director	1 January 2011
Tunde Hassan-Odukale	Non-Executive Director	1 January 2011
Obafemi Otudeko	Non-Executive Director	1 January 2011
Ibrahim Waziri	Non-Executive Director	1 January 2011
Mahey Rasheed	Non-Executive Director	21 July 2009

Below is a brief biographical description of the members of the Bank's Board.

Prince Ajibola Afonja—Chairman

Prince Ajibola Afonja, a Chartered Accountant, joined the Board of the Bank as a non-executive director on 23 August 2005 and was appointed as Chairman of the Board in 2010. He is a renowned entrepreneur and established the first fibreglass manufacturing company in Nigeria in 1974, International Glass Fibre Industries Limited, Ibadan and was its first Managing Director. He was also the Chairman/CEO of Integrated Dimensional Systems Limited, Oyo. Prince Afonja has served on various committees of the Bank Board and has held various positions within business administration and executive management in both public and private sectors of the economy. He has held distinguished appointments with the Federal Government of Nigeria, and was Federal Minister of Labour and Productivity in 1993.

Bisi Onasanya—GMD/CEO

Bisi Onasanya was appointed CEO on 1 January 2009 and GMD on 4 June 2009. He was previously an Executive Director for Banking Operations & Services and the CEO for First Pension Custodian Nigeria Limited, a subsidiary of the Bank. He joined the Bank in 1994 and coordinated the Century 2 Enterprise Transformation Project for the Bank. Bisi is a Fellow of the ICAN, 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. In 2012, he was named CEO of the Year by EMEA Finance.

Urum Eke—Executive Director, Public Sector SBU (South)

Urum Eke joined the Board of the Bank on 24 March 2011 as the Executive Director, Public Sector SBU South. Before his appointment, he was Executive Director, Regional Businesses, Lagos & West, Diamond Bank Plc. His work experience spans Deloitte Haskins & Sells International, where he rose to Senior Audit Consultant and Diamond Bank Plc, where he was Branch Manager, Regional Manager and Divisional Head before he became Executive Director. He has over 28 years' experience in financial services, auditing, consulting, taxation, process engineering and capital market operations. He has helped to develop the Bank's businesses within the Public Sector SBU as well as on the Board. Urum is a member of the Institute of Management Consultants and a Fellow of the ICAN.

Dauda Lawal—Executive Director, Public Sector SBU (North)

Dauda Lawal joined the Board on 11 September 2012 and was, until his appointment, Executive Vice President, Public Sector SBU (North). He has held several management positions within the Bank including Business Development Manager, Maitama Abuja, where his principal remit grew the Bank's business in the Abuja metropolis. He has over 24 years' postqualification experience, which covers commercial and public sector banking, and he currently heads the Public Sector SBU (North). He is a two-time recipient of the Bank's CEO Merit Award for Outstanding Performance as the Best Business Development Manager in 2006 and The Most Enterprising Staff in 2009.

Gbenga Shobo—Executive Director (Retail South)

Gbenga Shobo was appointed to the Board of the Bank on 11 September 2012. Prior to his appointment, he was Executive Vice President (Retail South). Gbenga was also General Manager in charge of Products and Channel deployment for the Bank in addition to several management positions held within the Bank. His banking career spans over 22 years with experience in corporate banking, institutional banking, commercial banking and treasury. He is a member of the ICAN and a recipient of the FirstBank CEO Merit Award for Most Outstanding Business Development Manager in 2007.

Adebayo Adelabu—Executive Director/Chief Financial Officer

Adebayo Adekola Adelabu was appointed to the Board on 13 December 2012, and retained his portfolio as CFO of the Bank. Prior to this, he was the Group Financial Controller of the Bank and the pioneer head of the Business Performance Monitoring Department. Bayo also worked in Standard Chartered Bank as General Manager and the West African Regional Head of Finance and Strategy. He started his career with Pricewaterhouse (now PricewaterhouseCoopers) where he worked for eight years before joining the banking industry in 2000. Bayo has 20 years' professional experience in banking, audit and management consulting. He is a member of the ICAN.

Bello Maccido—Non-Executive Director

Bello Maccido joined the Board of the Bank in 2011 as Executive Director, Retail Banking, North and was in that role until September 2012, when he was appointed the CEO of FBN Holdings Plc. He subsequently rejoined the Board of the Bank as a non-executive director on 13 December 2012. He has over 23 years financial services experience covering Retail, Corporate and Investment Banking at various institutions such as Ecobank Nigeria Plc, New Africa Merchant Bank Limited, and at FSB International Bank, Plc where he rose to become acting Managing Director. Bello was the pioneer Managing Director of Legacy Pension Managers, a pension fund administration company, a position he held before joining the Board of the Bank. He was at various times a member of the Finance Committee, National Council on Privatisation, the Implementation Committee, Financial System Strategy ("**FSS**") 2020, and Presidential Monitoring Committee on NDDC, among others. Between March 2009 and June 2012, he was also a Council Member of The Nigerian Stock Exchange. Bello is also a Chartered Stockbroker.

Ibiai Ani—Non-Executive Director

Ibiai Ani was appointed to the Board on 20 August 2008. She is a human resources ("**HR**") professional with over 20 years' of core HR experience at senior management level. Ibiai began her career in the Rivers State Ministry of Justice and worked in the Federal Ministry of Justice. She then joined the Shell Petroleum Development Company of Nigeria, where she garnered experience in diverse human resource functions including human resource project management and change facilitation. She moved on to Citibank Nigeria where she was

Country Head of Human Resources, covering Nigeria and Ghana. She brings her extensive HR experience to the Board, giving direction to the Bank's human capital development. She is an accredited teambuilding trainer with the teambuilding network in the UK, a member of the Chartered Institute of Personnel Development and sits on the Governing Council of the Chartered Institute of Personnel Management of Nigeria.

Lawal Ibrahim—Non-Executive Director

Lawal Ibrahim joined the Board on 28 October 2010. He is an astute development banker, a strategic transformation manager and his working career spans the National Bank for Commerce and Industry, and New Nigeria Development Bank Limited, Kaduna, where he rose through the ranks to become the Acting GMD. Lawal was a Director in over 15 companies spread across Nigeria and in different sectors of the economy. He has professional certificates in Investment Banking, Managing and Measuring Organisation culture, and Leading with Impact from the Africa Development Bank, Witwatersrand University, South Africa and Harvard Business School respectively. He served as a member of Vision 20:2020 Technical Working Group SMEs Thematic Area and is presently on the boards of Borini Prono Nigeria Limited and Peugeot Automobile of Nigeria Limited. He holds the traditional title of Dallatun Kankia.

Ambrose Feese—Non-Executive Director

Ambrose Feese joined the Board of the Bank on 28 October 2010. He has had over 25 years' banking experience spanning development, commercial and investment banking. He attained the position of Managing Director/CEO at ICON Limited (Merchant Bankers) and has extensive boardroom experience, having served as Chairman and Director in several quoted blue-chip companies in the financial services and manufacturing sectors. Ambrose has served on several Government committees and assignments, including service as the Federal Minister of State for Works and Housing in 1998/99. He qualified as a Chartered Accountant in 1970.

Ebenezer Jolaoso—Non-Executive Director

Ebenezer Jolaoso joined the Board of the Bank on 28 October 2010. He has rich work experience in banking spanning over 22 years, with exposure to commercial banking, corporate banking, credit and risk management. He has also functioned as Head of Corporate Services & Administration at Nigerian Eagle Flour Mills Plc, with a wide range of responsibilities including corporate communications, branding, facilities management and human resource management while he spearheaded and managed the organisation's corporate responsibility initiatives to give back to the immediate society within which the business is operated. He is an associate of the Chartered Institute of Bankers, UK and an associate of the British Institute of Management.

Ibukun Awosika—Non-Executive Director

Ibukun Awosika joined the Board on 28 October 2010. An outstanding and multiple award-winning entrepreneur, she is the founder and Group CEO of The Chair Centre Group. Ibukun is the chairperson and promoter of After School Graduate Development Centre, a social enterprise set up to address employability and enterprise development among young Nigerians. She is a Fellow of the Aspen Global Leadership Network and is a co-founder and member of the Board of Trustees of Women in Management and Business, an NGO created to elevate the influence of women in business.

Mahey Rasheed, OFR—Non-Executive Director

Mahey Rasheed was appointed to the Board of the Bank on 21 July 2009. He started his career at New Nigeria Development Company, Kaduna and was Principal Investment Executive before joining the Central Bank of Nigeria, as Assistant Director and rose to the position of a Director. Subsequently, he was appointed a Deputy Governor of the Central Bank. He was Chairman of the CBN Audit Committee, CBN Budget Committee, CBN's implementation of the Enterprise Management System Committee and served on several Board Committees within CBN before he retired. He is an Edward Mason Fellow, Harvard University, has held several Federal Government appointments and sits on the boards of various institutions in the country. He was conferred with the national honour of Officer of the Federal Republic ("**OFR**") in 2004.

Khadijah Alao-Straub (LLB, LLM)—Non-Executive Director

Khadijah Alao-Straub was appointed to the Board of the Bank on 1 January 2011. Her working career spans Lister Group of Companies and The Fantastic Corporation, Switzerland where she led legal negotiations and supervised attorneys that worked for the firm. She also worked with EurotaxGlass International AG, Switzerland, where she managed litigations and advised executive management on business strategy and legal matters. Khadijah is an active attorney and a member of the New York Bar.

Obafemi Otudeko—Non-Executive Director

Obafemi Otudeko was appointed to the Board of the Bank on 1 January 2011. His work experience spans the Honeywell Group, where as Executive Director he leads Group Corporate Development and is responsible for the comprehensive transformation of the Group into a world-class admired company, and was at PricewaterhouseCoopers, where he led and managed various audit and consultancy engagements for major banks and non-bank financial institutions in Nigeria as well as other special projects. He also has extensive experience managing oil and gas projects. Obafemi is an Associate Member of the Institute of Chartered Accountants of Nigeria. He is the second Vice President of the Nigerian Gas Association and also sits on the board of Airtel Networks.

Tunde Hassan-Odukale—Non-Executive Director

Tunde Hassan-Odukale joined the Board of the Bank as a non-executive director on 1 January 2011. He is an Executive Director of Leadway Assurance Company Limited. His executive management experience spans over 20 years and includes Asset Management, Finance, IT and Life Insurance Operations. Tunde also sits on the board of Total Health Trust Limited and other Leadway Assurance Subsidiaries.

Ibrahim Waziri—Non-Executive Director

Ibrahim Waziri was appointed to the Board of the Bank on 1 January 2011. He has over 30 years' professional experience in banking and oil and gas businesses. His work experience includes: Group Executive Director at the Nigerian National Petroleum Corporation, Financial Analyst and Manager, International Merchant Bank Limited, Executive Director, Nigeria Gas Company Ltd and the Pipeline and Product Marketing Company Ltd, Deputy Managing Director, Nigeria LNG Limited, and Managing Partner, Gulf of Guinea Petroleum Consulting Limited. He is a fellow of the Institute of Directors.

Executive and Senior Management

Executive and senior management are accountable to the Board for the development and implementation of strategies and policies. The Board has delegated the responsibility for the day-to-day management of the Bank to the GMD. The GMD executes the responsibilities delegated to him in accordance with the guidelines approved by the Board.

Name	Title	Date of Appointment
Adebayo Adelabu	Executive Director/Chief Financial Officer	December 2012
Dauda Lawal	Executive Director, Public Sector North	September 2012
Bernadine Okeke	Executive Vice President, Private Banking	October 2010
Gbenga Shobo	Executive Director, Retail South	September 2012
Urum Eke	Executive Director, Public Sector South	May 2011
Tijjani Borodo	Executive Vice President	October 2010
Bashirat Odunewu	Executive Vice President, Institutional Banking	December 2011
Abdullahi Ibrahim	Executive Vice President, Retail Banking North	December 2012
Akin Fanimokun	Executive Vice President, Technology and Services	April 2013
Ceceilia Majekodunmi	Acting Corporate Banking SBU Head	June 2013
Abiodun Odubola	Acting Chief Risk Officer	June 2013

Adebayo Adelabu—Executive Director/Chief Financial Officer

See "*—The Board of Directors.*"

Dauda Lawal —Executive Vice President, Public Sector North

See "*—The Board of Directors.*"

Bernadine Okeke—Executive Director, Private Banking

Bernadine Okeke was appointed Executive Vice President and Head of Private Banking SBU in 2010. Before this appointment, she had been Business Development Manager, Lekki. Prior to this, she was Head, Human Capital Management & Development where she led a number of major service quality and change management initiatives. Bernadine has over 23 years of diverse management and operational experience in banking and manufacturing. Her varied banking experience includes domestic banking operations, corporate banking, treasury, credit and marketing, as well as branch development and roll out. This diversified background supports her function in leading the Bank's Private Banking SBU business.

Gbenga Shobo—Executive Director, Retail South

See "*—The Board of Directors.*"

Urum Eke—Executive Director, Public Sector South

See "*—The Board of Directors.*"

Tijjani Borodo, LLM—Executive Vice President/Company Secretary

Tijjani Borodo was appointed Executive Vice President in 2010. Prior to this promotion, he was a General Manager and the Company Secretary of the Bank. His banking career spans 24 years and he occupied various managerial positions within the Bank. He is in charge of running the Bank's Secretariat as well as the Secretary to the Board and Annual General Meeting of the Bank. Before joining the Bank, he served with the Ministry of Justice, Kano and rose to the position of Director, Public Prosecutions. Tijjani sits on the Boards of First Registrars Nigeria Limited and In-Sourcing Limited and has over 30 years of post-call to the Bar experience. He is a Member of the Nigerian Bar Association, International Bar Association, Fellow of the Institute of Directors, Member of Society for Corporate Governance, and an Honorary Senior Member of the Chartered Institute of Bankers. He attended courses and programmes in various business and management schools including Harvard Business School.

Bashirat Odunewu—Executive Vice President, Institutional Banking

Bashirat Odunewu was appointed Executive Vice President, Institutional Banking SBU in 2011. Until this appointment, she was Group head, Ikoyi/Victoria Island, in the Corporate Banking Directorate of the Bank. Bashirat has over 24 years' experience across institutional banking, corporate banking, commercial banking, investment banking and treasury in various financial institutions. She was the recipient of the Bank CEO's 2010 Annual Merit Award for Best Business Development Manager. She is a Fellow of the Institute of Chartered Accountants of Nigeria.

Abdullahi Ibrahim—Executive Vice President, Retail Banking North

Abdullahi Ibrahim was appointed Executive Vice President, Retail Banking SBU North in 2012. He was formerly Group head, Manufacturing in the Institutional Banking SBU. Abdullahi had served as the Business Development Manager, Ikeja, with responsibilities across consumer, retail, commercial and wholesale banking segments and the Group head, Multinationals in the Corporate Banking directorate.

Akin Fanimokun—Executive Vice President, Technology and Services

Akin Fanimokun was appointed Executive Vice President, Technology & Services in April 2013 on his return to the Bank following his role as the Managing Director of First Pension Custodian Limited. Previously, Akin had served as the manager of the Marina and London Branches of the Bank, as well as the Group Head of the Public Sector. He has over 29 years of banking experience spanning branch operations, marketing, credit analysis, human resources and customer relationship management and was the Project Manager responsible for the pioneering deployment of the Finacle Banking Application in the Bank. In his current role, Akin oversees Information Technology, Banking Services, Products & Marketing Support, and the E-Business Support Groups of the Group.

Ceceilia Majekodunmi—Acting Corporate Banking SBU Head

Cecilia Majekodunmi was appointed acting head of the Corporate Banking SBU in June 2013. Prior to this appointment, she was the head of the Emerging Corporates Group, within the Corporate Banking SBU. In that role, she spearheaded the Bank's strategic objective of growing its middle market franchise. Prior to corporate banking, Cecilia's diverse experience in banking included research, branch operations, credit analysis and human capital management.

Abiodun Odubola—Acting Chief Risk Officer

Abiodun Odubola was appointed Acting Chief Risk Officer in June 2013. Before this appointment, he was the head of Credit Analysis and Processing, within the Risk directorate. Abiodun has over 23 years of diverse banking experience covering relationship management, credit risk and analysis and country audit with global financial institutions in Europe and Nigeria.

Business Address of Management Team

The business address of each of the members of the Board is the Bank's registered office. There are no potential conflicts of interest between any duties of a member of the Board towards the Bank and the member's private interests and/or other duties.

SHARE CAPITAL AND OWNERSHIP

Capital Structure

As at 31 March 2013, the authorized share capital of First Bank of Nigeria Limited was ₦25 billion, comprised of 50 billion ordinary shares with a nominal value of 50 kobo each. As at 31 March 2013, First Bank of Nigeria Limited's issued and fully paid up share capital was ₦16.3 billion.

Major Shareholders

The Bank is 99.9% owned by FBN Holdings Plc. FBN Capital, the Bank's other shareholder controls 0.01% equity in the Bank.

As at 31 March 2013, according to FBN Holdings Plc's share register, FBN Holdings Plc had 1.3 million shareholders of its ordinary shares.

To the Bank's knowledge, no person or entity controls more than 5 per cent. of FBN Holdings Plc's total issued ordinary share capital.

NIGERIA

*The information in this section has been extracted from documents and other publications released by various officials and other public and private sources, such as the CBN, the International Monetary Fund ("***IMF***"), the Nigerian Debt Management Office ("***DMO***"), the National Bureau for Statistics of Nigeria ("***NBS***"), the Nigerian Federal Ministry of Finance ("***FMF***") and the United States Central Intelligence Agency ("***CIA***"), as indicated herein. There is not necessarily any uniformity of views among such sources as to such information provided. The Issuer has not independently verified the information included in this section. The information in this section has been derived substantially from publicly available information, such as annual reports, official data published by the Nigerian government or regional agencies or other third party sources as indicated in the text. the Bank has accurately reproduced such information and, so far as the Bank is aware and is able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading. The Bank has relied on the accuracy of this information without independent verification.*

Introduction

Nigeria is a sovereign nation and consists of thirty-six states and the FCT. Nigeria operates a federal system of government comprised of three tiers: the federal government, state governments and local governments. At both federal and state levels, there is a separation of power amongst the executive, legislative and judicial arms of the government.

According to the IMF, Nigeria is the second largest economy in Sub-Saharan Africa (after the Republic of South Africa ("**South Africa**")) and the largest in West Africa. According to the CIA's World Factbook of 10 July 2013 (the "**CIA World Factbook**"), in 2011, Nigeria was the thirteenth largest oil producing country and held the tenth largest natural gas reserves in the world according to 1 January 2012 estimates.

According to the NBS, Nigeria's real GDP growth amounted to 6.6 per cent. in 2012, 7.4 per cent. in 2011 and 7.9 per cent. in 2010. Nigeria is also a significant exporter of cocoa, rubber and cassava, in addition to other significant natural resources. In 2008, Nigeria met the U.S.$1,005 level of Gross National Income ("**GNI**") per capita, the World Bank's threshold to qualify as a middle-income country ("**MIC**"), and Nigeria was reclassified by the World Bank as a lower-middle-income country ("**LMIC**"), from the previous classification of a low-income country ("**LIC**"), and has been removed from the list of countries that enjoy the IDA's concessionary window.

Nigeria gained independence from the United Kingdom in 1960 and became a republic in 1963. Due in part to Nigeria's multi-ethnic and multi-religious population, the country has experienced numerous political changes since independence in 1960. In 1999, after 39 years of independence, 28 years of which were under military rule characterised by political instability, a peaceful transition to civilian government was completed and democracy was re-introduced to the country. General elections were held in February 1999, and Olusegun Obasanjo was elected president. The Constitution was adopted in May 1999 and provides for a President, a National Assembly and a Judiciary. The National Assembly, with two chambers, comprises a Senate (upper chamber) and a House of Representatives (lower chamber). Both chambers are made up of members elected for a four-year term. The Constitution has been amended three times since it came into force in 1999.

In April 2007, the late Umaru Musa Yar'Adua was elected president marking the first time that one democratically elected government had handed over power to another in Nigeria. Following the death of President Umaru Yar'Adua on 5 May 2010, the Vice President, Goodluck Ebele Jonathan was immediately sworn in as the President of Nigeria on 6 May 2010 in accordance with the Constitution and was elected as President in the general elections that were concluded in April 2011. The People's Democratic Party ("**PDP**") is the ruling party in Nigeria and has been in power at the federal level since 1999.

Area and Population

Nigeria is situated in the West African sub-region and is bordered to the north by the Republics of Niger and Chad and to the west by the Republic of Benin. It shares its eastern borders with the Republic of Cameroon down to the shores of the Atlantic Ocean forming the southern limits of the Nigerian Territory. The capital, Abuja, is located in central Nigeria, but Lagos, which is situated in the south west, is the principal commercial centre and main port in the country. According to Nigeria National Population Commission, Nigeria's population was approximately 167 million in 2012 and is expected to reach 174 million in 2013.

Key demographic information

Estimated Population (millions)	174.5
Estimated Population Growth Rate(%)	2.54
Urban Population (as a % of total)	50
Rate of Urbanization (% per annum)	3.5
Age Structure (as a % of population)	
—0 – 14 years	43.8
—15 – 24 years	19.3
— 25 – 54 years	30.1
—55 – 64 years	3.8
—65 years and over	3.0

Source: CIA- The World Factbook, 10 July 2013

The country covers an area of 923,768 square kilometres. Topography and vegetation vary considerably, and includes swamps and tropical rain forests in the south, and savannah and open woodland in the central part of the country. The northern part of the country borders the Sahara Desert.

The official language in Nigeria is English. There are three main indigenous languages spoken by the three predominant ethnic groups in the country. These ethnic groups are the Yorubas in the west, Hausa-Fulani in the north and the Igbos in the east. There is also a vernacular known as "broken/pidgin English" which is a Nigerian adaptation of the English language and is spoken and understood by almost all Nigerians. There are also over 250 other ethnic groups including Urhobo, Efik, Edo, Ijaw, and Kanuri and there are over 500 dialects within these ethnic groups.

The CIA World Factbook of 10 July 2013 estimates, that in 2012 Nigeria ranked 31 out of 229 countries in terms of GDP on a purchasing power parity (PPP) basis. The CIA World Factbook also estimates a labour force of 53.83 million as at 2012 with an average life expectancy of 52.46 years.

Constitution, Government and Political Parties

Constitution

Nigeria is a federation made up of three tiers of government—federal, state and local governments. The Constitution was adopted in May 1999. The Constitution provides for a tripartite structure of government in which power is divided among the executive, legislative and judicial branches. It establishes and sets out the powers and functions of the President (executive), the National Assembly (legislative) and an independent judicial system (judicial) as well as persons and bodies which may validly exercise such powers.

Executive Branch

Nigeria has adopted a presidential system of government with the executive powers of the federal government vested in the President. Such executive powers, subject to the provisions of the Constitution and of any law made by the National Assembly, may be exercised by the President directly or through the Vice-President and ministers of the government or officers in the public service of the federal government. The President has the power to appoint ministers and such appointment shall be effective if confirmed by the Senate. In appointing ministers, the President shall appoint at least one member from each state. The executive is accountable to the bicameral National Assembly. The President is elected by popular vote for a four-year term and is eligible to be elected to a second (and final) term. In addition to being the head of government, the President is also the Head of State and the Commander-in-Chief of the armed forces of the country.

The President's role includes overseeing the day-to-day running of the affairs of the nation assisted by the Vice President, ministers, special assistants, special advisers and other relevant government functionaries with supervisory roles over areas of government.

The President may, in his discretion and in addition to any duties prescribed under the Constitution and other legislation, assign to the Vice President or any minister of the federal government, responsibility for any business of the federal government, including the administration of any department of government.

Legislative Branch

The legislative powers of the federal government are vested in the National Assembly which consists of a Senate and a House of Representatives. The National Assembly is empowered to legislate in respect of matters set out in the Exclusive Legislative List and the Concurrent Legislative List, as set out in the Schedules to the Constitution.

The current House of Representatives, formed following elections held in April 2011, has 360 members who are elected in single member constituencies. Members serve four-year terms. The number of seats per state is based on the population of each state. The speaker is the Head of the House of Representatives.

The Senate is made up of members elected into the upper house for a four-year term. Each state elects three senators while the FCT elects one, making 109 seats in total. The Head of the Senate is referred to as the Senate President.

The two chambers of the National Assembly work in collaboration with the executive arm in areas such as budgetary appropriation and the enactment of laws. A bill may originate from either of the chambers but it must be passed by both chambers in order for it to be signed into law by the President.

Judicial Branch

In accordance with the Constitution, judicial authority is vested mainly in the following courts: the Supreme Court; the Court of Appeal; the Federal High Court; the High Court of the FCT; the National Industrial Court, the Sharia Court of Appeal and Customary Court of Appeal of the FCT; the High Court; Sharia Court of Appeal and Customary Court of Appeal of each state; and such other court as may be authorised by law to exercise jurisdiction over matters with respect to which the National Assembly (national legislature) may make laws at first instance or on appeal over matters with respect to which a House of Assembly (state legislature) may make laws.

Nigerian courts are empowered to hear and determine disputes between private parties, disputes between a private party and any of the three tiers of government or their agencies or disputes between the three tiers of government or their agencies. Thus, the courts have the power to review statutes and executive actions to ensure that they conform to the Constitution and other laws in force in Nigeria.

The courts with jurisdiction and power to deal with commercial, civil, criminal and constitutional matters, mentioned above, are described as follows:

Supreme Court of Nigeria—The Supreme Court is the highest court in Nigeria and is seated in the FCT. The Supreme Court consists of the Chief Justice of Nigeria (the "**CJN**") and such number of justices not exceeding 21 as may be prescribed by the National Assembly. The CJN and other justices of the Supreme Court are appointed by the President on the recommendation of the National Judicial Council ("**NJC**") subject to confirmation of such appointment by the Senate. The CJN heads the judiciary of Nigeria and presides over the Supreme Court.

The Supreme Court exercises original jurisdiction in respect of disputes between (i) the federal government and the states, (ii) between the states of the federation, (iii) between National Assembly and the President, (iv) between National Assembly and a state, and (v) between the National Assembly and a State House of Assembly. Decisions of the Court of Appeal can also be appealed to the Supreme Court. The Supreme Court is duly constituted by seven justices where it is exercising its original jurisdiction, or it is sitting to consider an appeal requiring it to interpret any provision of the Constitution or human rights of any individual has been violated. In all other cases, the court is duly constituted by not less than five justices.

Court of Appeal—The Court of Appeal comprising the President of the Court of Appeal and such number of Justices of the Court of Appeal, (not less than forty-nine) ranks immediately below the Supreme Court. It exercises original jurisdiction in respect of the election to the office of the President or Vice President of Nigeria, whether the term of those offices has ceased, and in relation to the question as to whether those offices have become vacant. The Court of Appeal has the exclusive jurisdiction to hear appeals from the Federal High Court, the High Courts, the National Industrial Court, the Sharia Courts of Appeal, and the Customary Courts of Appeal of each state and the FCT, as well as decisions of any court martial or any other tribunal established pursuant to the Act of the National Assembly. The court is duly constituted by not less than three justices for the purpose of exercising any of its stated jurisdictions. For administrative convenience, the court is divided into judicial divisions which sit in various parts of the country namely, Abuja, Lagos, Enugu, Kaduna, Ibadan, Benin, Jos, Calabar, Ilorin, Sokoto, Owerri, Yola, Ekiti, Akure and Port Harcourt. The president of the Court of Appeal is appointed by the President on the recommendation of the NJC subject to confirmation by the Senate. Justices of the Court of Appeal are appointed by the President on the recommendation of the NJC.

Federal High Court—The Federal High Court comprising the Chief Judge of the Federal High Court and such number of judges of the Federal High Court as may be prescribed by an Act of the National Assembly is a specialised court, which hears and determines civil cases and matters arising from a number of areas including (but not limited to): the operation of the Companies and Allied Matters Act, Cap C20 LFN 2004; bankruptcy and insolvency; the taxation of companies (and other bodies established or carrying on business in Nigeria) and all other persons subject to federal taxation; banking and securities regulation; foreign investments and foreign exchange. The chief judge of the Federal High Court is appointed by the President on the recommendation of the NJC subject to confirmation by the Senate. Judges of the Federal High Court are appointed by the President on the recommendation of the NJC. The court is duly constituted by not less than one judge for the purpose of exercising any of its stated jurisdictions.

High Court—There is a High Court for each state and the FCT. Subject to the jurisdiction of the Federal High Court as stipulated in the Constitution, the High Court has jurisdiction to determine civil and criminal proceedings which originate in the High Court and those brought before the High Court in the exercise of its appellate and supervisory jurisdiction. The High Court exercises jurisdiction over matters pertaining to contract, tort and negligence among other things. The chief judge of a state is appointed by the Governor of the state on the recommendation of the NJC subject to the confirmation of the House of Assembly of a state. Judges of the State High Court are appointed by the Governor on the recommendation of the NJC.

The National Industrial Court—The National Industrial Court has exclusive jurisdiction in civil cases and matters relating to labour, employment, trade unions, industrial relations, terms of service, and matters arising in relation to the workplace. The Court also has exclusive jurisdiction on matters relating to or arising from the Factories Act, the Trade Disputes Act, the Trade Unions Act, the Workmen's Compensation Act or any other legislation in relation to labour, employment, industrial relations, or workplaces. In May 2013, President Goodluck Jonathan approved the appointment of 12 new judges for the National Industrial Court, in addition to the nine sitting judges and the President of the Court.

The Constitution also establishes the election tribunals and authorises the National Assembly to constitute other tribunals as may be required. The more prominent of these special "courts" are the Investment Securities Tribunal, which handles disputes in relation to capital market activities.

State and Local Government

Each state is governed by a chief executive known as the Governor, who is elected to a four-year term of office and is eligible for one further term. The Governor is assisted in carrying out his or her functions by a Deputy Governor. The Governor is empowered to appoint commissioners and advisers and to assign responsibilities to them.

The legislative powers of a state are vested in a unicameral legislative body called the House of Assembly. The House of Assembly of each state may legislate in respect of matters set out in the Concurrent Legislative List. It is made up of representatives from all the local government areas within the state and exercises identical functions at the state level to those of the National Assembly at the federal level. A state House of Assembly shall consist of not less than twenty-four and not more than forty members.

State governments are vested with the power to collect personal income tax of its residents and to collect certain forms of stamp duties and capital gains tax among others.

There are 774 local government councils in Nigeria. Each local government area is administered under a local government council consisting of a Chairman who is the chief executive of the local government area and other elected members who are referred to as councillors. The functions of local governments include the consideration and the making of recommendations to a state commission on economic, administrative and urban planning issues including the economic development of the state, collection of rates, radio and television licenses and establishment and maintenance of cemeteries, burial grounds and homes for the destitute or infirm, naming of roads and streets and numbering of houses and such other functions as may be conferred on a local government council by the State House of Assembly.

Political Parties

According to the Independent National Electoral Commission ("**INEC**"), there are 25 political parties currently registered in Nigeria. In addition to the ruling PDP, which has been in power since 1999, the main political parties, until recently, included the All Nigeria People's Party, the Action Congress of Nigeria, the Labour Party, the PDP and the All Progressives Grand Alliance. The Action Congress of Nigeria (formerly known as Action Congress), which won 83 seats in the 2011 National Assembly election, is the main opposition party. The Congress for Positive Change, which won 41 seats in the same election, is the second largest. The PDP has been in power since 1999, and won 275 out of 467 seats in the 2011 elections.

In February 2013, the main opposition parties ACN, ANPP, CPC and a faction of APGA announced a merger of the parties to form the All Progressive Congress ("**APC**"). INEC has stated that it has no objection to the proposed merger provided that the relevant parties comply with the requirements of INEC. The parties have held their respective national conventions to approve the proposed merger and the dissolution of their respective existing parties. In March 2013, the African Peoples Congress and the All Patriotic Citizens also announced a merger to form the All Progressive Congress of Nigeria. The INEC has requested that the parties use an alternative name as the proposed name closely resembles that of the APC. The parties have submitted their application for registration to the INEC.

April 2011 Elections

The most recent general elections in Nigeria were held in April 2011. In the lead up to and during the course of the April 2011 elections, Nigeria experienced instances of sectarian violence, including bomb explosions in Abuja, Jos, Yenagoa and Maiduguri, in which a number of deaths were recorded. The National Assembly, presidential, gubernatorial and State Houses of Assembly elections were held at this time.

The National Assembly elections were held on 9 April 2011, and although there were alleged isolated cases of violence and other irregularities, the elections were generally reported as free, fair, peaceful and credible.

The presidential elections were held on 16 April 2011 and although the elections were reported to have been conducted peacefully and credibly, prior to the final announcement of the results, post-election violence and riots occurred in certain cities of some of the northern states of Nigeria (Kaduna, Gombe, Bauchi, Kano, Adamawa, Zaria and some parts of the FCT). The violence was reportedly as a result of the dissatisfaction with election results by supporters of an opposition party, who believed that the results declared in those states did not reflect the perceived widespread support for their candidate. Nevertheless, the INEC and international observers declared the elections as being well-conducted and the INEC formally announced the incumbent President Goodluck Jonathan as the winner, with over 58.89 per cent. of the total votes cast. President Goodluck Jonathan secured more than 25 per cent. of the votes cast in over two-thirds of the states in Nigeria.

After the gubernatorial elections held in 2011 and the supplementary elections conducted in 2012, PDP currently governs 23 states, ACN governs 6 states, ANPP governs 3 states, APGA governs 2 states, CPC and LP govern one state each.

The Nigerian Economy

Overview

According to the IMF, Nigeria has the second largest economy in sub-Saharan Africa (after South Africa) and the largest in West Africa. According to estimates from the CIA World Factbook as at 11 July 2013, in 2011, Nigeria was the thirteenth largest oil producing country and held the tenth largest natural gas reserves in the world. The NNPC estimates Nigeria's crude oil reserves at 36.0 billion barrels as at 31 December 2011.

Nigeria has experienced continued growth in GDP over the last few years, driven primarily by growth in the non oil and gas sectors, mainly the subsistence based and informal agricultural and trade sectors (according to the IMF) of the economy. Real GDP grew 6.58 per cent. in 2012, 7.43 per cent. in 2011 and 7.98 per cent. in 2010. This growth was largely attributed to continued growth in non oil and gas GDP, which grew 7.88 per cent. in 2012, 8.80 per cent. in 2011 and 8.51 per cent. in 2010. Non oil real GDP growth was 7.88 per cent. in 2012, a decrease from 8.80 per cent. in 2011.

Nigeria's nominal GDP grew from US$167.4 billion in 2009 to US$260.3 billion in 2012, which improved Nigeria's international ranking from 48th to 39th position (according to the World Bank's Development Indicators). In Naira terms, according to the NBS, the nominal GDP for 2012 was estimated at ₦40.5 trillion.

However, the Nigerian economy remains highly dependent on the oil and gas sector, which accounted for 13.8 per cent of real GDP, 96.8 per cent. of export earnings and 89.4 per cent. of total gross federally collectible revenue in 2012. This dependence on oil makes the economy vulnerable to oil price fluctuations as most economic sectors in Nigeria depend on public spending which is itself dependent on oil and gas revenues.

Reforms in recent years have contributed to the diversifying growth of non oil and gas GDP. Since 2005, the non oil and gas sector has been a key driver of growth, growing on average by 8 per cent. per year, the biggest drivers being agriculture, telecommunications and wholesale and retail trade. The following table sets out information regarding the main non oil sectors of the economy as well as the oil and gas sector:

Economic Sector	2012	
	Contribution to real GDP (%)	Growth rate (%)
Agriculture	39.2	3.97
Crude Petroleum and Natural Gas	13.8	(0.91)
Wholesale and Retail Trade	19.9	9.61
Manufacturing	4.2	7.55
Telecommunications and Post	7.1	31.83

Nigeria is also a significant exporter of cocoa, rubber and cassava, in addition to other significant natural resources.

Nigeria's exports are dominated by petroleum products which account for approximately 95 per cent. of the county's foreign exchange earnings and approximately 80 per cent. of budgetary revenues.

Crude oil produce rose in the 1990s and peaked in 2004 at 2.5 mbd but declined again to an average of 2.2 mbd in 2007 due to the unrest in the Niger Delta and the OPEC quota constraints. Production declined further in 2008, when production fell to an average of approximately 2.1 mbd. This decrease was mainly due to militant activities and the destruction of oil production facilities in the Niger Delta region which caused disruptions in production. However, production began to increase again in the second half of 2009, with an average of 2.1 mbd, and increased further to an average of 2.46 mbd in 2010. Production has however declined over the last two years, falling slightly to 2.45 mbd in 2011 and to 2.3 mbd in 2012. The renewed decrease in oil production is believed to be a consequence of the high levels of disruptions due to facility shut downs resulting from vandalism and oil theft affecting production from the Bonny, Forcados and Qua Iboe terminals.

The oil sector is recovering from disruption caused by militant activities, vandalism and facility shut-downs in the Niger Delta between June 2008 and July 2009. Most of the onshore fields in the country that were shut down due to a lack of security (including the Bonga and Escravos fields of Royal Dutch Shell and Chevron Texaco) have been re-opened. The sector also benefited immensely from the continued upsurge in world crude oil demand which has kept prices at high levels coupled with the relative stability in the exchange rate of the Naira against the U.S. dollar.

Furthermore, Nigeria has benefited from a reduction in perceived country risk which has accelerated and increased FDI, which comprises equity capital, re-invested earnings and other capital inflows, from from US$0.7 billion in 2010 to US$1.7 billion in 2011 and US$2.0 billion in 2012. The decline in 2010 can be attributed to the global financial downturn in 2008 and 2009, as greenfield projects, which are the major basis for FDI in Africa, suffered a value decline of about 10 per cent. in 2010. Similarly, peer economies within Africa also suffered declines in FDI in 2010, such as South Africa, which recorded a decrease in FDI of 77.9 per cent., with Africa as a whole recording an average decrease in FDI of 18.1 per cent. in 2010.

Notwithstanding the decline in FDI inflows to Africa, Nigeria continued to be one of the major recipients of FDI inflow into Africa.

Additionally, under-developed infrastructure within the country has created significant unsatisfied demand and investment opportunities, which have motivated the increasing inflow of FDI outside of the energy sector (which had historically accounted for a high percentage of FDI).

Nigeria—Key Macroeconomic Indicators

The following table sets forth certain Nigerian economic indicators as at and for the periods indicated.

Economic Indicators	As at or for the three months ended 31 March	As at or for the years ended 31 December		
	2013E	2012	2011	2010
Nominal GDP at market exchange rates (U.S.$ billions)	283.7	260.3	238.0	227.8
Real GDP growth (%)	7.2	6.6	7.4	7.9
GDP per capita (U.S.$ at purchasing power parity ("**PPP**") market exchange rates)	2,883.4	2,720.0	2,582.1	2,419.8
Inflation (all items, year on year change, as at December in each year) (%)	8.6	12.0	10.3	11.8
Population (millions)	169.3	164.8	160.3	156.1
Total gross debt (U.S.$ billions)	55.3	48.5	41.4	35.1
Total gross debt (% of GDP)	17.9	19.6	17.5	15.4
Total net debt (U.S.$ billions)	33.5	36.8	36.0	33.1
Total net debt (% of GDP)	10.8	13.3	14.9	14.4
Exchange rate ₦/U.S.$ (average)	155.75	157.50	153.86	150.30

Source: IMF, CBN

Oil Production

According to estimates from the CIA World Factbook as at 11 July 2013, in 2011, Nigeria was the thirteenth largest oil producing country in the world. The NNPC estimated Nigeria's crude oil reserves at 36.0 billion barrels as at 31 December 2011. Nigeria has been producing oil for about 55 years. The Nigerian economy is highly impacted by oil and gas production, which accounted for 89.4 per cent. of all federally collectible revenue in 2012. Brent crude oil prices declined from an average of U.S.$96.94 per barrel in 2008 to U.S.$61.74 in 2009, subsequently increasing in 2010 to an average of U.S.$79.61, U.S.$111.26 in 2011, U.S$111.63 in 2012 and U.S.$107.34 in the first six months of 2013, according to data from the EIA.

Crude oil and condensates production decreased in the first half of 2012 to an average daily production of 2.37 million barrels per day as compared with an average daily production of 2.48 million barrels per day in the same period in 2011. The average daily production as at 31 December 2011 was 2.37 million barrels per day. In the first half of 2012, crude oil and condensates production decreased in comparison to the corresponding half in 2011. The average crude oil production for the first quarter of 2012 was 2.35 million barrels per day against 2.48 million barrels per day for the same period in 2011. This also led to a decrease in the oil sector's contribution to real GDP from 17.18 per cent. in the first quarter of 2011 to 15.80 per cent. in the first quarter of 2012, as well as a decline in real terms of 2.32 per cent. in oil GDP growth compared with 0.05 per cent growth for the corresponding period in 2011. According to the CBN, there was a further decline in oil production in the last quarter of 2012 to 2.00 million barrels per day compared with 2.26 mbd or (207.92 million barrels) in the preceding quarter. This represented a decrease in production level of 0.26 mbd or 11.5 per cent. Consequently, crude oil export was estimated at 1.55 mbd or (142.60 million barrels) in the fourth quarter, compared with 1.81 mbd or (166.52 million barrels) in the preceding quarter, representing a decline of 14.4 per cent. The decrease was attributed to natural disaster, oil theft and sabotage to oil infrastructure. However, the oil sector has also benefited from the high international crude oil market price and the foreign exchange market, in spite of a decline in daily average production in the fourth quarter of 2012. According to the CBN, oil revenue increased at an average of 2.73 per cent monthly throughout 2012. In the first eleven months of 2012, oil receipts totalled US$40.1 billion. According to the NBS, the oil sector contributed 14.75 per cent. and 13.76 per cent. of Nigeria's GDP (in real terms at 1990 base price) in the first quarter of 2013 and in 2012, respectively, or 38.77 per cent. and 37.01 per cent, respectively, in nominal terms.

A divide between the oil producing states and the non-oil producing states has arisen over how the oil revenues should be distributed between the federal government and the states. The oil-producing states (which are predominantly situated in the southern region of the country) believe they are entitled to a greater share of revenue by virtue of the fact that the oil is produced in their region and they suffer the consequences of oil pollution and oil-related violence.

In the Niger Delta region, which is made up of nine states: Abia, Akwa Ibom, Bayelsa, Cross River, Delta, Edo, Imo, Ondo and Rivers states, and covering approximately 112,110 square kilometres or 12 per cent. of Nigeria's land mass, sporadic violence has been a longstanding problem that the multinational oil companies operating in the Niger Delta have faced for a number of years. The region, the world's third largest wetland, accounts for over 90 per cent. of Nigeria's oil and gas export earnings and over 70 per cent. of revenues accruing to the Federation Accounts. Presently, Nigerian oil reserves stand at about 37.5 billion barrels, while the country's gas reserves are estimated at about 187 trillion cubic feet. Accordingly, the stability and development of the Niger Delta is critical to the economic well-being of Nigeria, the wider West African region and, to a lesser degree, global energy security.

The Niger Delta has been a source of unrest for many years. In 1995, in the face of international protests, nine Nigerian peace activists including author Ken Saro Wiwa from Ogoniland in the Niger Delta were executed by the military regime of General Sani Abacha. By 2002, unrest had grown once again throughout several states of the Niger Delta with a new wave of activism in the region. In 2006, militia forces had been formed in the Niger Delta, targeting the international oil companies by destroying oil infrastructure and kidnapping expatriate staff. The largest of the armed groups, the MEND has carried out most of its activities and attacks in the Niger Delta region but in July 2009, the assault extended to Lagos with the destruction of part of the Atlas Cove Jetty on Takwa Bay, Lagos, a major oil hub for Nigeria.

Significant efforts have been made by the Government to tackle the problems in the Niger Delta. For example, the Niger Delta Development Commission was established to, amongst other things, (i) develop the infrastructural needs of the Niger Delta; (ii) manage the sums received from upstream oil companies, and the allocation of the Federation Account for tackling ecological problems which arise from the exploration of oil minerals in the Niger Delta area; and (iii) alleviate the plight of local inhabitants. The Government has also built power plants and is working to create more jobs and improve infrastructure in the area. In addition, in 2009, the Government offered an amnesty to militants who surrendered their weapons by October 2009, in the hope that rebels would exchange their weapons for a pardon and retraining. Over 20,000 militants surrendered their arms and ammunition pursuant to the amnesty offer of the Government which expired on 4 October 2009.

The amnesty programme has significantly reduced but not eliminated tensions in the region. In December 2009, MEND claimed responsibility for an attack on an oil pipeline in the Niger Delta, breaching the ceasefire agreement with the Government. After another attack on an oil pipeline in the Niger Delta in January 2010, during late President Umaru Musa Yar' Adua's absence from office, MEND announced that it would end the indefinite ceasefire it offered in 2009, threatening further hostility in the region.

Following the accession to office by Goodluck Jonathan as President of Nigeria on 6 May 2010, militants in the Niger Delta region resumed their talks with the Government and other amnesty committees. However, on 1 October 2010, during Nigeria's celebration of the 50th anniversary of its independence, two bomb blasts occurred in the capital city Abuja. Further attacks on oil pipelines and kidnappings took place in November 2010 and in December 2010, two bombs exploded during a political rally in Yenagoa, Bayelsa State, causing injury to several people.

As a result of militant activity in the Niger Delta, oil production has been adversely affected in the past few years. Nigeria, which has a production capacity of approximately 3.7 million barrels per day, was losing more than 1.5 million barrels in production at the peak of the conflict in the Niger Delta during the year 2010. The Government is committed to resolving the issues in the Niger Delta and continues to engage in discussions with all the stakeholders towards achieving permanent stability in the region. The Government has placed continuous emphasis on the amnesty programme, and there has been a gradual reduction of militant activities and attacks by MEND since January 2011 and following the April 2011 general elections. Such stability has helped increase oil production levels to approximately 2.4 million barrels per day for the twelve months ended 31 December 2011 and 2.3 million barrels in for the twelve months ended 31 December 2012. However, this is still below the average of 2.6 million barrels during 2010. Oil production in 2012 was estimated at 2.3 mbd, as against 2.4 mbd in 2011. According to the CBN, Nigeria's crude oil production, including condensates and natural gas liquids, was estimated at an average of 1.97 million barrels per day (mbd) or 59.10 million barrels for the month ending 30 April 2013. This was 0.03 mbd or 1.5 per cent. below the average of 2.00 mbd or 62.0 million barrels produced in the preceding month. The decrease in production was attributed to incessant pipeline vandalism and crude oil theft.

Fiscal Deficit

The overall fiscal deficit increased from ₦419.5 billion in 2008 to ₦810.1 billion in 2009. The increase in the deficit in 2009 was largely the result of the decline of crude oil prices in 2009 compared to 2008 coupled with an increase in both recurrent and capital expenditures. The overall fiscal deficit for 2010 was ₦1,105.4 billion, largely as a result of relatively lower oil prices coupled with an increase in recurrent expenditure. The 2011 Federal Budget signed by the President in May 2011 estimated the fiscal deficit for 2011 at ₦1,147 billion which was reduced to ₦1,105 billion in the 2012 budget. The fiscal deficit for the 2013 budget is estimated at ₦1,032 billion.

Credit to the private sector fell by ₦399.11 billion, or 3.95 per cent., in the second half of 2010, compared with a decline of ₦103.26 billion, or 1.01 per cent., in the first half of 2010. The overall decline in bank credit to the private sector for the 2010 fiscal year was 4.10 per cent., in contrast to the 26.63 per cent. increase recorded for the 2009 fiscal year (against a benchmark growth rate of 31.54 per cent.). Credit to private sector stood at ₦15,285.29 billion as at December 2012. On the other hand, public sector lending grew by 14.2 per cent. in the first half of 2012 compared to the lackluster 3.6 per cent. growth in private sector lending over the same period. Overall, lower lending to the private sector was influenced by the poor liquidity conditions in some of the banks and the generally cautious approach to lending in the Nigerian banking system following the recent crisis.

Reforms

Nigeria is in the process of adopting and implementing a number of reforms with the Government's objective of making Nigeria one of the 20 largest economies in the world by 2020. The reforms are aimed at a number of areas, primarily diversifying the economy away from dependence on oil by addressing infrastructure and related deficiencies to create a more favorable environment for continued growth of the non-oil and gas sectors of the economy. A summary of some of these key reform agendas include:

Vision 20:2020

Vision 20:2020 is the Government's long-term plan to become one of the world's 20 largest economies by 2020, and the Government has adopted the First NIP as its medium-term plan to implement the first stage of Vision 20:2020. The First NIP focuses on the following six main areas:

- physical infrastructure—power, transport and housing;
- productive sector—the key sources of economic growth such as agriculture, oil and gas and manufacturing;
- human capital and social development—the social sectors of the economy including education, health, labour, employment and productivity;
- building a knowledge-based economy—building a knowledgeable workforce and ensuring widespread access to information, internet and communication technology;
- governance and general administration—election reform and combating corruption; and
- regional geopolitical zone development—fostering accelerated, sustainable social and economic development in a competitive and friendly manner.

Power Sector

Nigeria lacks a stable power supply, adequate roads, railway and other infrastructure. Nigerians have suffered from pervasive shortage of electricity and businesses have resorted to self-generation of power. Although Nigeria currently has an installed electricity power generation capacity of approximately 8,664MW, actual electricity generated averaged 3,900MW as at August 2012, it is estimated that Nigerians spend U.S.$13 billion annually to run diesel generators. Power generation continues to dwindle owing to disruptions of gas supplies to thermal plants and low water levels at the hydro power stations. Poor transmission and distribution infrastructure result in significant load shedding, further worsening electricity supply in the country.

In a drive to address these challenges, the Government initiated the sector reform and passed the Electric Power Sector Reform Act (2005) ("**EPSRA**") to liberalise the sector and privatise key assets of the dominant public power provider, the PHCN (formerly the National Electricity Power Authority), while promoting independent power production. The PHCN has also been separated into 18 new successor companies (which are intended to be privatised) consisting of six generating companies, one transmission company and eleven distribution companies. The EPSRA also established the Nigerian Electricity Regulatory Commission ("**NERC**"), which is responsible for licensing and regulating the generation, transmission, distribution and supply of electricity, enforcing performance standards, consumer rights and obligations and determining tariffs. The EPSRA provides for the restructuring of the Nigerian electricity supply industry and the development of a competitive electricity market for trading in electricity. In 2005, the Government also launched a capital investment programme under the NIPP. The NIPP comprises investment in gas-fired power plants and transmission lines across the country in Abia, Akwa-Ibom, Bayelsa, Cross River, Delta, Edo, Imo, Kogi, Ogun, Ondo and Rivers states respectively. The Government expects that when completed, the NIPP projects should add nearly 5,000 megawatts to the country's generating capacity within the next three years. An additional 4,259 megawatts of generation capacity from the NIPP Power Stations is expected by December 2013. In April 2013, the Government announced its plans to privatise the ten gas-fired plants that make up the NIPP via the sale of 80 per cent. of its stake.

In August 2010, the Government launched the "Roadmap for Power Sector Reform" which seeks to, among other objectives, remove obstacles to private sector investment in the power sector (including through the provision of credit enhancement and the establishment of an appropriate pricing regime), permit the privatisation of the generation and distribution companies which were unbundled from the PHCN facilitate the construction of new transmission networks and reform the fuel-to-power sector. The Government estimates that in order to meet the target of 40,000 megawatts of generating capacity by 2020, a total investment of U.S.$10 billion per annum will be needed throughout the whole power sector until 2020, most of which it aims to achieve by incentivising the private sector to make such investments.

In May 2010, the Minister of Petroleum Resources announced the President's approval for the implementation of a new gas-to-power price regime as part of its efforts to encourage more gas production for electricity generation. Under the approved price regime, gas prices were to progressively increase from current U.S.$0.6 cents per million British thermal units (mmbtu) to U.S.$1/mmbtu from the end of 2010, U.S.$1.50/mmbtu from the end of 2011 and 2012 and U.S.$2/mmbtu from the end of 2013. This regulated price regime only applies in respect of gas compulsorily set aside for domestic supply under the National Domestic Gas Supply and Pricing Regulation and does not apply to gas which is exported. In practice, however there are challenges with implementation as the PHCN has not been fulfilling its payment obligation. In addition, the Government has established and appointed the governing board of the Nigerian Bulk Electricity Trading Company Plc (the "**Bulk Purchaser**"), a government-owned bulk buyer which intends to carry out contract management and bulk trading on behalf of the successor distribution companies until the industry stabilises (including in terms of demand and pricing). The presence of the Bulk Purchaser is expected to act as an incentive for new investment into the power generation market and to help stabilise the market for the successor distribution companies of PHCN. The total proposed investment in the power sector during the First NIP period (being the National Implementation Plan for the period 2010-2013) is ₦880.98 billion. This will cover investments in four major areas: power generation; transmission; distribution; and alternative energy.

In August 2010, driven by concerns over the poor state of infrastructure across the country, the CBN created the ₦300 billion Power and Aviation Sector Intervention Fund for investment in debentures to be issued by the BOI to finance aviation and power projects. Aware of the role a stable power supply could play in the economy, the CBN further decided in September 2010 to provide guarantees to the National Pension Commission and unlock ₦400 billion from pension funds into the Power and Aviation Sector Intervention Fund to add to the initial ₦300 billion invested.

In March 2011, the CBN disbursed ₦198 billion of funds to Nigeria's BOI for further disbursement as discounted loans to companies in both the power and aviation sectors.

In February 2012, the NERC in conjunction with the Bureau of Public Enterprises announced that electricity prices are set to rise by an estimated 11 per cent. further to the removal of electricity tariffs under the NERC's Multi-Year Tariff Order programme. The new tariff, which commenced on 1 June 2012, is part of the privatisation plan of the power sector. However, certain categories of consumers classified as "special customers" (such as hospitals and public amenities suppliers, small and medium scale enterprises, as well as residents in rural areas and impoverished urban residents), are expected to be subject to a lower tariff increase and to continue to receive a subsidy from the Government. It is expected that the increase in tariff will serve as a form of encouragement to potential investors in the power sector who were concerned with the return on their investment under the former tariff regime.

Following the announcement of removal of the older tariffs, the NERC, in March 2012, also issued two landmark regulations which would enable state and local governments, private investors and suppliers and communities to generate and distribute electricity. The "Nigerian Electricity Regulatory Commission Regulations for Independent Electricity Distribution Networks 2012" regulation permits state and local governments, private investors and suppliers and communities to generate and distribute electricity for their exclusive consumption through the use of existing facilities of electricity distribution companies or independent electricity distribution network operators. The second regulation, "Nigerian Electricity Regulatory Commission Regulations For Embedded Generation 2012", permits state and local governments, investors and communities to invest in generating electricity for transportation through electricity distribution networks in areas without access to the grid or distribution network or areas with poorly serviced distribution networks. These regulations are intended to further support the aim of the EPRSA by privatising and creating a competitive and attractive power sector for investments.

The new regulations are expected to increase access to electricity for the approximately 40 per cent. of Nigeria's population that do not currently have access, through the deregulation of power generation and distribution, which is expected to have a positive impact on the quality of electricity supply.

In July 2012 the Government entered into a contract with Manitoba Hydro International ("**MHI**") of Canada, to manage the Transmission Company of Nigeria ("**TCN**") and inject international best practices, technical expertise and ensure the requisite restructuring of the company. MHI is contracted to manage the TCN for three years, with the possibility of an extension to five years. In March 2013, the contract was ratified by President Goodluck Jonathan.

Currently the government has made progress with its privatisation initiative. Preferred bidders have been selected for 15 out of 17 electricity utility (generation and distribution) companies being privatised. Of the 17 companies, two are being concessioned while the rest have core investors acquiring all or a majority stake in the companies, and the relevant concession agreements and share purchase agreements have been executed. The preferred bidders have all met the 21 March 2013 deadline for the payment of 25 per cent. initial deposit of the purchase fee, while the balance of 75 per cent. of the purchase fee is due to be paid within six months. It is expected that the privatisation of these entities will improve the power supply in the country. In addition to the efforts being made by the Federal Government to increase the power supply, certain State Governments, such as Lagos, Rivers and Akwa-Ibom, have started generating power through IPPs.

However, increased power interruptions and power failures continue to impact negatively on the country and its business sector, and most businesses continue to seek alternative and more reliable means of power-supply, including self-generation, resulting in increased operating costs.

Oil and gas sector

The Government is currently seeking to reform the petroleum industry. The National Assembly is currently considering the PIB, a major legislative proposal that would represent the most comprehensive overhaul of the structure of the oil and gas industry in Nigeria since commercial oil production began in the 1960s. The draft PIB proposed to promote local participation in upstream operations, to build genuine private sector capacity in technical capability and to limit political factors influencing the development of the industry. The PIB has undergone a number of iterations and has been challenged at each stage by various vested interests and stakeholders. Since it remains under consideration and has not yet been passed into law, its provisions are subject to change. See "*Risk Factors—Risks related to Nigeria and other regions in which the Group operates—The regulatory environment in the oil and gas sector in Nigeria is subject to significant ongoing change*".

Telecommunications sector

This sector is regulated by the Nigerian Communications Commission. In April 2013, the Nigerian Commission introduced mobile number portability amongst the Global System for Mobile (GSM) operators. This reform is expected to increase competition in the sector and enhance the quality of service currently provided. The main mobile telephone operators are MTN, Globacom, Bharti Airtel, Etisalat and Mtel. Other operators include Starcomms, Visafone and Intercellular.

Transformation Agenda

Following his election in 2011, President Goodluck Jonathan introduced the Transformation Agenda, which was based on the goals contained in Vision 20:2020 and the First NIP. A key goal of the Transformation Agenda is to prioritise key goals set out in Vision 20:2020 and the First NIP. These goals are to be completed within the four year tenure of the current Presidential administration (2011-2015). The following is a summary of the key points in the Transformation Agenda.

Macroeconomic Framework and Economic Direction

The key policies to be pursued by the Government during the Transformation Agenda period are as follows:

- Key macroeconomic policy choices—the government will focus on policies that will ensure greater harmony between fiscal and monetary policy and pursue sound macroeconomic policies, including fiscal prudence, to contain inflation.
- Job creation—in recent years, the Nigerian economy experienced growth without a corresponding growth in employment. The rate of growth of the labour forces exceeded employment opportunities that were being created. Composite employment data showed that the rate of unemployment increased from 11.9 percent. in 2006 to 21.4 percent. in 2010 and 23.9 percent. in 2011. A significant portion of the unemployed are youths. The Transformation Agenda aims to curb unemployment by:
  - Implementing a youth employment safety net support programme that includes conditional cash transfer and vocational training;
  - Developing industrial clusters;
  - Reviewing university curricula to align with industry job requirements;
  - Enforcing mandatory sub-contracting and partnering with locals by foreign construction companies; and
  - Implementing mandatory skills transfer to Nigerians by foreign construction companies.
- Public Expenditure Management—introduction of short-term policy measures to address:
  - Limiting total recurrent spending as a percentage of GDP to 6 per cent., while increasing capital expenditure as a percentage of GDP to exceed 6.5 per cent.; and
  - Aligning recurrent expenditure with non-oil revenue and devoting a larger portion of oil revenue to capital expenditure.

Governance

During the Transformation Agenda period, policies and programmes directed at addressing governance challenges will focus on public service, security, law and order, legislature, anti-corruption measures and institutions, the judiciary, economic coordination and support for private investment.

Human Capital Development

The Transformation Agenda will focus on education, health and labour with the following key goals:

- Education—promote primary enrolment of all school age children, regardless of income; increase education infrastructure and reduce the pupil/teacher ratio and provide training, capacity building and motivation to teachers and administrators.
- Health—more fully develop the policies underpinning Vision 20:2020 through the National Strategic Health Development Plan.
- Labour—implement the National Action Plan on Employment Creation targeted at creating 5 million new jobs annually within the next 3 years; establish more skills and training institutes and implement local content policy in all sectors of the economy, but in particular in the oil and gas industry.

Real Sector

The following seven sectors have been identified as the main growth drivers during the Transformation Agenda period: agriculture, water resources, solid minerals, manufacturing, oil and gas, trade and commerce and culture and tourism. Performance in these sectors has been constrained by several challenges, including low level of private sector investment, shortage of skilled manpower, poor regulatory environment and the poor state of the infrastructure. Specific policy goals include focusing on securing domestic food supply, promoting private sector investment in manufacturing and strengthening capacity building programmes in core technical areas in oil and gas.

Infrastructure

Infrastructure development is critical for the development of the economy and the well-being of all Nigerians. The following key priority policies will be aimed to develop infrastructure:

- Power—the total proposed investment envisaged in the power sector for 2011-2015 is approximately ₦1.9 trillion. This will be used to improve power generation, transmission, distribution and distribution capacity.
- Information and Communication Technology—the proposed investment in this sector for 2011-2015 is ₦22.2 billion. The objectives are to develop a knowledge-based economy, create a friendly investment environment to stimulate FDI in the sector and to develop infrastructure, particularly global connectivity to improve domestic productivity.
- Niger Delta—the proposed investment in the Niger Delta region is ₦335.1 billion. The primary aim is to promote peace and stability in order to encourage sustainable socio-economic development.
- Transportation—the proposed investment in the transportation sector is approximately ₦4.5 billion. This investment will cover the development of roads, railways, inland waterways, ports and airports.

The Transformation Agenda assumes baseline GDP growth of 11.7 per cent. per year and is expected to result in a real and nominal GDP of approximately ₦428.6 billion and ₦73.2 trillion, respectively, by 2015 (as calculated before the rebasing of GDP, which is expected to occur in 2014). GDP growth is expected to be driven by the oil and gas, solid minerals, agriculture, IT equipment and software, telecommunications, wholesale and retail trade, tourism and entertainment, manufacturing and building and construction sectors.

The assumptions with respect to GDP growth in 2011 and 2012 were not met, as GDP growth was 7.43 per cent. in 2011 and 6.60 per cent. in 2012.

Banking

See "*The Nigerian Banking Sector*".

External Debt

Nigeria became the first African nation to fully repay its Paris Club debt in April 2006, after years of economic mismanagement and excessive spending led to gross external debt escalating to over U.S.$32.0 billion by the late 1990s. In the first serious attempt at restructuring and reducing the country's debt burden, the Federal Government concluded negotiations leading in 1992 to a "Brady Bond" exchange with Nigeria's commercial bank creditors, and at the same time reducing such creditors' claims by 60.0 per cent. In 2000, the Paris Club of Creditors agreed to a restructuring of their 85.0 per cent. portion of the outstanding debt. Nigeria continued intensive negotiations with the Paris Club of Creditors and at the G8 summit in the summer of 2005. Following these negotiations, it was announced that Nigeria was successful in reaching a debt reduction agreement. The repayment plan saw Nigeria pay the Paris Club of Creditors U.S.$12.5 billion in exchange for the remainder of its official debt, U.S.$30.9 billion, being written off.

Following the success of the Paris Club of Creditors repayment, Nigeria repaid its debt owed to the London Club of Creditors in 2007. Nigeria's Brady debt has also effectively been paid down, following arrangements entered into with certain financial institutions in March 2007.

In December 2010 the Government entered into a U.S.$899.5 million credit agreement with the Export-Import Bank of China for the purpose of funding certain infrastructure projects. Drawdowns under this facility are tied to project completion milestones. As at 31 December 2011 no amount had been drawn.

According to the DMO, Nigeria's external debt was U.S.$6.67 billion as at 31 March 2013.

Public Debt

According to the DMO, as at 31 March 2013, Nigeria's total public debt was U.S.$48.3 billion. Additionally, in December 2010 the Government entered into a U.S.$899.5 million credit agreement with the Export-Import Bank of China for the purpose of funding certain infrastructure projects. Drawdowns under this facility are tied to project completion milestones. As at 31 December 2011 no amount had been drawn. Nigeria's domestic debt was ₦5.62 trillion, or U.S.$37 billion as at 31 December 2011, compared to ₦1.5 trillion, or U.S.$11.8 billion as at 31 December 2005. The country's domestic debt stands at ₦6.49 trillion as at 31 March 2013. Nigeria's domestic debt reflects the significant increase in borrowings through Government bonds in the domestic market.

Capital Markets

Following the precipitous decline witnessed in 2008, when the Nigerian All Share Index lost 46.3 per cent., the market lost a further 33.8 per cent. in 2009. The NSE posted the biggest decline among 89 global indices tracked by Bloomberg.

Investment in the equities market as measured by turnover, declined to ₦688 billion in 2009 from ₦2.4 trillion in 2008, a drop of about 71.3 per cent. partly as a result of depressed prices but largely due to a decline in trading activity. Average daily volumes traded dropped from 775.65 million shares worth ₦9.55 billion in 2008 to 414.73 million shares valued at ₦2.8 billion in 2009. In contrast, there was a shift to the fixed income market where ₦18.5 trillion worth of FGN Bonds were traded in the over-the-counter ("**OTC**") market versus ₦10.4 trillion the year before. Subscriptions to new FGN Bond issues also increased to ₦1.1 trillion in 2009 from ₦846.0 billion the year before. The corporate bond market, however, remained inactive with only one issue from GT Bank in December 2009, raising ₦13.5 billion. There was however, increased activity in the municipal bond market with Lagos, Kwara, Imo and Niger states raising a total of ₦91.5 billion from the capital markets. This level of activity in the bond market continued into 2010. The yield curve for the first half of 2010 saw greater increases towards the longer end, in line with the country's debt management strategy. In addition, a few more state governments, such as, Edo, Benue, Ebonyi, Kaduna and Bayelsa States, approached the bond market at more attractive prices, when compared to commercial lending rates, due to the increased level of investors' interest in the market given their political and economic stability. The corporate bond market also witnessed some activity in 2010 and 2011 as companies such as UBA, Flour Mills of Nigeria Plc, Chellarams Plc, Nigerian Aviation Handling Company Plc and others raised funds from the corporate bond market. In addition, the IFC in February 2013, issued Naira denominated bonds in the Nigerian capital market.

There was an increase in activities in the equities market at the beginning of 2010, with the All Share Index advancing by 21.9 per cent. in the first half of the year. This performance continued the recovery of the All Share Index that began in the second half of 2009 and saw a gain of 30.7 per cent. for that period. Factors such as the reforms in the banking sector and expansionary monetary and fiscal policies undertaken by the CBN helped to renew investors' confidence after the market collapse in 2008 and 2009. Additionally, the CBN's efforts to resolve the banking crisis through the establishment of AMCON, strong demand from institutional investors and incremental liquidity in the market spurred an overall growth in equities, giving rise to a 19 per cent. gain in the All Share Index during 2010.

The start of 2011 saw overall investor confidence shifting towards the debt market, as evidenced by the oversubscription of the Government's debut Eurobond issue. The U.S.$500 million 6.75 per cent. Notes due 2021 was issued by the DMO on 21 January 2011, and was admitted to trading on the London Stock Exchange on 31 January 2011. The issue was oversubscribed by 250 per cent. by investors from about 18 countries, including Europe, America, Asia and Africa. The domestic debt market was also active, with state governments and some corporate raising finance through bond issuances. The equities market as at year end 31 December 2011 was trading negatively at a 16.31 per cent. year-to-date loss. However the market gained 35.5 per cent. as at year end 31 December 2012.

As witnessed in 2011, interest in the debt market and general fixed income securities has remained dominant. The DMO has raised approximately ₦850 billion through the issuance of FGN Bonds in 2012. State governments and government parastatals have also raised capital through the debt capital markets including the ₦20 billion 14.5 per cent 2018 bond issued by Ekiti State and the ₦6 billion 17.25 per cent 2017 bond issued by the Federal Mortgage Bank of Nigeria.

In 2012, the Nigerian equity market benchmark defied weakening economic growth and tight monetary policy environment. With an approximately 3.8 per cent. appreciation of the local currency (Naira) against the U.S. Dollar, the NSE Index gained 39.5 per cent. in dollar terms, ranking third best performing equity market in Africa.

In 2013, the Nigerian All Share Index grew 30.97 per cent. from January 2013 to June 30 2013 The capitalization of listed equities grew 26.7 per cent. in the year to 30 June 2013 from ₦9.1 trillion to ₦11.5 trillion. The inclusion of the FGN Bonds on the JP Morgan and Barclays Emerging Market Bond Indices resulted in significant inflows of foreign direct investment leading to a 600bps shrink in yields from August 2012 to March 2013. The yields have subsequently picked up on the back of the sell offs from foreign investors due to extended periods of quantitative easing by the United States Federal Reserve Bank. Some factors which have had a positive effect on investor confidence in the capital markets include sector reforms such as the introduction of sectoral indices, enhanced used of technology to improve trade efficiency, improved trading platforms and the adoption of IFRS financial reporting.

External Sector and Foreign Reserves

Nigeria's external sector, like most economies, was under pressure during the global financial crisis and this was reflected in the decline in foreign reserves, capital withdrawals by portfolio investors and a lower trade balance. Despite the pressure, combined monetary policy actions and exchange rate management resulted in a current account surplus, which represented 7.9 per cent. of GDP in 2011 compared to 13.65 per cent. of GDP in 2009.

At the beginning of 2009, Nigeria's foreign reserves stood at U.S.$52.8 billion and the Excess Crude Account at U.S.$15.0 billion, creating a significant buffer against adverse economic and foreign exchange movements. By the end of the year, foreign reserves had declined by 26.7 per cent. to U.S.$42.5 billion while the external crude oil account balance declined by 56.7 per cent. to U.S.$6.5 billion due to reduced foreign exchange earnings from oil and the subsequent dependence on the Excess Crude Account to fund budget deficits. Foreign reserves picked up in the fourth quarter of 2009 due to increased oil production coupled with higher oil prices, with over U.S.$3.0 billion added in October 2009 alone. However, as at March 2010, foreign reserves further retreated to U.S.$41 billion after hovering between U.S.$42 billion and U.S.$43 billion in the first quarter of 2010. Foreign reserves retreated even further in the second quarter opening the period at U.S.$41.5 billion and closing at U.S.$38.2 billion. As at 31 December 2012, foreign reserves were at U.S.$44.18 billion. Also, according to the CBN, as at June 28, 2013, foreign reserves were at U.S$48.04 billion.

Foreign Exchange

Exchange rates prior to the recession were relatively resilient with the Naira strengthening to a high of ₦115.80 in May 2008 against the U.S. dollar. However, the reduction in external reserves due to the sharp decline in oil prices following the global financial crisis put significant strain on the Naira, which led to its subsequent devaluation, as well as an increased demand for foreign currencies.

In a bid to provide support for the Naira, the CBN has since 2009 established a price band for the Naira at +/-3 per cent. of ₦150 to the U.S. dollar. Subsequently, the CBN discontinued the retail Dutch auction system (the "**rDAS**") and re-introduced the wholesale Dutch auction system ("**wDAS**") under which the banks could bid for foreign currencies for themselves as well as on behalf of their customers, which restored some stability in the foreign exchange market.

However, with increasing uncertainty in the global economy recently, the Naira has come under intense pressure in the face of declining oil prices and foreign reserves, increased demand for foreign currencies, increased government expenditure and capital flow reversals. In October 2011, the CBN's MPC increased its benchmark interest rate, the MPR, by 275 basis points from 9.25 per cent. to 12 per cent. and implemented several tightening measures, such as reducing the limit on banks' net open position from 5 per cent. to 1 per cent. and increasing the cash reserve requirements from 4 per cent. to 8 per cent., with the intention that these measures will help to achieve the CBN's monetary policy goals for the Naira. On 21 November 2011, in order to support economic growth in Nigeria, particularly in light of the continued uncertainty in the global economy, the CBN devalued its target rate for the Naira to ₦155:U.S.$1 but maintained the +/- 3 per cent. price band. As at 31 December 2012, the exchange rate was ₦155.27:U.S.$1.

Inflation

Over the period from 2003 to 2007, the inflation rate dropped steadily from a high of 23.7 per cent. (year-on-year) in 2003 to a record low of 4.2 per cent. as at October 2007. The annual inflation rate rose to 6.6 per cent. as at 31 December 2007, and further to 15.1 per cent. as at 31 December 2008. Whilst it moderated slightly during the course of 2009, the inflation rate rose again to 13.9 per cent. as at 31 December 2009, reflecting an increase in demand pressure due to fuel shortages linked to the speculation that petroleum product prices would be deregulated. In June 2010, the NBS changed its base year from May 2003 to November 2009 and re-weighted the CPI, reducing the weight of food in the inflation basket from 63.8 per cent. to 50.7 per cent. The intention was to provide for a more precise and accurate measure of inflation and is expected to result in an overall reduction in the inflation rate, given the impact of food prices when measuring the rate of inflation. Despite this, the changes in the CPI calculation resulted in an upward revision of the inflation rate in June 2010 from 10.3 per cent. to 14.1 per cent., although this upward revision was attributed to the increase in the standard of living in Nigeria from May 2003 to November 2009, due to a growing middle class, which translated to higher prices of goods and services. The year-on-year headline inflation rate remained at double digits throughout the second half of 2010. It closed at 11.8 per cent. at 31 December 2010, compared with 14.1 per cent. in June 2010 and 13.9 per cent. in the corresponding period of 2009. The high inflation rates during the review period were partly attributed to structural factors and the rebased and enlarged index of consumer prices in November 2010 to reflect current consumption patterns in the economy. The recent reforms that have strengthened monetary management have gradually helped to curb inflationary pressure, with the inflation rate (the headline Composite CPI) reducing to 10.3 per cent. year-on-year in December 2011, according to the NBS. This is a 2.5 per cent. drop from the year's high of 12.8 per cent. recorded in March 2011.

The drivers of inflation in Nigeria for 2012 were mixed, with food prices (50.7 per cent. of the CPI basket) and core inflation averaging 11.8 per cent. and 14.1 per cent. respectively in the first half of 2012. Food prices have been influenced largely by a supply shortage driven by the time lag between planting and harvesting of major crops and the civil insecurity in the food producing northern states, which has led to farmland assets being destroyed in some areas and hampered food distribution to other parts of the country. Core inflation peaked at an all-time high of 15.2 per cent. in June 2012 driven by the 49 per cent. increase in fuel prices in January 2012 and the implementation of higher electricity tariffs.

In 2012, the headline inflation rate showed a general downward trend and peaked at 12.9 per cent. (significantly lower than the NBS forecast of 14.9 per cent.) despite a number of significant economic challenges. The average rate for the year stood at 12.2 per cent. Data from the NBS indicates that from 12.6 per cent. recorded in January, the rate initially rose to 12.9 per cent. in April before first slowing to 11.3 per cent. between June and September, then rising again to 12.3 per cent. in November before finally falling slightly to 12.0 per cent. in December. The partial removal of fuel subsidies early in the year, the devastating flood in the second and third quarters and seasonal effects were the major causes of the spikes in the inflation rate. Similarly, the CPI also trended downwards, from a peak of 13.1 per cent. in January to 10.2 per cent. in December, with food price increases which, were fuelled by higher transport costs and international food prices, partially exacerbated by the floods which occurred in the later part of 2012. On a year-on-year basis, the inflation rate increased to 9.1 per cent. in April of 2013 from 8.6 per cent. recorded in March 2013 as a result of higher food prices due to the effect of declining inventories as last year's harvest is depleted.

Interest Rates

In a bid to restore liquidity and boost lending in the economy, the CBN reduced the MPR, the benchmark for all other interest rates, to 6.0 per cent. in July 2009, down from 8.0 per cent. in June 2009. The CBN made very minimal changes to the rate in 2010 in order to avoid slowing down the pace of economic recovery, with the MPR remaining constant for most of 2010, at 6.0 per cent., rising to 6.25 per cent. on 21 September 2010 and remaining there for the rest of the year. The MPC raised the MPR by 25 basis points in January 2011, by 100 basis points in March 2011, by 50 basis points in May 2011, by 75 basis points in July 2011, by 50 basis points in September 2011 and by 275 basis points in October 2011, signalling a tightening of monetary policy further in response to increasing inflationary pressures and to support the Naira. As at 21 May 2013, the MPR stood at 12.0 per cent. As at the same date, the spread on a CBN standing lending facility was approximately 200 basis points above the MPR, while the rate on a CBN standing deposit facility was at 200 basis points below the MPR.

In the second half of 2010, aggregate bank lending/credit within the domestic economy increased by ₦350.03 billion, or 4.06 per cent., to ₦8,962.97 billion, compared with the 8.97 per cent. increase in lending recorded in the first half of 2010. The overall growth in bank credit for 2010 was considerably lower, 13.40 per cent., than the 59.61 per cent. recorded in 2009, and fell substantially below the prescribed CBN target of 51.43 per cent. for 2010. This decrease in the rate of growth was largely attributed to a decrease in lending to the private sector, in favour of lending to the Government.

THE NIGERIAN BANKING SECTOR

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According to data from the CBN, total Nigerian banking industry assets grew by 20 per cent. to ₦19.4 trillion as at 31 December 2011 compared to 31 December 2010. Total deposits (inclusive of foreign currency) also increased to ₦11.5 trillion as at 31 December 2011, from ₦9.8 trillion as at 31 December 2010. NPLs, as a proportion of total loans were 36.0 per cent. as at 31 December 2009, compared with 5.6 per cent. in 2008. Subsequent to the AMCON acquisition of NPLs on 31 December 2010, the industry NPL ratio dropped to 16 per cent. of the total loans and dropped further to 4.8 per cent. by end of 2011. The CBN set a target across the sector for NPL levels of 5 per cent. by 31 December 2011.

However, only some banks (including the Bank) have achieved this target. Banks who have NPL levels above 5 per cent. are required to either sell those excess NPLs to AMCON or write off the excess. AMCON has announced that it will no longer purchase NPLs; as such it is to be expected that the percentage of NPLs held by many banks in the industry will rise. There were 22 deposit money banks in operation in Nigeria as at 30 June 2013.

Retail lending penetration in Nigeria remains significantly lower than that of other countries, with such lending around 0.1 per cent. of GDP as at 31 December 2011 and the economy is broadly cash based, although the CBN commenced the pilot phase of a cashless policy in Lagos in 2012, and it is intended that the policy will be extended it to Abuja and five other states in October 2013. The CBN recently disclosed that the total value of electronic funds transfer in the country had risen significantly to approximately N80 billion per day in May 2013, primarily due to the growing acceptance in Nigeria of the cashless policy. Trade and oil & gas finance, structured debt for infrastructure projects, cash management for large corporates and electronic banking are key areas for growth for the banking sector generally. Nigeria's underdeveloped retail market is considered to be a long term market opportunity and many industry players have shifted their focus to establishing consumer risk assets with higher yields.

Supervision and Regulation of Banks in Nigeria

The major regulators of Nigeria's financial sector are the Central Bank of Nigeria ("**CBN**") and Nigerian Deposit Insurance Corporation ("**NDIC**"). Since January 1999, the CBN has acted autonomously from the Nigerian Federal Ministry of Finance ("**FMF**") (which formerly supervised the CBN) and now has the power to formulate and implement monetary and exchange rate policies. The principal governing body of the CBN is its board of directors which consists of the Governor of the CBN, who acts as Chairman, four Deputy Governors and six non-executive board members including, the Accountant General of the Federation, the Permanent Secretary of the FMF and four directors. Each Deputy Governor overlooks one directorate of the CBN. The directorates are Operations, Corporate Services, Financial System Stability, Governors and Economic Policy.

There are four departments under the remit of the Financial System Stability Directorate: banking supervision, financial policy and regulation, development finance and other financial institutions supervision. The functions of the Financial System Stability Directorate includes supervision of banks, and this involves amongst others, on-site examination of banks, especially in relation to their financial condition, internal control systems, reliability of information provided and compliance with corporate governance codes. The CBN also monitors trends in the banking sector, and generates industry reports on a monthly and quarterly basis, evaluates the development of the finance sector and monitors other financial institutions. Activities such as changes of auditors, announcements of audited financial statements, opening of branches, and changes in control and appointments of directors by banks are subject to the prior approval of the CBN.

As the regulator of the Nigerian banking sector, the CBN intends to introduce a more robust and risk sensitive supervisory framework in line with global best practice, including greater collaboration among the financial sector regulators and supervisory agencies. The aim is to facilitate the evaluation of the banking industry as a whole through stress-testing and other methods and to bring to the attention of regulators the risks which the operations of each entity within the industry could bring to the sector as a whole to allow regulators to take proactive remedial actions.

The CBN's monetary policy mandate encompasses issuing currency (Naira and kobo), the maintenance of Nigeria's external reserves, promoting and maintaining monetary stability and a sound and efficient financial system, and acting as both banker and financial adviser to the federal government and the banker and lender of last resort to commercial banks.

The CBN is also the agency of the government which maintains general surveillance over the Nigerian foreign exchange system. It licenses authorised dealers who are licensed banks which may deal in foreign exchange. By virtue of Section 1(2) of the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act, the CBN may also make regulations from time to time pertaining to foreign exchange.

The NDIC, established pursuant to the Nigerian Deposit Insurance Corporation Decree No. 22 of 15th June 1988, insures all deposit liabilities of licensed banks and other financial institutions operating in Nigeria. The NDIC guarantees payments to depositors in case of imminent or actual suspension of payments by insured banks or financial institutions up to the maximum amount of ₦200,000.00 per depositor for primary mortgage institutions and micro finance banks, and ₦500,000.00 per depositor for deposit money banks. The NDIC is also mandated to assist monetary authorities in the formulation and implementation of banking policy in Nigeria so as to ensure sound banking practices and promote fair competition among banks in Nigeria. It also plays a major role in co-ordinating with the CBN in the liquidation of banks in Nigeria. The powers and functions of the NDIC are stated in the Nigeria Deposit Insurance Corporation Act No 16 of 2006 which repealed the Nigeria Deposit Insurance Corporation Decree of 1988.

Banking Sector Reform—2004-2009

Pursuant to its 13-point agenda aimed at reforming the banking industry, the CBN introduced a number of reforms in July 2004, including a requirement that all banks raise their minimum capital base from ₦2.0 billion to ₦25.0 billion by 31 December 2005. Banks that failed to meet these capitalisation requirements by 31 December 2005 had their licences revoked. This led to numerous capital raisings and mergers and acquisitions, and reduced the number of banks operating in Nigeria from 89 to 25. In 2007, the first post-CBN mandated consolidation was completed, with Stanbic Bank Nigeria Plc (wholly-owned by The Standard Bank of South Africa) merging with IBTC Chartered Bank, thereby reducing the number of banks in Nigeria to 24. The result was a leaner and more highly capitalised banking sector consisting of 24 deposit money banks with enhanced capacity for rapid asset growth and branch expansion.

The 2005 consolidation spurred an unprecedented growth in the Nigerian banking sector, with a 27 per cent. 7-year CAGR in total assets to ₦19.4 trillion in 2011 (52 per cent. of the nominal GDP). Buoyed by the supportive deposit base (33 per cent. CAGR to ₦11.5 trillion in 2011) and seasoned equity additions, the industry's loan book quadrupled to ₦6.1 trillion between 2005 and 2011 (a 24 per cent. compounded annual growth). Whilst banks were still relatively averse to the retail market, the consolidation paved way for retail lending, with increased focus on consumer finance and payroll-backed lending. The increased capital base afforded continuous branch expansion, with an estimated footprint of 5,348 branches in 2011, from 3,367 in 2005.

However, March 2008 marked a turning point for the economy, when the first signs of the effect of the global economic downturn on Nigeria became visible. Brent crude oil prices fell from a high of U.S.$143.95 per barrel on 3 July 2008 to U.S.$33.73 on 26 December 2008, according to data from the EIA, triggering a decline in equity prices as foreign investors reduced their exposures. The effect on the Nigerian banking sector was especially significant due to its considerable exposure to the oil & gas industry and the capital markets through margin lending. Exposure to the capital markets in the form of margin loans to operators and individuals stood at approximately ₦900 billion as at 31 December 2008, representing approximately 12 per cent. of aggregate credit (39 per cent. of shareholders' funds of the Nigerian banking sector). As at the same date, the banking sector's total exposure to the oil and gas industry was in excess of ₦754 billion, representing over 10 per cent. of aggregate credit (27 per cent. of shareholders' funds). The economic downturn, combined with underdeveloped credit and risk management procedures as well as lax regulatory controls, led to a significant impairment in asset quality, severe capital erosion, reduced liquidity, and a decline in earnings due to elevated credit impairment charges and the slowdown in credit disbursements. The global financial crisis and the resulting decline in the Nigerian equities market in 2009 resulted in significant provisions and high NPLs at a number of Nigerian banks.

The asset quality and liquidity problems created concerns about solvency. The CBN, under Governor Chukwuma Soludo, embarked on a number of initiatives to reduce counterparty risk concerns and improve liquidity in the sector. These initiatives included:

- reducing the MPR to 8 per cent.;
- reducing the liquidity ratio requirement from 40 per cent. to 25 per cent.;

- reducing the cash reserve requirement from 4 per cent. to 1 per cent.; and
- expansion of CBN's discount window (the "**Expanded Discount Window**") in October 2008 to provide banks with access to funds for longer terms and to accommodate money market instruments such as
- Bankers' Acceptances and Commercial Papers.

Other key initiatives pioneered by the then CBN governor include:

- deepening of micro credit via introduction of microfinance and community banks;
- replacing the retail Dutch Auction System ("**rDAS**") with the wholesale Dutch Auction System ("**wDAS**") for Nigerian FX market regulation;
- introducing the universal banking model; and
- building the initial framework for the establishment of the AMCON.

Towards the end of Soludo's term in June 2009, a cloud of uncertainty dominated the banking sector. Given a general lack of transparency, the troubling symptoms in the banking sector began to spread to other areas of the Nigerian economy, thus weakening macroeconomic conditions through rising interest rates, Naira depreciation, 4-year low bank valuations, reduced lending to the real estate sector and loss of investor confidence.

Banking Sector Reform—2009 to date

The current Governor of the CBN, Sanusi Lamido Sanusi, was appointed in June 2009. The CBN's first action under the leadership of Sanusi was to close the Expanded Discount Window in July 2009 and instead provide guarantees for all inter-bank placements. Notably, 90 per cent. of the total disbursements under the Expanded Discount Window between its opening and close were to five banks: Afribank, Finbank, Intercontinental Bank, Oceanic Bank and Union Bank, who were also the main net takers under Soludo's Expanded Discount Window arrangement. This prompted the CBN and NDIC to carry out a Special Examination of the 24 deposit money banks regarding their liquidity, capital adequacy and corporate governance issues. The examination was carried out in two phases, and phase one found the five above mentioned banks to be in a 'grave situation' as defined in the BOFIA, under-capitalised with insufficient liquidity and poor corporate governance, characterised by the following:

- NPLs representing 40 per cent. of their total loan portfolio;
- Failure to meet the minimum liquidity requirement and capital adequacy ratios of 25 per cent. and 10 per cent. respectively;
- Weak corporate governance and risk management; and
- A significant loan portfolio concentration in capital market and oil and gas portfolio exposure.

In order to prevent further deterioration in these five banks, the CBN replaced the executive management in each bank and injected a total of ₦420 billion into the five banks.

At the conclusion of the second phase of the examination in September 2009, an additional five banks were found to be in varying degrees of distress, prompting the CBN to offer an additional ₦200 billion liquidity support in the form of Tier 2 capital. Of those five banks, four were found to be in a grave situation, namely ETB, Bank PHB, Spring Bank and Wema Bank. As with the initial five banks, the executive management of ETB, Bank PHB and Spring Bank were removed. Wema Bank changed its management in June 2009 prior to the Special Examination by the CBN, following which the new management was given until June 2010 to recapitalise the bank. Unity Bank was judged to have sufficient liquidity but fell short of the statutorily required capital adequacy amount. Accordingly, the CBN ordered Unity Bank to re-capitalise before June 2010. The CBN subsequently extended the grace period for compliance for both banks to October 2010. Both Wema Bank and Unity Bank successfully recapitalised by the October 2010 deadline. In the process leading to recapitalisation, Wema Bank raised ₦7.5 billion through a special placement offer and in addition, recovered ₦4 billion from debtors, while Unity Bank raised ₦17.3 billion through a rights issue to shareholders. To further ensure stability in the banking sector and increase lending capacity, the CBN announced in March 2011, that it would offer additional liquidity support to the banking sector through the provision of term loans, totalling ₦200 billion, for re-financing and restructuring loans issued by banks to the Nigerian manufacturing sector.

The CBN subsequently revoked the licenses of three of the Intervened Banks, Afribank, Bank PHB and Spring Bank for failure to show the necessary capacity and ability to recapitalise before the September 2011 deadline. Consequently, the NDIC, in the interest of depositors and to prevent possible liquidations, transferred the assets and certain liabilities of these three banks to newly formed Bridge Banks established pursuant to the provisions of the Nigeria Deposit Insurance Corporation Act No. 16 of 2006; the assets and liabilities of Afribank, Bank PHB and Spring Bank were transferred to Mainstreet Bank Limited, Keystone Bank Limited and Enterprise Bank Limited, respectively. The NDIC entered into Purchase and Assumption Agreements with each of the new bridge banks pursuant to which the bridge banks acquired the assets and some liabilities of the relevant ailing banks. Subsequently, AMCON acquired the majority shares in the bridge banks by virtue of a Share Subscription Agreement with the banks, which also resulted in the termination of the bridge bank status of the said banks.

Overall, the CBN's rationale for intervening was to resolve the immediate liquidity challenges in the country's banking system and to restore stability and confidence to the banking sector. In total, the CBN injected ₦620 billion of Tier 2 capital into the eight Intervened Banks as well as Wema Bank and Unity Bank, whilst stimulating liquidity across the sector by reducing statutory limits and guaranteeing inter-bank placements. To increase transparency, in September 2009 the CBN ordered all banks to report their results for the nine-month period ended 30 September 2009 under a prescribed pro forma, which aimed to ensure adequate and consistent levels of disclosure. To date, there has been no run on the Intervened Banks and interbank rates have dropped significantly in response to the CBN guarantee and related liquidity stimuli, although such rates have rebounded on the back of monetary tightening following the relative stability of the banking system.

To manage the effects of its intervention, the CBN is facilitating the recovery of NPLs of the affected banks. Furthermore, in October 2010 the CBN repealed the universal banking guidelines which had been in operation since 2000 and issued new rules and guidelines for the banking licenses regime titled "Regulation on the Scope of Banking Activities & Ancillary Matters," No. 3, 2010. The new rules, according to the CBN, are aimed at streamlining banking operations in Nigeria as well as reducing the exposure of the banks to higher operational risks. Henceforth only commercial banks, merchant banks, and specialised banks, which include non-interest banks, microfinance banks, development banks and mortgage banks, will be permitted to carry out banking businesses in Nigeria.

The new regulation, which was issued by the CBN Governor Sanusi Lamido Sanusi, also stated that no bank shall establish, maintain or permit to exist, any related enterprise except pursuant to Sections 21(1) and 22(1) of BOFIA and that such related enterprise is a banking institution incorporated outside Nigeria with the permission of the CBN and such related enterprise is a company jointly established by two or more banks with the approval of the CBN for the purpose of promoting the development of the money market or improving the delivery of banking services in Nigeria.

This rule effectively required banks to divest from all non-banking business or to adopt a non-operating holding company structure in compliance with the regime by 30 September 2012 (although this deadline was extended to 31 December 2012 for some banks, and the CBN has granted an extension to certain banks on a case-by-case basis). Under the new regime, banks were required to make a business case to their stakeholders towards deciding which structure to adopt going forward (namely, the non-operating holding company or complete divestment structures). In addition, all existing universal banks were required to submit their plans on compliance with the new banking regime to the CBN not later than 90 days from 15 November 2010 or, in the case of Intervened Banks, following the agreement of acquisition terms with any strategic investors (which all Intervened Banks had been asked to seek). Whilst four banks, including the Bank, resolved to operate holding company structures, which allow them to keep non-core banking subsidiaries, a number of banks, have concluded or are in the process of divesting non-core banking activities. Under the new rules banks are also required to maintain a minimum paid up share capital of N10 billion for institutions granted a regional banking license, N25 billion for institutions granted a national banking licence and N50 billion for institutions granted an international banking licence.

Weaknesses in the Nigerian financial system and banking sector prompted the CBN, in 2010, to implement additional initiatives to reform the Nigerian financial system and, in particular, the banking sector, through the "Project Alpha Initiative", predicated on a 4-pillar policy framework of: enhancing the quality of banks, establishing financial stability, allowing for a healthy financial sector evolution and ensuring that the financial sector contributes to the real economy. Key interventions under the fourth pillar have been the ₦200 billion Commercial and Agricultural Credit Scheme and the ₦300 billion Power and Aviation Intervention Fund administered through the BOI, a development financing institution in Nigeria, to stimulate the economy. The CBN also established the small and medium enterprises credit guarantee scheme ("**SMECGS**") for promoting access to credit by SMEs in Nigeria. Other sector-specific initiatives were also introduced, including in agriculture where the CBN introduced several financing schemes such as the ₦200 billion Commercial Agriculture Credit Scheme, as well as in power and aviation. The new regulation is also intended to produce greater transparency and disclosure.

Following the banking sector reforms, the CBN has implemented or is in the process of implementing a number of changes to banking regulations, including:

- a requirement for banks to prepare Annual IFRS Financial Statements, beginning from 1 January 2012;
- the termination in 2009 of the CBN's policy limiting aggregate foreign investment in any Nigerian bank to 10 per cent. of the bank's total capital;
- limits on the tenures of a bank's chief executive officer to ten years of two terms of five years each, effective as of January 2010;
- a requirement for banks to rotate their external auditors every ten years and not re-appoint them until after a period of ten years has passed. The Group is in compliance with this requirement;
- reversal of the universal banking regime and a requirement for Nigerian banks to divest nonbanking businesses or restructure their banking groups under a holding company structure. This has resulted in the Group restructuring its banking groups under a holding company structure which was completed in 2012. See "*Business Description—Compliance with Central Bank of Nigeria's Regulation on the Scope of Banking Activities*".;
- the signing by the CBN of multilateral agreements with cross border regulators, in order to enhance the regulation of Nigerian banks that have an international presence;
- a mandatory requirement for all deposit taking banks to perform annual appraisals of their board members to ensure that the Board is informed of the latest trends and information in the banking industry so as to make effective decisions on behalf of the shareholders.
- the introduction by the CBN of electronic banking, generally referred to as "cashless policy", in Nigeria with a pilot commencement in the commercial centre, Lagos State. It is expected that the policy will be effective Abuja (the Federal Capital Territory) and five other states across the country in October 2013, with the intention that the policy would eventually be rolled out to other regions across the country. Pursuant to the cashless policy, daily cash withdrawals and deposit of individual and corporate customers are pegged at ₦500,000 and ₦3 million respectively, with penalties for carrying out cash transactions beyond the set limits. Cash in transit lodgment services rendered by Nigerian banks to merchant customers were also discontinued;
- the reduction by the CBN of the foreign exchange net open position limit from 3 per cent. to 1 per cent. in July 2012 in a bid to stabilize the Naira which has been pressured by the fall in crude oil prices; and
- The additional "know your customer" requirements by the CBN that banks ensure their customers who are "designated non-financial institutions" (which include dealers in jewellery, cars and luxury goods, supermarkets, hotels and casinos) are registered with the Special Control Unit on Money Laundering of the Federal Ministry of Trade and Investments prior to establishing a business relationship with them.

The Asset Management Corporation of Nigeria

The AMCON Bill was signed into law by President Goodluck Jonathan on 19 July 2010. AMCON was established to acquire the NPLs (including margin loans) of Nigerian banks. AMCON was created as a resolution vehicle to assist deposit money banks in Nigeria to improve their capital and liquidity positions, with the ultimate aim of stabilising the financial system. Under the provisions of the Asset Management Corporation of Nigeria Act No. 4 of 2010 (the "**AMCON Act**"), AMCON should have a capital base of up to U.S.$67 million which will be jointly funded by the Nigerian Federal Ministry of Finance ("**FMF**") and the CBN. To achieve its objectives, AMCON is expected to engage with the debtors of all Nigerian banks, with a view to taking over their NPLs, and restructuring such loans by negotiating more favourable terms of repayment with the debtors. AMCON will also appoint asset managers to manage and seek the best returns on the underlying collateral with a view to minimising costs to the Nigerian government in the event that the debtors cannot redeem the debt. Initially, AMCON had a proposed ten-year time frame in which to conduct these activities, however the AMCON Act grants it an indefinite life as a going concern.

In November 2010, in accordance with the AMCON Act 2010, which granted AMCON the power to issue debt securities with maturities up to 7 years, or any other tenor as may be prescribed by the CBN, AMCON announced plans to issue up to ₦3 trillion, approximately U.S.$20 billion of three-year, zero-coupon bonds (the "**AMCON Bonds**"), to finance the purchase of the NPLs from the 21 EFIs that chose to participate in the AMCON scheme in the first round. The AMCON Bonds have the credit guarantee of the Federal Government of Nigeria as set out in the AMCON Act 2010. The proceeds from the sale of the AMCON Bonds were to be used to purchase approximately ₦2.48 trillion aggregate principal amount of NPLs at a discounted purchase price of just under ₦854 billion, which was intended to reflect the valuation assigned to those NPLs after making certain adjustments depending on the nature of the collateral backing of the relevant NPLs. In addition, pursuant to the guidelines issued by AMCON in November 2010, AMCON has a period of 12 months (from the date of purchase of the relevant NPLs) to undertake an independent review of the valuation assigned to the relevant collateral backing the NPLs that AMCON purchased. To the extent that a lower value is assigned to those NPLs (as a result of the relevant collateral being assigned a lower value) following the review process than originally indicated at the time AMCON purchased the relevant NPLs or AMCON is not able to assume ownership of such collateral free and clear of encumbrances or liens having priority over the security interest of the relevant bank in such collateral, AMCON could ask the relevant bank to make up the difference to AMCON or repurchase the relevant NPLs.

At completion of the first stage of this process, on 31 December 2010, AMCON issued ₦1.04 trillion principal amount of Initial Consideration Bonds ("**ICB**"), with net proceeds of ₦854 billion, to 21 Nigerian banks, (Citibank Nigeria, ETB and Standard Chartered Nigeria elected not to participate) in consideration for margin loans of all these 21 banks and non-performing, non-margin loans of Intervened Banks. AMCON executed loan purchase and service agreements with the 21 banks to acquire NPLs with a face value of ₦2.48 trillion for just under ₦854 billion representing an estimated 80 per cent. of the banking industry NPLs, and to purchase margin loans from each of the 21 banks. 92.5 per cent. of the purchased NPLs were from the eight Intervened Banks with the remaining balance of 7.5 per cent. from the other Nigerian banks.

On 6 April 2011, in completion of its Series I bond issuance, AMCON issued an aggregate of ₦1.68 trillion additional AMCON Bonds (which are tradable and listed on the NSE) in three tranches with face values of approximately ₦1.15 trillion, ₦17.6 billion and ₦516.9 billion respectively. The first tranche of bonds (Tranche I) were issued to be swapped with and replace the ICBs issued on 31 December 2010. Unlike the ICBs which were not tradable and therefore not liquid, the Tranche I bonds are registered and tradable. Tranche II of the bonds was issued for price discovery purposes, in an attempt to determine the market price and yield for future issuances (including the Tranche III bonds). Tranche III was issued for the purpose of acquiring additional NPLs from the 22 participating Nigerian banks (Citibank Nigeria and Standard Chartered Nigeria elected not to participate). In addition, AMCON has also issued Series II, III, IV and V, all of which are due to mature in 2014.

AMCON, in anticipation of providing further financial accommodation to Intervened Banks, held an extraordinary general meeting of its bondholders on 20 September 2011, at which an increase in the shelf value of its bond issuance programme from ₦3 trillion to ₦4.5 trillion was approved. The increase was intended to create sufficient head room to accommodate the issuances of AMCON bonds to Intervened Banks for the purposes of providing additional financial accommodation bonds to them. In consideration for issuing such bonds, AMCON received a certain proportion of shares in the capital of the relevant Intervened Banks.

AMCON's Tranche I bonds have a yield of 10.125 per cent., while Tranches II and III each have a yield of 11.8 per cent. On 21 April 2011, AMCON listed its Series I bonds on the NSE for active trading. The bonds can be purchased by all Nigerian banks, qualified institutional investors such as pension fund administrators and high net worth individuals. The bonds are registered and tradable OTC and on the Nigerian Stock Exchange.

Also, in July 2010 the CBN agreed with the then existing 24 deposit money banks in Nigeria to establish a sinking fund, the Banking Sector Resolution Cost Sinking Fund, to cover any net deficits incurred by AMCON. Each such Nigerian bank agreed to contribute, for each of the next ten years, 0.30 per cent. of its total assets as at the date of its audited financial statements for the immediately preceding financial year to the sinking fund. The Bank made its first payment of approximately ₦2.22 billion on 12 July 2012 in response to a CBN request made 23 May 2012, and was based on the Bank's audited total assets as at 31 December 2011. The CBN will contribute ₦50 billion per year to the sinking fund. AMCON intends to use the sinking fund, plus recoveries earned on the NPLs purchased from the banks, proceeds from the sale of its holding in the Intervened Banks, as well as the acquired Bridge Banks, and foreclosures of collaterals of debtors who cannot redeem their debt, to repay the AMCON Bonds at maturity. The memorandum of understanding between the CBN and the relevant Nigerian banks for the "Banking Sector Resolution Cost Sinking Fund", which set out the above arrangements, was signed in January 2011. The sinking fund is managed by a board of trustees independent from AMCON and the fund constitutes up to 65 per cent. of AMCON's cash flows.

To give the sinking fund legislative backing, in July 2011, the Asset Management Corporation of Nigeria (Amendment) Act Bill 2011 was introduced in the House of Representatives. The Bill seeks to amend the AMCON Act by providing for the establishment of the Banking Sector Resolution Cost Fund with a lifespan of ten years extendable by the Senate upon request from the CBN. The Bill also provides for the establishment of a board of trustees with representatives from the CBN, the Federal Ministry of Finance, the DMO and five financial institutions, for the management and administration of the fund. The Bill provides for annual contributions of ₦50 billion by the CBN and an amount equal to 0.30 per cent. of total assets of every licensed bank, as at the date of its audited financial statements, subject to a maximum amount of ₦1 trillion (from all the banks) and ₦500 billion from the CBN. The Bill was referred to the banking committee of the House of Representatives, and the recommendations of the banking committee were adopted by the full House in September 2011. The Bill currently awaits its third reading and the final passing by the House of Representatives.

In April 2013, another Bill, the Asset Management Corporation of Nigeria (Establishment Act) (Amendment) Bill 2013, was presented before the Senate. The 2013 Bill, which currently awaits its second reading in the Senate provides for the establishment of a Banking Sector Resolution Cost Fund, into which, beginning in 2014, the CBN will contribute ₦50 billion yearly.

It is expected that both versions of the Bill will be harmonised after it has gone through the legislative process at the respective houses. Pending the enactment of the Bill into law, every licensed bank is required to contribute an amount equal to 0.50 per cent. of its total assets as of the date of its audited financial statements.

The Government estimates the total net cost to recapitalise the banks and recover the bad debts and NPLs will be between ₦1 trillion to ₦1.5 trillion, most of which the Government expects to recover from the Banking Sector Resolution Cost Sinking Fund, recoveries from the bad debts and NPLs and dividends paid on any equity capital injected into banks participating in the AMCON scheme.

In May 2013, AMCON announced a plan for repaying or refinancing its ₦5.7 trillion zero coupon Bonds maturing in 2013 and 2014. Due to successful NPLs recoveries and restructuring by AMCON, and the cooperation of the Nigerian banks in fulfilling their commitments to the sinking fund, AMCON is expected to be able to retire about ₦2.0 trillion of its Bonds during 2013 and 2014 and refinance approximately ₦3.6 trillion.

Non-Interest Banking

In 2011, the Central Bank of Nigeria issued the Guidelines for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services in Nigeria (the NIFI Guidelines). The NIFI Guidelines provide the framework for the provision of non-interest banking (particularly Islamic banking) services in Nigeria and the licensing of such institutions. The guidelines focus on non-interest financial institutions operating under the principles of Islamic jurisprudence. Non-interest banking has been the subject of debate in Nigeria, on whether its religious connotations aligns with the constitutional secularity of the country.

Credit Bureaux in Nigeria

Rising levels of NPLs in the banking sector, coupled with the lack of fully-developed credit bureaux and the need for a central database from which credit information on prospective borrowers could be obtained led to the establishment of the Credit Risk Management System ("**CRMS**") by the CBN. The CRMS aims to gather information on a borrower's credit history from various sources, and analyse the merged information to form a comprehensive credit history for the borrower, which helps in ascertaining the credit worthiness of the borrower. Previously, financial institutions in Nigeria had little information regarding the credit history of borrowers and principally relied on their own internal data, or shared data with other financial institutions as a business courtesy.

The CBN Act No. 7 of 2007 empowers the CBN to collect credit information on customers of banks and other financial institutions from any person or credit bureau, and to disclose such information collected as deemed appropriate. The Act also requires banks to obtain credit information from the CBN before granting a loan, advance or credit facility to any customer over ₦1 million or such other sums as may be set from time to time by the CBN. However, the Guidelines for the Licensing, Operations and Regulation of Credit Bureaux and Credit Bureaux Related Transactions in Nigeria issued by the CBN require banks to obtain credit reports from at least two credit bureaus before granting any facility to their customers.

Currently, the CRMS is web-enabled thus allowing banks and other stakeholders to directly access the CRMS database for the purpose of rendering the statutory returns or conducting status enquiry on borrowers.

In addition, the CBN has also licensed some private credit bureaux to provide credit information to banks and other entities that are registered with the bureau. By a letter dated 14 March 2013 the CBN informed all credit bureaux in Nigeria of its revision of the existing guidelines for licensing, Operations and Regulation of Credit Bureau and related transactions in Nigeria and released the exposure draft of the guidelines. Some of the proposed changes in the exposure draft include a requirement that a data provider give notice to all its customers of its duty to report positive and negative information to a licensed bureau. In addition, the draft provides that the consent of the customer who is the subject of the data will not be required where the credit report that is prepared is required by law. Furthermore, the draft guidelines seek to mandate banks to obtain credit reports for quarterly credit review from at least two credit bureaux.

Monetary Policy

In an effort to attain bank soundness and manage liquidity effectively, the CBN introduced in 2006 a new framework for monetary policy implementation in the marketplace using the short-term interest rate as its benchmark rate. The benchmark rate, the MPR, serves as an indicative rate for transactions in the inter-bank money market as well as money market rates. The ultimate goal of the new framework is to achieve a stable value of the Naira through stability in short-term interest rates around the MPR which will be determined and operated by the MPC. The MPR replaced the then-existing Minimum Rediscount Rate ("**MRR**"), and MPR was set at 10.0 per cent. using the then-current rate of inflation and the expected inflation rate outcome of 9.0 per cent. For the 2007 financial year as a guide to ensure that interest rates remain positive in real terms.

The main operating principle guiding the new policy was to control the supply of settlement balances of banks and motivate the banking system to target zero balances at the CBN, through an active inter-bank trading or transfer of balances at the CBN. The aim of this was to engender symmetric treatment of deficits and surpluses in the settlement accounts, so that for any bank, the cost of an overdraft at the CBN would be equal to the opportunity cost of holding a surplus balance with the CBN. Although the new regime of MPR has been in operation for some time, it was only in February 2008 that the CBN formally announced the removal of the MRR based framework, intended to confirm to banks that the previous policy restriction in bank lending rates has come to an end.

In 2009, the CBN revised the MPR downwards twice, from 9.75 per cent. to 8.00 per cent. in April 2009 and to 6.00 per cent. in July 2009. The MPR remained constant for most of 2010, at 6.0 per cent., rising to 6.25 per cent. on 21 September 2010 and remaining there for the rest of the year. In 2011, the Nigerian MPC raised the MPR six times consecutively, by 25 basis points in January 2011, by 100 basis points in March 2011, by 50 basis points in May 2011, by 75 basis points in July 2011, by 50 basis points in September 2011 and by 275 basis points in October 2011, signalling a tightening of monetary policy further in response to increasing inflationary pressures and to support the Naira.

The CBN has maintained the MPR at 12 per cent since 2011 in an effort to tighten money supply and arrest inflationary pressures in the economy. The next MPC meeting is scheduled to be held on 23-24 July 2013. As at May 2013, the MPR was 12.0 per cent.

The following table sets out changes in the MPR and the CBN's standing lending rate and standing deposit rates:

Effective from	Monetary Policy Rate	Standing Lending Rate	Standing Deposit Rate
		(%)	
1 April 2008	10.00	10.00	0.00
2 June 2008	10.25	10.00	0.00
18 September 2008	9.75	9.75	0.00
8 April 2009	8.00	8.00	0.00
7 July 2009	6.00	8.00	4.00
3 November 2009	6.00	8.00	2.00
2 March 2010	6.00	8.00	1.00
21 September 2010	6.25	8.25	3.25
23 November 2010	6.50	8.25	4.25
25 January 2011	7.50	8.50	4.50
22 March 2011	8.00	9.50	5.50
24 May 2011	8.00	10.00	6.00
26 July 2011	8.75	10.75	6.75
19 September 2011	9.25	11.25	7.25
10 October 2011	12.00	14.00	10.00

Other Policy and Regulatory Considerations

The CBN adopted a "Framework for Risk Based Supervision of Banks in Nigeria", aimed at encouraging individual banks to develop and continuously update their internal risk management systems to ensure that such systems are commensurate with the scope and complexity of the relevant bank's operations and also, to assist Nigerian banks with the implementation of Basel II. As a result, Nigerian banks have been directed to institute effective risk management systems to enable them to identify, measure, monitor and control risks in their institutions. In line with this framework, the Bank has adopted numerous risk management procedures and controls which it maintains and continuously reviews to further improve its internal systems and minimise the effect of these risks. The Bank is in compliance with the CBN Prudential Guidelines with respect to risk management and is in the process of upgrading its framework to be in compliance with Basel II, as implemented by the CBN.

The CBN has indicated its intention to start implementing Basel II during 2013 and, potentially, Basel III standards in Nigeria from 2014, with the aim for the new standards to apply across the Nigerian banking industry. However, the CBN has not yet issued guidelines for their implementation in Nigeria. In April 2013 the CBN issued a new circular reviewing the risk weight of certain industry exposures for the purposes of computing capital adequacy ratios. One of the measures introduced in the circular states that where a bank's exposure to a particular industry within a sector (as defined by the International Standard Industrial Classification of Economic Sectors issued by the CBN) is in excess of 20 percent of total credit facilities of a bank, the risk weight of the entire portfolio in that industry shall be 150 per cent.

Prudential Guidelines

As part of its initiative of enhancing the quality of banks in Nigeria and with a view to adhering to international best practices, the CBN issued revised prudential guidelines which came into effect on 1 July 2010. The CBN Prudential Guidelines revised the previous guidelines issued in November 1990 and aimed to address various key aspects of banks' operations such as risk management, corporate governance, know-your-customer, anti-money laundering, financing of terrorism and loan loss provisioning. The CBN Prudential Guidelines are required to be regarded as minimum requirements and licensed banks are required to implement more stringent policies and practices to enhance mitigation of risks. In addition to the CBN Prudential Guidelines, the CBN also prescribes certain mandatory ratios that must be maintained by Nigerian banks.

Mandatory Ratios	CBN Maximum/Minimum Mandatory Ratio Requirements
Cash reserve ratio/requirement	12.0 per cent. of deposits to be held at the CBN
Specified liquidity ratio	30.0 per cent. of deposits
Specified capital adequacy ratio	10.0 per cent. of risk weighted assets
Guaranteed BAS/CPS to shareholders funds	150.0 per cent. of shareholder's funds
Statutory minimum capital base	Minimum capital base (inclusive of reserves) of ₦10 billion for regional banks, ₦25 billion for national banks, ₦50 billion for international banks
Long term equity investments	25.0 per cent. of paid up capital and statutory reserves
Single exposure limit	20.0 per cent. of shareholders' funds unimpaired by losses
Statutory limit to a single obligor	331/3 per cent. of a bank's off balance sheet engagement
Large exposure limit	Total of all large exposures cannot exceed eight times shareholders' funds unimpaired by losses
Total outstanding exposure to all tiers of government and their agencies	10.0 per cent of total credit portfolio
FX Net Open Position	1.0 per cent of shareholders fund
Maximum asset exposure to public sector	10.0 per cent. of total loan book

The CBN Prudential Guidelines stipulate requirements that must be met by Nigerian banks with regard to classification of assets, disclosure, provisioning and interest accruals. They also set forth the minimum standards that Nigerian banks must meet in this regard, while encouraging banks to implement even more stringent requirements.

The CBN Prudential Guidelines also require licensed banks to review their credit portfolios at least once every quarter, and to provide in their audited financial statements an analysis of whether their credit facilities are performing or non-performing. Under the CBN Prudential Guidelines, a credit facility is deemed to be performing if payments of both the principal amount and interest sums are up-to-date in accordance with the agreed terms. A credit facility is considered to be non-performing if (i) interest or principal is due and unpaid for 90 days or more; or (ii) interest payments equal to 90 days interest or more have been capitalised, rescheduled or rolled over into a new loan. A non-performing credit facility is reclassified as performing only when the borrower pays the outstanding unpaid interest within 90 days. They also provide for a classification of non-performing credit facilities into sub-standard, doubtful and lost, depending on the number of days for which the principal amount and/or interest sums have remained outstanding. Assessment parameters in this regard include repayment performance and net value of collateral that can be realised.

The CBN Prudential Guidelines further specify that off-balance sheet engagements such as letters of credit, bonds and guarantees, indemnities and protracted litigation must also be properly appraised to determine the extent of any likely loss arising from them.

The CBN Prudential Guidelines prescribe a maximum tenure of ten years for the CEO of every bank. The Bank is in compliance with this directive, with its current CEO Bisi Onasanya scheduled to retire by May 2015 after serving two terms of three years each, which is the maximum tenure allowed under the Bank's rules. Under the CBN Prudential Guidelines, the CEO shall not qualify for appointment in his former bank or subsidiaries in any capacity until after three years following the expiration of his tenure as CEO.

Non-executive directors may serve a maximum of twelve years on the board of directors of a bank under the CBN Prudential Guidelines. Additionally, the CBN Prudential Guidelines require banks to rotate their firm of external auditors after the expiration of ten years following the auditors' appointment. The auditors shall not be reappointed until an additional ten year period has passed. The Bank will be required to change its auditors, PwC, by 2021, and PKF, by 2014, in compliance with this directive.

The Small and Medium Industries Equity Investment Scheme

Several challenges face SMEs in developing countries, the most significant of which is funding, as banks which constantly seek to minimise their risk profile are not very eager to fund SMEs. With a view to addressing this issue, the Bankers' Committee, a body comprised of chief executives from the CBN and other Nigerian banks, intervened in 2001 with the introduction of the Small and Medium Industries Equity Investment Scheme (the "**SMIEIS**").

The SMIEIS commenced in June 2001 as a government initiative for the promotion of SMEs as a vehicle for rapid industrialisation, sustainable economic development, poverty alleviation and employment generation. The SMIEIS sets forth a mandatory requirement that all banks licensed in Nigeria set aside 10.0 per cent. of their annual profit after tax for equity investment in SMEs. In July 2007, however, the CBN announced that participation in the SMIEIS programme would be optional going forward. The participants in the SMIEIS programme are the Nigerian government, the CBN, the Bankers' Committee and individual banks.

The SMIEIS aims to assist with the establishment of new small and medium scale projects in certain sectors of the economy including agriculture and allied industries, information technology and telecommunication, manufacturing, educational establishments, services, tourism and leisure, solid minerals, construction, and other sectors as determined by the Bankers' Committee.

The SMIEIS was cancelled in 2007 and in March 2010, the CBN established the SMECGS with the objectives of (i) promoting access to credit by SMEs and (ii) fast-tracking the development of the manufacturing SME sector of the Nigerian economy and setting the pace for industrialisation of the Nigerian economy. The CBN acts as the managing agent of the SMECGS and all deposit banks and development finance institutions are eligible to act as participating banks under the SMECGS. The maximum loan amount under the SMECGS is ₦100 million which can be in the form of working capital, overdrafts, term loans for refurbishments or equipment. The CBN provides 80 per cent. guarantee cover of the loan advanced by participating banks to each SMEs.

Legal and regulatory developments

The Government is in the process of implementing reforms in the oil and gas, power and shipping sectors, which may also have an impact on the Nigerian banking sector. Legislative initiatives behind these reforms include the Nigerian Oil and Gas Industry Content Development Act No 2 of 2010 ("**Nigerian Content Act**"), the Petroleum Industry Bill currently pending before both houses of the National Assembly and the Coastal and Inland Shipping (Cabotage) Act No. 5 of 2003 ("**Cabotage Act**"). The Nigerian Content Act was enacted in April 2010. Prior to the enactment of the Nigerian Content Act, local content promotion and development in the Nigerian oil and gas industry was loosely regulated. The Nigerian Content Act provides that all operators, contractors and other entities engaged in any operation, business or transaction in the Nigerian oil and gas industry requiring financial services shall retain only the services of Nigerian financial institutions or organisations, except where this is impracticable. The Nigerian Content Act also requires all operators, contractors and sub-contractors to maintain a minimum of 10 per cent. of the total revenue accruing from their Nigerian operations in bank accounts domiciled in Nigeria. The Nigerian Content Act also contains provisions which seek to prioritise the use of Nigerian goods and services in sectors such as insurance and legal services as a first resort. The Cabotage Act contains local content provisions in connection with domestic coastal carriage of cargo and passengers, which are expected to also increase Nigerian entities' requirements for finance and financial services from Nigerian banks.

TAXATION

The following is a general description of certain Netherlands, Nigerian and United States tax considerations relating to the Notes and the Subordinated Note. It does not purport to be a complete analysis of all tax considerations relating to the Notes and the Subordinated Note, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the Subordinated Note and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Also investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment

The Netherlands

General

The following summary of certain Dutch taxation matters is based on the laws and practice in force as of the date of this Prospectus and is subject to any changes in law and the interpretation and application thereof, which changes could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of a Note, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules.

*For the purpose of this summary, the term "**entity**" means a corporation as well as any other person that is taxable as a corporation for Dutch corporate tax purposes.*

*Where the summary refers to "**The Netherlands**" or "**Dutch**" it refers only to the European part of the Kingdom of the Netherlands.*

Investors should consult their professional advisers on the tax consequences of their acquiring, holding and disposing of a Note.

Withholding Tax

All payments made by the Issuer of interest and principal under the Notes can be made free of withholding or deduction of any taxes of whatsoever nature imposed, levied, withheld or assessed by The Netherlands or any political subdivision or taxing authority thereof or therein.

Taxes on Income and Capital Gains

Resident entities

An entity holding a Note which is, or is deemed to be, resident in The Netherlands for corporate tax purposes and which is not tax exempt, will generally be subject to corporate tax in respect of income or a capital gain derived from a Note at the prevailing statutory rates.

Resident individuals

An individual holding a Note who is, is deemed to be, or has elected to be treated as, resident in The Netherlands for income tax purposes will be subject to income tax in respect of income or a capital gain derived from a Note at rates up to 52 per cent. if:

(i) the income or capital gain is attributable to an enterprise from which the holder derives profits (other than as a shareholder); or

(ii) the income or capital gain qualifies as income from miscellaneous activities (belastbaar resultaat uit overige werkzaamheden) as defined in the Income Tax Act (Wet inkomstenbelasting 2001), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

If neither condition (i) nor (ii) applies, an individual holding a Note will be subject to income tax on the basis of a deemed return, regardless of any actual income or capital gain derived from a Note. The deemed return amounts 4 per cent. of the value of the individual's net assets as at the beginning of the relevant fiscal year (including the Note). Subject to application of certain allowances, the deemed return will be taxed at a rate of 30 per cent.

Non-residents

A holder of a Note which is not, is not deemed to be, and—in case the holder is an individual—has not elected to be treated as, resident in The Netherlands for the relevant tax purposes will not be subject to taxation on income or a capital gain derived from a Note unless:

(i) the income or capital gain is attributable to an enterprise or part thereof which is either effectively managed in The Netherlands or carried on through a permanent establishment (*vaste inrichting*) or a permanent representative (*vaste vertegenwoordiger*) in The Netherlands and the holder of a Note derives profits from such enterprise (other than by way of securities); or

(ii) the holder is an individual and the income or capital gain qualifies as income from miscellaneous activities (*belastbaar resultaat uit overige werkzaamheden*) in The Netherlands as defined in the Income Tax Act (*Wet inkomstenbelasting* 2001), including, without limitation, activities that exceed normal, active asset management (*normaal, actief vermogensbeheer*).

Gift and Inheritance Taxes

Dutch gift or inheritance taxes will not be levied on the occasion of the transfer of a Note by way of gift by, or on the death of, a holder of a Note, unless:

(i) the holder of a Note is, or is deemed to be, resident in The Netherlands for the purpose of the relevant provisions; or

(ii) the transfer is construed as an inheritance or gift made by, or on behalf of, a person who, at the time of the gift or death, is or is deemed to be resident in The Netherlands for the purpose of the relevant provisions.

Value Added Tax

The issuance or transfer of a Note, and payments of interest and principal under a Note, will not be subject to value added tax in The Netherlands.

Other Taxes and Duties

The subscription, issue, placement, allotment, delivery or transfer of a Note will not be subject to registration tax, stamp duty or any other similar tax or duty payable in The Netherlands.

Residence

A holder of a Note will not be, or deemed to be, resident in The Netherlands for tax purposes and, subject to the exceptions set out above, will not otherwise be subject to Dutch taxation, by reason only of acquiring, holding or disposing of a Note or the execution, performance, delivery and/or enforcement of a Note.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

On 10 April 2013. Luxembourg officially announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payment of interest (or similar income) as from this date.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

The proposed financial transactions tax ("FTT")

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**Participating Member States**").

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the Participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

The FTT proposal remains subject to negotiation between the Participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Nigeria

General

The following is a general summary of Nigerian tax consequences as at the date hereof. This summary does not purport to describe all possible tax considerations or consequences that may be relevant to a holder or prospective holder of Notes. In view of its general nature, it should be treated with corresponding caution. It is not exhaustive and purchasers are urged to consult their professional advisors as to the tax consequences to them of holding or transferring Notes. Except as otherwise indicated, this summary only addresses Nigerian tax legislation, as in effect and in force at the date hereof, as interpreted and applied by the Courts or tax authorities in Nigeria, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect.

Taxation of Noteholders

Under Nigerian law, payments of principal and interest on the Notes to an individual who is a non-resident of Nigeria or to a legal entity that is neither incorporated in Nigeria, nor has a permanent establishment in Nigeria or otherwise has no taxable presence in Nigeria (together, "**Non Nigerian Holders**") will not be subject to taxation in Nigeria, and no withholding of any Nigerian tax will be required on any such payments. In addition, gains realised by Non Nigerian Holders derived from the disposal, sale, exchange or transfer of the Notes will not be subject to capital gains tax or value added tax in Nigeria.

However, any individual who is a resident of Nigeria, or any legal entity that is either incorporated in Nigeria, or has a permanent establishment in Nigeria, or otherwise has a taxable presence in Nigeria (together, "**Nigerian Holders**") will be subject to taxation in Nigeria, and interest or coupon payments or other income from the Notes in the hands of such Nigerian Holder will be taxable in the hands of such Nigerian Holder as part of its general taxable income, except where such income is brought into Nigeria through approved banking channels (i.e. commercial banks and other entities licensed to deal in foreign exchange), in which case such income will be exempt from tax in Nigeria.

There is no capital gain payable upon the disposal of any Nigerian government securities, stocks or shares in Nigeria under the provisions of the Capital Gains Tax Act C1 LFN 2004 (as amended) (the "**CGT Act**") but there is capital gains tax on disposal of corporate bonds or other debt instruments not issued by the Federal Government of Nigeria. Thus, gains realised by such Nigerian Holders from the disposal, sale, exchange or transfer of the Notes may be subject to capital gains tax at the rate of 10 per cent.

Although the Federal Government has approved a waiver of capital gains tax and income tax on all forms of debt instruments, the legislative and administrative processes required to give legal effect to such waivers have not yet been implemented. It is unclear from the Federal Government approval whether the exemption will extend to bonds issued by non-Nigerian corporates such as the Issuer.

Save for this, the transaction between any Noteholder and the Issuer will not be liable to any form of taxation in Nigeria.

Taxation of payments under the Subordinated Note from the Bank to the Issuer

Under Nigerian law, income accruing in, derived from, brought into, or received in Nigeria in respect of dividends, interest, royalties, discounts, charges or annuities is subject to tax. Interest shall be deemed to be derived from Nigeria if:

(a) there is a liability to payment of the interest by a Nigerian company or a company in Nigeria regardless of where or in what form the payment is made, or

(b) the interest accrues to a foreign company or person from a Nigerian company or a company in Nigeria regardless of whichever way the interest may have accrued.

In addition, whilst there is no capital gains tax payable upon the disposal of any Nigerian government securities, stocks or shares in Nigeria under the provisions of the CGT Act, there is capital gains tax on disposal of corporate bonds or other debt instruments not issued by the Federal Government of Nigeria. Although, it appears capital gains tax may in the nearest future no longer be payable on corporate bonds or other non-governmental debt instruments given that Federal Government has approved a waiver of capital gains tax but the legislative and administrative processes required to give legal effect to the waiver has not yet been implemented. The CGT Act states that any gain paid, used or enjoyed in or in any manner or form transmitted or brought to Nigeria shall be treated as derived from Nigeria for the purposes of the CGT Act. With regards to an individual who is in Nigeria for some temporary purpose only and not with any view or intent to establish his residence in Nigeria, such gain will be subject to tax if the period or sum of the periods for which he is present in Nigeria in that year of assessment exceeds 182 days.

The Federal Government has issued the Companies Income Tax (Exemption of Bonds and Short Term Government Securities) Order 2011 which exempts, among other things, bonds issued by corporate bodies and interest payments thereon from companies' income tax for a period of ten years from the date of the Order, being 2 January 2012. In addition, the proceeds from the disposal of corporate bonds are also exempt from Value Added Tax ("**VAT**") in accordance with the Value Added Tax (Exemption of Proceeds of the Disposal of Government and Corporate Securities) Order 2011. This exemption also applies for a period of ten years from the date of the Order, being 2 January 2012 (the "**Exemption Period**").

Therefore, the interest payment from the Bank to the Issuer will not be liable to any form of taxation in Nigeria during the above mentioned Exemption Period.

The Notes have a stated maturity of 7 August 2020. Therefore in the event that the Subordinated Note continues to be outstanding at the time the Exemption Period ends (or is not extended), the Subordinated Note may be subject to companies income tax, withholding tax and VAT. However, the Bank has agreed in condition 8(a) (*Additional Amounts and Indemnity Amounts—Additional Amounts*) of the Subordinated Note to gross up for any withholding or other taxes and pay such additional amounts as shall be necessary to ensure that the net amount received by the Issuer after the withholding or deduction shall equal the respective amount which would have been receivable in respect of the Subordinated Note in the absence of the withholding or deduction. See "*Subordinated Note—Condition 8(a)* (*Additional Amounts and Indemnity Amounts—Additional Amounts*)".

Stamp duties

Stamp duty is payable in Nigeria either on a flat rate or *ad valorem* basis. The Subordinated Note, the Trust Deed, the Agency Agreement and the Subscription Agreement (as defined below) may be liable to stamp duty in

Nigeria under the Stamp Duties Act, Cap S8 LFN, 2004 (the "**Stamp Duties Act**") although, if so liable, it is unclear what the rate of any such stamp duty may be. Based on the Stamp Duties Act, the maximum rate of stamp duty payable in Nigeria in respect of the Subordinated Note is 0.125 per cent. levied on an *ad valorem* basis on the value of the underlying transaction. However, based on current practice in Nigeria, the Subscription Agreement will be assessed at an *ad valorem* rate of 1 per cent. of the fee payable to the Joint Lead Managers whilst the Trust Deed and the Agency Agreement will be assessed at a flat rate basis. Where the documents which would ordinarily be dutiable are brought into Nigeria, parties would have 30 days from when they are brought in to arrange for payment of stamp duty. See "*Risk Factors—Risks Relating to the Subordinated Note, the Notes and the Trading Market—Risks related to the Notes generally*".

Other taxes and duties

Save as set out above, no value added tax or VAT, registration fees, or any other similar documentary tax, charge or duty will be payable by the holders of Notes in respect of, or in connection with the issue of the Notes or with respect to the payment of interest or principal by the Issuer under the Notes.

Certain U.S. Federal Income Tax Considerations

The discussion of tax matters in this Prospectus is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding U.S. federal, state or local tax penalties, and was written to support the promotion or marketing of the Notes. Each taxpayer should seek advice based on such person's particular circumstances from an independent tax adviser.

The following summary discusses the principal U.S. federal income tax consequences of the acquisition, ownership and disposition of the Notes. Except as specifically noted below, this discussion applies only to:

- Notes purchased in this offering at their issue price;
- Notes held as capital assets; and
- U.S. Holders (as defined below).

This discussion does not describe all of the tax consequences that may be relevant in light of a Noteholder's particular circumstances or to Noteholders subject to special rules, such as financial institutions, insurance companies, real estate investment trusts, regulated investment companies, investors liable for the alternative minimum tax, certain U.S. expatriates, individual retirement accounts and other tax-deferred accounts, partnerships or other pass-through entities for U.S. federal income tax purposes, tax-exempt organizations, dealers in securities or currencies, securities traders that elect mark-to-market tax accounting, investors that will hold the Notes as part of constructive sales, straddles, hedging, integrated or conversion transactions for U.S. federal income tax purposes or investors whose "functional currency" is not the U.S. dollar.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended to the date hereof (the "**Code**"), administrative pronouncements, judicial decisions and final, temporary and proposed U.S. Treasury Regulations all as of the date of this Prospectus and any of which may at any time be repealed, revised or subject to differing interpretation, possibly retroactively so as to result in U.S. federal income tax consequences different from those described below. Persons considering the purchase of the Notes should consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under other U.S. federal tax rules (such as the U.S. federal estate and gift taxes or the Medicare contribution tax) or the laws of any state, local or non-U.S. taxing jurisdiction.

As used herein, the term "U.S. Holder" means a beneficial owner of a Note that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation created or organised in or under the laws of the United States or of any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Partners of partnerships holding Notes should consult with their tax advisers regarding the U.S. federal tax consequences of an investment in the Notes.

Characterisation of the Notes

There are no regulations, published rulings or judicial decisions addressing the characterisation for U.S. federal income tax purposes of securities issued under the same circumstances and with substantially the same terms as the Notes. The Issuer intends to take the position, and the below discussion assumes that the Notes constitute debt for U.S. federal income tax purposes. However, no ruling will be sought from the U.S. Internal Revenue Service ("**IRS**") with respect to the characterisation of the Notes as debt or otherwise, and there can be no assurance that the IRS or the courts would agree with the characterisation of the Notes described below. If the IRS were to successfully assert a different characterization, the Notes may be characterized as equity for U.S. federal income tax purposes or U.S. Holders may be treated as investing directly in the Subordinated Notes. If the Notes were treated as equity interests in the Issuer, U.S. Holders would be treated as owning interests in a "passive foreign investment company" (a "**PFIC**") and the U.S. Holders could be subject to a materially greater tax liability on gain from the sale or exchange of the Notes and certain "excess distributions." Prospective investors should consult their tax advisers regarding the characterisation of the Notes and the consequences of owning an equity interest in a PFIC. The Issuer also intends to take the position and the discussion below assumes that certain features of the Notes do not cause them to be "contingent payment debt instruments" for U.S. federal income tax purposes. If the Notes were subject to the contingent payment debt instrument rules, this would affect the character, timing and amount (in a given tax period) of income earned by a U.S. Holder, possibly negatively.

Payments of Interest

Interest paid on a Note (including additional amounts, if any) will be taxable to a U.S. Holder as foreign source ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes. U.S. Holders should consult their own tax advisors about the U.S. federal income tax rules applicable to any taxes withheld from payments on the Subordinated Note or the Notes as the relevant rules are very complex and the application of the rules to securities like the Notes is not entirely clear.

Sale, Exchange or Retirement of the Notes

Upon the sale, exchange or retirement of a Note, a U.S. Holder will recognise U.S. source taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the U.S. Holder's adjusted tax basis in the Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the acquisition cost of the Note. For these purposes, the amount realised does not include any amount attributable to accrued but unpaid interest on the Note, which is treated like payments of interest as described under "—*Payments of Interest*." Gain or loss realised on the sale, exchange or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the U.S. Holder has held the Note for more than one year. Long-term capital gains recognized by a non-corporate U.S. Holder generally are subject to U.S. federal income taxation at preferential rates. The deductibility of capital losses is subject to limitations.

Substitution of Issuer

The terms of the notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by another entity. Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of the Notes by a U.S. holder in exchange for new notes issued by the new obligor. As a result of this deemed disposition, a U.S. Holder could be required to recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes) and the U.S. Holder's tax basis in the Notes. U.S. Holders should consult with their tax advisers concerning the U.S. federal income tax consequences to them of a change in obligor with respect to the Notes.

Information Reporting and Backup Withholding

Information returns may be filed with the IRS in connection with payments on the Notes and the proceeds from a sale or other disposition of the Notes unless a U.S. Holder establishes that it is an exempt recipient. A U.S. Holder that has not done so may be subject to U.S. backup withholding on payments subject to information reporting if it fails to provide its tax identification number and comply with certain certification procedures. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

U.S. Holders should consult their tax advisors about any reporting or filing obligations that apply as a result of the acquisition, holding or disposition of the Notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to a Subscription Agreement dated 1 August 2013, severally and not jointly agreed with the Issuer and the Bank, subject to the satisfaction of certain conditions, to subscribe the Notes at 98.999 per cent. of their principal amount of U.S.$300,000,000. Each of the Joint Lead Managers has agreed severally and not jointly, to purchase from the Issuer, the principal amount of Notes set forth opposite its name below:

Joint Lead Manager	Purchase Commitment
	(U.S.$)
Citigroup Global Markets Limited	150,000,000
Goldman Sachs International	150,000,000
	300,000,000

The Issuer has agreed to pay to the Joint Lead Managers a gross underwriting commission of 0.22 per cent. of such principal amount. In addition, the Issuer has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer and the Bank have agreed in the Subscription Agreement to indemnify the Joint Lead Managers against certain liabilities.

The Notes are a new issue of securities for which there currently is no market. Certain of the Joint Lead Managers have advised the Issuer that following the completion of the offering of the Notes, they may make a market in the Notes. They are not obligated to do so, however, and any market making activities with respect to the Notes may be discontinued at any time at their sole discretion without notice. In addition, such market making activity will be subject to the limits imposed by the Securities Act, the Exchange Act and any other applicable laws. Accordingly, the Issuer cannot give any assurance as to the development of any market or the liquidity of any market for the Notes.

In connection with the offering of the Notes, the Joint Lead Managers may engage in over-allotment, stabilising transactions and syndicate covering transactions. Over-allotment involves sales in excess of the offering size, which creates a short position for the Joint Lead Managers. Stabilising transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Any of these activities may prevent a decline in the market price of the Notes, and may also cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions. The Joint Lead Managers may conduct these transactions in the OTC market or otherwise. If the Joint Lead Managers commence any of these transactions, they may discontinue them at any time.

The Joint Lead Managers and their affiliates may have performed certain investment and commercial banking or financial advisory services for the Issuer, the Bank and their affiliates from time to time, for which they have received customary fees and commissions, and they expect to provide these services to the Issuer, the Bank and their affiliates in the future, for which they expect to receive customary fees and commissions.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, the Bank or their affiliates. If the Joint Lead Managers or their affiliates have a lending relationship with the Issuer or the Bank, they routinely hedge their credit exposure to the Issuer or the Bank (as applicable) consistent with their customary risk management policies. Typically, the Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's or the Bank's (as applicable) securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

To the extent permitted by law, the Joint Lead Managers and the Issuer have agreed that commissions may be offered to certain brokers, financial advisers and other intermediaries in connection with the purchase of Notes by such intermediary and/ or its customers. Any disclosure and other obligations in relation to the payment of such commission to such intermediary are solely the responsibility of the intermediary and none of the Joint Lead Managers, the Issuer, the Bank or any affiliate of any of them, nor any person who controls or is a director, officer, employee or agent of any such person accepts any liability or responsibility whatsoever for compliance with such obligations.

It is expected that delivery of the Notes will be made against payment on the Notes on or about 7 August 2013, which will be five business days (as such term is used for purposes of Rule 15c6–1 of the U.S. Exchange Act of 1934, as amended (the "**Exchange Act**")) in the United States following the date of pricing of the Notes (this settlement cycle is being referred to as T+5). Under Rule 15c6–1 of the Exchange Act, trades in the secondary market generally are required to settle in three business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date hereof or the next succeeding business day will be required to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to make such trades should consult their own advisers.

United States

The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to or for the account or benefit of a U.S. person (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager has represented, warranted and agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the "**distribution compliance period**") within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

> "The securities covered hereby have not been registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, except in either case in accordance with Regulation S (or Rule 144A if available) under the Securities Act. Terms used above have the meanings given to them by Regulation S".

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering of the Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Subscription Agreement provides that each Joint Lead Manager may directly or through its U.S. broker dealer affiliate arrange for the offer and resale of Notes within the United States only to persons whom they reasonably believe are QIBs who are also QPs who can represent that (a) they are QPs who are QIBs within the meaning of Rule 144A; (b) they are not broker-dealers that own and invest on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers; (c) they are not participant directed employee plans, such as a 401(k) plan; (d) they are acting for their own account, or the account of one or more QIBs each of which is also a QP; (e) they are not formed for the purpose of investing in the Issuer or the Notes; (f) each account for which they are purchasing will hold and transfer at least U.S.$200,000 in principal amount of Notes at any time; (g) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositaries; and (h) they will provide notice of the transfer restrictions set forth in this Prospectus to any subsequent transferees.

Terms used in this section have the meanings given to them by Regulation S or Rule 144A, as applicable, under the Securities Act.

The Issuer and the Joint Lead Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States or to any U.S. person other than any QIB who is also a QP and to whom an offer has been made directly by one of the Joint Lead Managers or its U.S. broker-affiliate. Distribution of this Prospectus by any non-U.S. person outside the United States or by any QIB who is also a QP within the United States to any U.S. person or any person within the United States other than any QIB who is also a QP, and those persons, if any, retained to advise such person outside the United States or QIB who is also a QP with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or any person within the United States other than any QIB who is also a QP and those persons, if any, retained to advise such non-U.S. person outside the United States or QIB who is also a QP, is prohibited.

See also "*Transfer Restrictions*".

United Kingdom

Each Joint Lead Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("**FSMA**") received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Federal Republic of Nigeria

This Prospectus and the Notes have not been and will not be registered with the Nigerian SEC or under the Nigerian ISA. Further, neither this Prospectus nor any other offering material related to the Notes may be utilised in connection with any offering to the public within Nigeria, and the Notes may not be offered or sold within Nigeria to persons resident in Nigeria, except to the extent that the Notes have been registered with the Nigerian SEC and its written approval obtained in accordance with the provisions of the Nigerian ISA and other Nigerian securities law. The Notes may, however, be offered and sold in Nigeria in certain transactions exempt from the registration requirements of the Nigerian ISA. Accordingly, this Prospectus is not directed to, and the Notes are not available for subscription by, any persons within Nigeria, other than the selected investors to whom the Prospectus has been addressed as a private sale, or domestic concern, within the exemption and meaning of Section 69(2) of the Nigerian ISA.

General

Each Joint Lead Manager has represented and agreed that no action has been or will be taken by any Joint Lead Manager in any jurisdiction that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action or approval for that purpose is required.

Each Joint Lead Manager has represented, warranted and agreed that it has, to the best of its knowledge and belief, complied and will comply in all material respects with applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or the Bank.

The Bank is a party to the Subscription Agreement and has given certain representations and warranties, covenants and indemnities to the Joint Lead Managers and the Issuer therein.

Other than the approval of the Prospectus by the CBN, no action has been or will be taken in any jurisdiction by the Issuer, the Bank or any Joint Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Bank, the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of each of DTC, Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer nor any Joint Lead Manager takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of such facilities.

None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of the Clearing Systems or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Custodial and depository links are to be established between the Clearing Systems to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See "*—Book-Entry Ownership*" and "*—Settlement and Transfer of Notes*" below.

Investors may hold their interests in the Global Notes directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

Book-Entry Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

DTC

DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and to facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, which clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Restricted Global Note directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Restricted Global Note as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*The Form of Global Notes*", DTC will surrender the Restricted Global Note for exchange for Restricted Note Certificates (which Restricted Note Certificates will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Unrestricted Global Note representing the Unrestricted Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg.

DTC

The Restricted Global Note representing the Restricted Notes will have an ISIN, a Common Code, and a CUSIP number and will be deposited with a custodian (the "**DTC Custodian**") for, and registered in the name of Cede & Co. as nominee of, DTC. The DTC Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of the Clearing Systems as the holder of a Note evidenced by a Global Note must look solely to the Clearing Systems (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under such Global Note, subject to and in accordance with the respective rules and procedures of the relevant Clearing System. The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note, the common depositary by whom such Note is held, or the nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant common depositary or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note, and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent (as defined in "*Terms and Conditions of the Notes*") will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system, and its records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. As DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Restricted Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's same-day funds settlement system in same-day funds, if payment is effected in U.S. Dollars, or free of payment, if payment is not effected in U.S. Dollars. Where payment is not effected in U.S. Dollars, separate payment arrangements outside DTC are required to be made between the DTC Participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in the Restricted Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Unrestricted Global Note (subject to the certification procedures provided in the Agency Agreement), the DTC Participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the DTC Custodian of the Restricted Global Note will instruct the Registrar to: (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note of the relevant class; and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in the Restricted Global Note (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will: (a) transmit appropriate instructions to the DTC Custodian of the Restricted Global Note who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant; and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Unrestricted Global Note; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Restricted Global Note.

Although the Clearing Systems have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Notes among Participants and accountholders of the Clearing Systems, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any agent will have the responsibility for the performance by the Clearing Systems or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of the Notes will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Under Rule 15c6-l under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade the Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary.

Purchasers of the Notes may be affected by such local settlement practices, and purchasers of the Notes between the relevant date of pricing and the Closing Date should consult their own advisers.

TRANSFER RESTRICTIONS

Because of the following transfer restrictions, investors are advised to consult legal counsel prior to making any reoffer, resale, pledge, transfer or disposal of the Notes.

The Notes will not be registered under the Securities Act or the laws of any state securities commission and, therefore, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

A beneficial interest in the Unrestricted Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Restricted Global Note in denominations greater than or equal to the minimum denominations applicable to interests in a Restricted Global Note and only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Agency Agreement), to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A who is also a "qualified purchaser" within the meaning of section 2(a)(51) of the U.S. Investment Company Act of 1940, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. A beneficial interest in the Restricted Global Note may also be transferred to a person who wishes to take delivery of such beneficial interest through the Unrestricted Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act. Any beneficial interest in either the Restricted Global Note or the Unrestricted Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for so long as such person retains such an interest.

The Notes are being offered and sold in the United States only to qualified institutional buyers within the meaning of Rule 144A who are also "qualified purchasers" within the meaning of section 2(a)(51) of the U.S. Investment Company Act of 1940 in reliance on Rule 144A. Because of the following restrictions, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

Rule 144A Notes (Restricted Global Notes)

Each purchaser of Notes offered hereby pursuant to Rule 144A will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A are used herein as defined therein):

(i) the purchaser (a) is a qualified institutional buyer (a "**QIB**") within the meaning of Rule 144A that is also a qualified purchaser (a "**QP**") within the meaning of section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended, (b) is not a broker-dealer that owns and invests on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers, (c) is not a participant-directed employee plan, such as a 401(k) plan, (d) is acquiring the Notes for its own account or for the account of such a QIB that is also a QP (e) is not formed for the purpose of investing in the Notes or the Issuer, and (c) such person is aware that the sale of the Notes to it is being made in reliance on Rule 144A;

(ii) the purchaser will (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Restricted Global Notes in a principal amount that is not less than U.S.$200,000 and (b) provide notice of these transfer restrictions to any subsequent transferees. In addition, it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories.

(iii) the Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except in accordance with the legend set out below;

(iv) It understands and acknowledges that its purchase and holding of such Restricted Notes or any interest therein constitutes a representation and agreement by it that at the time of its purchase and throughout the period in which it holds such Restricted Notes or any interest therein (a) it is not and is not using the assets of and will not be: (i) an "employee benefit plan" as described in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**") that is subject to the provisions of Title I of ERISA, (ii) a "plan" described in Section 4975(e)(1) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") to which Section 4975 of the Code applies, or (iii) any entity whose underlying assets include "plan assets" by reason of an investment in the entity by a person described in (a)(i) or (a)(ii) above; (b) if it is an employee benefit plan subject to any U.S. federal, state, local or non-U.S. statute, regulation, administrative decision, policy or other legal authority that is substantially similar to Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**"), the purchase and holding of the Restricted Notes or any interest therein does not and will not violate any such Similar Law; and (c) it will not sell or otherwise transfer any such Restricted Note or any interest therein to any person unless the same foregoing representations and warranties apply to that person. Any purchase by or transfer to a person described in clause (a)(i), (a)(ii) or (a)(iii) above will be null and void *ab initio*; and

(v) the Restricted Global Note and any Restricted Note Certificates (as defined below) issued in exchange for an interest in the Restricted Global Note will bear a legend to the following effect, unless the Issuer and the Bank determine otherwise in accordance with applicable law:

"ANY PERSON WHO HOLDS (A BENEFICIAL INTEREST IN) THIS OBLIGATION, WHO IS RESIDENT IN THE NETHERLANDS, SHALL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT IT IS A PROFESSIONAL MARKET PARTY, AND IS ACQUIRING THIS NOTE (OR ANY INTEREST THEREIN) FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A PROFESSIONAL MARKET PARTY, AS DEFINED IN SECTION 1 SUB E OF THE EXEMPTION REGULATION PURSUANT TO THE NETHERLANDS BANKING ACT, AND IS FURTHER REPRESENTING AND AGREEING THAT (I) IT MAY NOT OFFER, SELL, PLEDGE, TRANSFER OR DELIVER (A BENEFICIAL INTEREST IN) THIS OBLIGATION TO ANY RESIDENT OF THE NETHERLANDS WHO IS NOT SUCH A PROFESSIONAL MARKET PARTY AND (II) IT WILL PROVIDE NOTICE OF THIS RESTRICTION TO ANY SUBSEQUENT TRANSFEREE.

NONE OF THIS NOTE NOR THE SUBORDINATED NOTE HAS BEEN OR WILL BE REGISTERED UNDER, AND EACH WAS ORIGINALLY ISSUED OR MADE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), AND THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES, FOR THE BENEFIT OF THE ISSUER AND THE BANK, THAT (A) THIS NOTE (AND ANY INTEREST HEREIN) MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER OR THE BANK, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER ("**QIB**") AS DEFINED IN RULE 144A UNDER THE SECURITIES ACTTHAT IS ALSO A QUALIFIED PURCHASER (WITHIN THE MEANING OF SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE (OR INTEREST HEREIN) FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE.

EACH BENEFICIAL OWNER HEREOF REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401 (k) PLAN; (4) IT IS HOLDING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QIB THAT IS ALSO A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THIS NOTE; (6) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS NOTES, WILL HOLD AND TRANSFER AT LEAST U.S.$200,000 IN PRINCIPAL AMOUNT OF NOTES; (7) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT, IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A PERSON WHO IS NOT A QIB THAT IS ALSO A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON (1) WHO IS ALSO A QIB THAT IS ALSO A QP AND WHO IS OTHERWISE QUALIFIED TO PURCHASE THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON THAT IS NOT A U.S. PERSON IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LEAST OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PERCENT OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THIS NOTE TO A PERSON WHO IS NOT A QIB AND ALSO A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.

EACH BENEFICIAL OWNER HEREOF OR OF ANY INTEREST HEREIN WILL BE DEEMED TO REPRESENT AND WARRANT THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE (A) AN "EMPLOYEE BENEFIT PLAN" AS DESCRIBED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") THAT IS SUBJECT TO THE PROVISIONS OF TITLE I OF ERISA, (B) A "PLAN" AS DEFINED IN AND TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), APPLIES OR (C) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE, OR ARE DEEMED FOR PURPOSES OF ERISA OR THE CODE TO INCLUDE, "PLAN ASSETS" BY REASON OF AN INVESTMENT IN THE ENTITY BY A PERSON DESCRIBED IN (1)(A) OR (1)(B) ABOVE OR OTHERWISE; (2) IF IT IS AN EMPLOYEE BENEFIT PLAN SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-U.S. STATUTE, REGULATION, ADMINISTRATIVE DECISION, POLICY OR OTHER LEGAL AUTHORITY THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), THE PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST HEREIN DOES NOT VIOLATE ANY SUCH SIMILAR LAW; AND (3) IT WILL NOT SELL OR OTHERWISE TRANSFER THIS NOTE OR ANY INTEREST HEREIN TO ANY PERSON UNLESS THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS APPLY TO THAT PERSON. ANY PURCHASE BY OR TRANSFER TO A PERSON DESCRIBED IN (1)(A), (1)(B), AND (1)(C) ABOVE WILL BE NULL AND VOID AB INITIO.

THIS NOTE AND ALL RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT."

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER HEREOF TO CERTIFY PERIODICALLY THAT SUCH OWNER IS A QIB AND ALSO A QP.

Regulation S Notes (Unrestricted Global Notes)

Each purchaser of Unrestricted Global Notes will be deemed to have represented, agreed and acknowledged as follows:

(i) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and it is not an affiliate of the Issuer, the Bank or a person acting on behalf of such an affiliate;

(ii) it understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the "distribution compliance period" (as such term is defined in Rule 902 of Regulation S), it will not offer, sell pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP or (b) in an offshore transactions in accordance with Rule 903 or Rule 904 of Regulation S, and in accordance with any applicable securities laws of any State of the United States;

(iii) it understands that such Notes will be evidenced by the Unrestricted Global Note Certificate. Before any interest in the Unrestricted Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Restricted Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws; and

(iv) the Issuer, the Bank, the Registrar, the Joint Lead Managers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, the Bank, and the Joint Lead Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

GENERAL INFORMATION

1. **Clearing Systems**

The Notes have been accepted for clearance through the DTC, Clearstream, Luxembourg and Euroclear systems. The Common Code and ISIN of the Unrestricted Global Notes are 095759068 and XS0957590689, respectively. The Common Code, ISIN and CUSIP of the Restricted Global Notes are 095811418, US302406AA16 and 302406AA1, respectively.

2. **Admission to Trading**

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market. It is expected that admission of the Notes to trading will be granted on or before the next working day after the Closing Date.

3. **Authorisations**

The Issuer and the Bank have obtained all necessary consents, approvals and authorisations in The Netherlands and Nigeria, as applicable, in connection with the issue and performance of the Notes and the Subordinated Note. The issue of the Notes was authorised by resolution of the board of managing directors of the Issuer passed on 29 July 2013 and the execution of the Subordinated Note and the issuance of the Subordinated Note by the Bank was authorised by resolutions of the Board passed on 28 July 2011 and 18 April 2013.

4. **Significant or material change**

Except as disclosed in this Prospectus under the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent developments*" on pages 84 to 116, there has been no significant change in the financial or trading position of the Issuer since 31 December 2012 or of the Bank or the Group since 31 March 2013; and there has been no material adverse change in the prospects of the Issuer, the Bank or the Group since 31 December 2012.

5. **Litigation**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Issuer is aware) which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer.

Except as disclosed in this Prospectus on page 140 there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Bank is aware) which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Bank or the Group.

6. **Documents on Display**

For so long as any of the Notes is outstanding, copies of the following documents may be inspected at the specified offices of each of the Paying and Transfer Agents during normal business hours:

(a) the constitutional documents of each of the Issuer and the Bank;

(b) the audited consolidated financial statements of the Group for the financial years ended 31 December 2012 and 31 December 2011, including the audit report relating to such accounts;

(c) the unaudited interim consolidated accounts of the Bank for the three month period ended 31 March 2013;

(d) the Trust Deed;

(e) the Subordinated Note Certificate; and

(f) the Agency Agreement.

7. **Auditors**

The auditors of the Issuer are PricewaterhouseCoopers Accountants N.V., a company with certified accountants, who are registered in The Netherlands with NBA (*Nederlandse Beroepsorganisatie van Accountants*), to conduct annual audits of its statutory financial statements. The business address of Pricewaterhouse Coopers Accountants N.V. is Thomas R. Malthusstraat 5, 1066 JR, P.O. Box 90357, 1006 BJ, Amsterdam, The Netherlands. The Issuer is not required to, and does not intend to, produce interim financial statements.

The auditors of the Bank are PwC, member of the Institute of Chartered Accountants of Nigeria ("**ICAN**") and PKF member of ICAN, who have together audited the Bank's accounts, without qualification, in accordance with ISA for the financial years ended 31 December 2012 and 2011. The business address of PwC is Plot 252E Muri Okunola Street, Victoria Island, Lagos, Nigeria and the business address of PKF is PKF House, 205A, Ikorodu Road, Obanikoro, Lagos, Nigeria.

The Auditors do not have any material interest in the Issuer or the Bank.

8. **Joint Lead Managers transacting with the Bank**

(a) The Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Bank and its affiliates in the ordinary course of business.

(b) Save for the commissions described under "*Subscription and Sale*", so far as the Issuer and the Bank are aware, no person involved in the issue of the Notes has an interest material to the offer.

9. **Yield**

On the basis of the issue price of the Notes of 98.999 per cent. of their principal amount, the gross real yield of the Notes, on an annual basis, is 8.500 per cent. up to the Bank Call Date. It is not an indication of future yield.

10. **Listing Agent**

Arthur Cox Listing Services Limited is acting solely in its capacity as Listing Agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List or trading on the Main Securities Market of the Irish Stock Exchange for the purpose of the Prospectus Directive.

11. **Expenses**

The estimated expenses associated with the admission to trading of the Notes on the regulated market of the Irish Stock Exchange are expected to be approximately EUR 4,940.

ANNEX A: SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN NIGERIAN GAAP AND IFRS

Certain financial information included in this Prospectus (including information in the "*Selected Statistical and Other Information*") have been prepared and/or presented on the basis of the accounting policies in compliance with Nigerian GAAP, which differ in certain significant respects from financial statements that are prepared in accordance with IFRS.

Significant differences between Nigerian GAAP and IFRS relevant to the Group's financial statements are summarised below. This summary should not be considered as exhaustive. Investors must rely on their own examination of the Group and its financial information and should consult their own professional advisors for an understanding of the differences between Nigerian GAAP and IFRS and how these differences might affect the financial position and performance of the Group.

See also note 51 to the Annual IFRS Financial Statements, which contains information on the Group's transition to IFRS, including exceptions from full retrospective application of IFRS applied by the Group, a reconciliation between Nigerian GAAP and IFRS of profit for the year ended 31 December 2011, equity for the year ended 31 December 2011 and financial position as at 31 December 2011 and 1 January 2011.

Financial Instruments: Recognition and measurement

- IFRS states that financial instruments are classified in one of the following categories on initial recognition:
  - at fair value through profit or loss;
  - held to maturity investments;
  - loans and receivables;
  - available for sale financial assets; or
  - other liabilities.

  Unlike IFRS, financial assets are not defined under Nigerian GAAP. Rather the term "**investments**" is used and are classified in one of the following categories:
  - short term investments;
  - long term investments; and
  - investment properties.
- IFRS states that a financial instrument may be designated on initial recognition as one measured at fair value through profit or loss only if certain criteria are met.

  Unlike IFRS, it is not possible, under Nigerian GAAP to designate a financial investment or liability as one measured as at fair value through the income statement.
- Under IFRS, all financial instruments are measured initially at fair value. Financial instruments at fair value through profit or loss are measured at fair value and all changes in fair value are recognised immediately in profit or loss.

  Under Nigerian GAAP, investments are initially measured at cost. Short term investments are valued at the lower of cost and net realisable value on an item by item basis while long term investments are carried at cost or at a revalued amount.
- Under IFRS, loans and receivables and held to maturity investments are measured at amortised cost. All other financial assets are measured at fair value, with limited exceptions. All freestanding derivatives and some embedded derivatives are recognised in the balance sheet and measured at fair value. Unless they qualify as hedging instruments in a cash flow or net investment hedge, all changes in fair value are recognised immediately in profit or loss.

  Under Nigerian GAAP, specifically in relation to investments in debt securities, discounts and premiums are amortised in such a manner that there is a constant yield based on the acquisition cost. This in effect is similar to measuring investments in debt securities at amortised cost, like under IFRS. However, unlike IFRS, the amortisation is in practice on a straight line rather than effective interest basis. Also, investment properties are carried at a revalued amount under Nigerian GAAP.

- Under IFRS, changes in the fair value of available for sale assets are recognised directly in equity, except that foreign exchange gains and losses on available for sale monetary items are recognised in profit or loss. It also states that financial liabilities, other than those held for trading or designated at fair value through profit or loss, are measured at amortised cost.

  However, for banks and non bank financial institutions, under Nigerian GAAP:

  - long term investments in marketable securities are stated at the lower of cost and net realisable value. Market value is disclosed.
  - short term investments in marketable securities are stated at net realisable value. Cost is disclosed.
  - investments in securities for which there is no active market are stated at the lower of cost and net realisable value.

  Also, liabilities are measured at amortised cost; however, unlike IFRS, cost is generally amortised on a straight line rather than effective interest basis.

- Under IFRS, a financial liability is derecognised when it is extinguished. Also, when there is objective evidence that a financial asset measured at amortised cost, or at fair value with changes recognised in equity, may be impaired, the amount of any impairment loss must be calculated and recognised in profit or loss. Some impairment losses can be reversed.

  Under Nigerian GAAP, impairment losses are generally determined by comparing the carrying amounts to the expected future cash flows (undiscounted). For banks, impairment of loans is based on regulatory requirements.

Held to maturity assets

Under IFRS, a held to maturity asset is one that has a fixed maturity and fixed or determinable payments and that the entity has the positive intent and ability to hold until maturity.

The intent and ability to hold an asset to maturity must be assessed at each balance sheet date.

An entity is prohibited from classifying any financial assets as held to maturity if the entity has sold, reclassified, transferred or exercised a put option on more than an insignificant amount of the held to maturity assets in the current or previous years other than:

- when the asset was sufficiently close to maturity or the asset's call date that changes in market interest rates no longer had a significant effect on the asset's fair value;
- sales after collecting substantially all of the principal; or
- sales due to an isolated non recurring event that is beyond the entity's control and which it could not reasonable have anticipated.

Sales for other reasons "**taint**" the entity's ability to classify any instruments as held to maturity.

If a sale or reclassification of held to maturity asset results in tainting, all existing held to maturity assets must be reclassified as available for sale for the current and next two full financial reporting years.

There is no Nigerian GAAP equivalent recognition for held to maturity assets.

Available for sale assets

IFRS defines any financial asset that does not fall into loans and receivables, held to maturity and available for trading category as available for sale. This is a financial asset that the entity intends to hold to maturity or a loan or receivable also may be designated as available for sale on initial recognition.

Unlike IFRS, there is no Nigerian GAAP equivalent recognition for available for sale assets.

Initial recognition and measurement of financial instruments

Under IFRS, financial instruments are recognised when an entity becomes subject to the contractual provisions of the instrument. A non derivative financial asset that will be delivered in a "**regular way**" transaction may be recognised on the date that the transaction is committed (trade date) or on the date that the instrument actually transferred (settlement date). The method adopted must be applied consistently to all purchases and all sales of financial assets in the same category. Also, derivatives must be recognised from the date the contract is entered into.

Although not stated in the Nigerian GAAP, generally an asset is recognised as an investment under Nigerian GAAP when all of the following conditions are met:

- appropriately validated documents (i.e., documentation evidencing the entity's legal ownership) are available to support the entity's rights in respect of the investment;
- the risks associated with the investment have been transferred to the entity; and
- the investment will generate future economic benefits in the form of interest, dividends or capital gains.

As a result, the timing of recognition of an investment may differ from IFRS if documents are not available when the entity becomes a party to the arrangement.

In addition, following the above criteria for initial recognition, trade date versus settlement date accounting is not relevant under Nigerian GAAP.

Under IFRS, all financial instruments are initially measured at fair value. Transaction costs are included in the initial measurement of financial instruments that are not measured at fair value through profit or loss. Transaction costs are those incremental costs directly attributable to acquiring or issuing a financial instrument and exclude internal administrative or holding costs.

Under Nigerian GAAP, investments are initially recorded at cost. There is no specific guidance on the treatment of transaction costs. In practice, treatment differs. Like the practice under IFRS, some entities include transaction costs on initial recognition of investment in debt securities while others do not. And trade and other receivables as well as trade and other payables are generally stated at invoice amounts.

Subsequent measurement

Under IFRS, the following measurement requirements apply to all financial assets and financial liabilities. Financial assets and financial liabilities that are designated as hedged items may require further adjustment in accordance with the hedge accounting requirements. The following applies under IFRS:

- *Fair value through profit or loss*

  These instruments are measured at fair value and all changes in fair value (realised and unrealised) are recognised immediately in profit or loss.

- *Held to maturity*

  Subsequent to initial recognition, held to maturity assets are measured at amortised cost using the effective interest method.

- *Loans and receivables*

  Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method.

- *Available for sale assets*

  Available for sale assets are measured at fair value. Gains and losses on remeasurement of these assets, other than impairments are recognised directly in equity. For interest bearing available for sale instruments, interest is calculated using the effective interest method and is recognised in profit or loss. Foreign exchange gains and losses based on the amortised cost of an available for sale monetary item also are recognised in profit or loss.

Amounts recognised directly in equity are transferred to profit or loss when the asset concerned is sold, realised or impaired.

Liabilities

Under IFRS, subsequent to initial recognition, liabilities are measured at amortised cost calculated using the effective interest method except for those liabilities:

- measured at fair value through profit or loss; and
- that arise when a transfer of a financial asset does not qualify for derecognition and that are accounted for using the continuing involvement approach.

The following measurement requirements apply to investments under Nigerian GAAP. Unlike IFRS, there are no modifying requirements in respect of hedge accounting:

- *Short term investments*

  These investments are valued at the lower of cost and net realisable value on an item by item basis.

- *Long term investments*

  These investments are carried at cost or at a revalued amount.

- *Investment properties*

  These are carried at cost or revalued amount under Nigerian GAAP.

Also under Nigerian GAAP, the requirements for banks and non bank financial institutions differ in the following respects:

- long term investments in marketable securities are stated at the lower of cost and net realisable value. Market value is disclosed.
- short term investments in marketable securities are stated at net realisable value. Cost is disclosed.
- investments in securities for which there is no active market are stated at the lower of cost and net realisable value.

Transfers between categories of financial assets

Under IFRS, an entity should not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued. A transfer from the available for sale category to the held to maturity category generally is permitted once any tainting period has lapsed, or if there is a change in intent and ability. The fair value immediately prior to transfer becomes the "**cost**" in the new category.

Under Nigerian GAAP, where long term investments are reclassified as short term investments, transfers are made at the lower of cost and market value. If the investment was previously revalued, any remaining revaluation surplus is reversed on the transfer. Investments reclassified from short term to long term are each transferred at historic cost less impairment on their value or at market value if they were previously stated at that value.

Impairment of financial assets

IFRS provides that at each balance sheet date an entity must assess whether there is objective evidence that any financial asset not measured at fair value through profit or loss is impaired or uncollectible. If there is any objective evidence that such an asset is impaired, the amount of any impairment must be calculated. Recognition of an impairment loss is not restricted to situations in which the loss is considered to be permanent. A debt security is impaired if there is an indication that the originally anticipated cash flows from the instrument are not recoverable. Therefore, a decline in the fair value of a debt instrument due to changes in market interest rates is not itself an indication of impairment. A significant or prolonged decline in the fair value of an equity instrument below its cost must be considered objective evidence of impairment.

Impairment of assets, either financial or non financial is not dealt with under the Nigerian GAAP. In practice, impairment of trade receivables for instance is based on an "**expected loss model**" rather than an "**incurred loss model**". Also, investments generally are impaired to the lower of their costs and net realisable value; and provision (either general or specific, or both) for bad debt or doubtful debt is recognised in respect of trade receivables when the receivable is not collected at the contractual deadline. Other receivables are generally written down to the estimated recoverable amounts.

Impairment loss calculations

Loans and receivables and held to maturity assets

Under IFRS, the impairment loss recognised in profit or loss is the difference between the carrying amount and the recoverable amount of the asset. The recoverable amount is calculated by discounting the estimated probable future cash flows at the original effective interest rate.

Unlike IFRS, there is no "**loans and receivables**" or "**held to maturity**" classification under the Nigerian GAAP.

Under Nigerian GAAP, loans and advances are measured at cost net of allowance for bad and doubtful debts. A specific risk allowance is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. This allowance is determined in accordance with the CBN Prudential Guidelines from a specific assessment of each customer's account that is not performing in line with the terms of the related facility. The loans and advances portfolio is classified into specialised and non specialised. The basis for making provision for non performing loans and advances is as follows:

Non specialised loans:

Interest and principal outstanding	Classification	Provision required
Less than 90 days	Performing	0%
90 days but less than 180 days	Substandard	10%
180 days but less than 360 days	Doubtful	50%
Over 360 days	Lost	100%

Specialised loans:

Specialised loans include the following categories: agricultural finance; mortgage loan; margin loans; object finance; project finance; real estate loan; commercial real estate; and SME loans. The basis for making allowance for these loans and advances differs slightly from one category to another, based on the provisions of the CBN Prudential Guidelines.

A general provision of at least 1 per cent. is made on all risk assets for which no specific provision has been made.

Where a loan is deemed not collectible this loan is written off against the related risk allowance previously established and subsequent recoveries are credited to the income statement on a cash basis.

Available for sale assets

Under IFRS, the basis for the write down as a result of an impairment loss for an available for sale asset is its fair value. Any previous net upward revaluation in equity in respect of the asset is reversed first. Any additional write down below the initial amount recognised for the asset is recorded as an impairment loss in profit or loss. If the asset previously was revalued through equity to an amount below its original recorded amount, then the entire amount of the revaluation for that asset below the original cost must be recognised as an impairment loss even if the estimated recoverable amount indicates that some of that decline is recoverable.

Under Nigerian GAAP there is no "available for sale" classification. In practice, many entities determine their impairment losses based on management judgement. For banks, the impairment calculation on loans and advances is based on the requirements of the CBN Prudential Guidelines, which have largely been incorporated into Nigerian GAAP. Also, there is no guidance on how to calculate the estimated recoverable amount under the Nigerian GAAP. In practice, it is assumed to be a straight forward comparison of the carrying amount of the asset and the expected future cash flows (recoverable amount), with no discounting required, which is different from IFRS.

Similar to IFRS, under Nigerian GAAP, the amount of the impairment loss is recognised in the income statement.

In summary, the following practices related to bad debt losses which are not acceptable under IFRS are common in the application of Nigerian GAAP:

- recognising a provision for losses based on a set percentage of receivable balances having certain characteristics (for example, according to the number of days overdue) rather than actual incurred losses, without validating such percentages using historical data;
- recognising a loss for the gross expected shortfall on non performing assets, and suspending interest accrual; and
- recognising an impairment loss in excess of incurred losses calculated based on estimated cash flows because local regulations require a specific amount to be set aside.

Derecognition of financial assets

Derecognition criteria

Under IFRS, a financial asset is derecognised when the contractual rights to the cash flows from an asset expire or the entity transfers a financial asset and certain conditions are met with respect to that transfer. After establishing that a financial asset is transferred, consideration should be given to whether that transfer qualifies for derecognition:

- If substantially all of the risks and rewards are transferred, then a financial asset is derecognised. If substantially all of the asset's risks and rewards are retained, then the asset is not derecognised.
- If some but not substantially all of the asset's risks and rewards are transferred, than an asset is derecognised if control of the asset is transferred.
- If some but not substantially all of the asset's risks and rewards are transferred, than an asset is not derecognised if control of the asset is not transferred, and the entity continues to recognise the transferred asset to the extent of its continuing involvement in the asset.

Under Nigerian GAAP, a transferred investment, trade and other receivables is derecognised when all of the recognition criteria cease to be satisfied in respect of that asset. These assets are generally derecognised when disposed of, which may result in differences with IFRS. In particular, in terms of loans or securities, Nigerian GAAP requires derecognition (recognition of a sale) when the sale is without recourse. The sale is without recourse when all the following conditions are met:

- control over the economic benefits of the assets have been passed on to the buyer;
- the seller can reasonably estimate any outstanding cost; and
- there are no repurchase obligations.

Transfers to special purpose entities (SPEs)

Under IFRS, when financial instruments are transferred to a SPE, transferred assets will be derecognised in the consolidated financial statements only if the SPE's transfer of the assets to third parties is a transaction that qualifies for derecognition or if the SPE is not required to be consolidated.

Under Nigerian GAAP, it is unlikely that a SPE would be consolidated under Nigerian GAAP. When an investment meets the criteria for derecognition in the entity's stand alone financial statements, that investment is derecognised in the consolidated financial statements.

Derecognition of financial liabilities

Modification of terms

Under IFRS, when a liability is restructured or refinanced and the terms have been modified substantially, the transaction is accounted for as an extinguishment of the old debt, with a gain or loss. The new debt is recognised at fair value. Terms are considered to have been modified substantially when the net present value of the cash flows under the new terms, using the original effective interest rate (i.e., of the original liability) differs by more than 10 per cent. from the present value of the remaining payments under the original terms.

No specific guidance is provided on accounting for a restructured or refinanced liability on substantially modified terms under Nigerian GAAP. The terms for the restructuring or refinancing of a liability are determined by the agreement between the parties. If under the agreement, a borrower is released from primary responsibility for the liability as a result of a new debt agreement, then the old debt is considered extinguished.

Troubled debt restructuring

There are no special requirements for troubled debt restructurings under IFRS. The above rules on modification of liabilities apply whether or not a borrower is experiencing financial difficulties.

Nigerian GAAP has no special requirements on accounting for troubled debt restructuring.

Hedge accounting

Under IFRS, hedge accounting is permitted only when strict documentation and effectiveness testing requirements are met. The type of hedge accounting model applied depends on whether the hedged exposure is a fair value exposure, a cash flow exposure, or a currency exposure on a net investment in a foreign entity.

There is no guidance on hedge accounting under Nigerian GAAP. In practice, entities record only the cost of derivatives on the balance sheet and therefore changes in value of hedging instruments are not recognised, which differs from IFRS. However, Nigerian GAAP permits recognition of gains or deferral of losses when the foreign contracts are perfectly matched or hedged and the appropriate gain or loss has been recognised on the matching or hedging investment. Nigerian GAAP does not give further guidance on hedging or matching.

Financial Instruments: Presentation

- Under IFRS, an instrument is recognised as a liability if the issuer could be obliged to settle in cash or another financial instrument. This includes "**puttable**" shares including mutual fund units.

  Under Nigerian GAAP, only instruments in the legal form of a liability are recognised as liabilities.
- Under IFRS, an instrument is recognised as a liability if it will or may be settled in a variable number of the entity's own equity instruments (for example, equal to a specified value).

  Under Nigerian GAAP, the manner of settlement of an instrument does not impact the classification of that instrument.
- Under IFRS, preference shares and similar instruments must be evaluated to determine whether they have the characteristics of a liability. Such characteristics will lead to classification of these instruments as debt.

  Under Nigerian GAAP, instruments issued in the legal form of shares are classified as equity.
- Under IFRS, compound instruments that have both liability and equity characteristics are split into these components. Instruments may be classified as liabilities even if they are issued in the form of shares.

  Under Nigerian GAAP, there is no guidance on accounting for compound instruments, and therefore such instruments are classified only either as liability or as equity.

Classification as a liability or equity

Under IFRS, an instrument is classified as a liability (debt) when it contains an obligation to transfer resources (for example, cash or other financial assets). Such an obligation may arise from a requirement to repay principal or pay interest or dividends. Any instrument that an issuer could be obliged to settle in cash or another financial instrument is a liability regardless of the manner in which it is expected to be settled, the financial ability of the issuer to settle or the probability of settlement being required.

An instrument is classified as equity only if it does not contain any contractual obligation for the issuer to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that potentially are unfavourable to the issuer. These classification principles apply even if the instrument is in the legal form of a share. Therefore, preference shares might be classified as debt. Ordinary shares, including interests in mutual funds that are puttable to the issuer, are classified as liabilities.

Unlike IFRS, the Nigerian GAAP requires that all instruments in the legal form of a liability are recognised as a liability in the balance sheet. Conversely, all instruments that are in the legal form of shares are recognised as equity in the balance sheet.

Impact of share settlement

Under IFRS, if an instrument will or may be settled in the issuer's own equity instruments, that instrument is recognised as a liability if it includes a contractual obligation for the issuer to deliver a variable number of its own equity instruments. Also, if an instrument may be settled in own equity instruments (whether fixed or floating in number) or in cash or other financial assets at the option of the holder, then the instrument is a financial liability. In the case of derivative instruments, only an instrument that requires settlement by delivery of a fixed number of the Issuer's own equity instruments in settlement of a fixed obligation is classified as equity. Any other settlement method, even at the choice of the issuer, results in liability classification.

Under Nigerian GAAP, the manner in which an instrument could be settled does not impact the classification of the instrument.

Obligation to pay dividends

Under IFRS, a requirement to pay dividends gives rise to an obligation (for example, cumulative dividends on preference shares). This does not change even if the agreement to pay is conditioned on the entity earning sufficient distributable profits.

Under Nigerian GAAP, an obligation to pay dividends does not affect the classification of the underlying instrument.

Redemption options

Under IFRS, in some cases an instrument may be redeemable at the option of the issuer, but, through its terms and conditions, may indirectly establish an obligation for the issuer to transfer cash or other financial instrument to the holder.

Unlike IFRS, redemption options do not affect the classification of the underlying instrument under Nigerian GAAP.

Contingent obligations

Under IFRS, an obligation to transfer resources is classified as a liability if the obligation is contingent on uncertain future events outside the control of both the holder and the issuer, unless:

- the potential obligation to settle in cash (or another financial asset) is not genuine; or
- settlement in cash or another financial asset can be required only in the vent of the liquidation of the issuer.

Unlike IFRS, contingent obligations do not affect the classification of the underlying instrument under Nigerian GAAP.

Compound instruments

Under IFRS, an instrument that contains both debt and equity elements (for example, a convertible bond or convertible or redeemable preference shares) is a compound instrument. Compound instruments are allocated between their debt and equity components (split accounting). The classification (and allocation) is made at initial recognition and is not revised as a result of a change in the likelihood that a conversion option will be exercised. The carrying amount of a compound instrument is allocated between its debt and equity components on initial recognition so that the liability is recognised at its fair value and the equity component is recognised as the residual balance of the total proceeds of the relevant issuance. The allocation is made as follows:

- the amount allocated to the liability element is the present value of the future interest and principal cash flows, discounted at a rate applicable to a similar liability without an equity component. The value of any embedded derivatives, other than the equity feature (the embedded call represented by the conversion feature), is included in the amount allocated to the liability; and
- the remaining issue proceeds are allocated to the equity element.

On early redemption of a convertible instrument, the redemption payment should be allocated to the liability and equity components using a method consistent with the method initially used to allocate the instrument between its debt and equity components. The fair value of the liability component is compared to its carrying amount, giving rise to a gain or loss on redemption that is recognised in income. The remainder of the redemption payment paid is recognised in equity.

Unlike IFRS, there is no guidance on compound instruments under Nigerian GAAP. Normally, entities do not use split accounting for the debt and equity components of such instruments. Therefore a convertible bond, for example, would be recognised as liability; no portion of the proceeds would be recognised in equity. On the other hand, redeemable preference shares would be classified entirely as equity.

Specifically in relation to redeemable preference shares, Nigerian GAAP requires that the redemption is to be made from either distributable profits or from proceeds of a fresh issue of shares made for the purpose of the redemption. Where the redemption is derived from distributable profits, an amount that is equal to the nominal amount of shares redeemed is transferred to a separate reserve in equity known as the Capital Redemption Reserve Fund.

Accounting for conversion

Under IFRS, upon conversion of a convertible instrument, the entity recognizes the liability component (which is extinguished when the conversion feature is exercised) as equity. The original equity component remains equity and no gain or loss is recognised in profit or loss.

Under Nigerian GAAP, upon conversion of a convertible instrument, entities normally derecognise the entire instrument and recognise the amount equal to the nominal value of shares in share capital. However, it is not clear whether any difference arising from derecognition is included in income statement or equity.

Puttable instruments

Under IFRS, financial instruments that give the holder the right to put them back to the issuer for cash or other financial assets ("**puttable instruments**") are financial liabilities of the issuer. This applies even when the amount of cash or other financial assets is determined on the basis of an index or other variable that has the potential to increase or decrease, or when the legal form of the puttable instrument gives the holder the right to a residual interest in the assets of the issuer.

Under Nigerian GAAP, puttable instruments, such as shares issued by a limited liability company are recognised as equity if they are in the legal form of shares. This is different from IFRS.

Derivatives on own equity

Under IFRS, a derivative on own equity that will be settled only by exchanging a fixed number of own shares for a fixed amount of cash or other financial assets that requires gross physical settlement is classified as equity. The initial amount paid or received is recognised directly in equity and the instrument is not remeasured for changes in the value of the instrument. A derivative on own equity that will be or may be settled net in cash, or in a variable number of own shares to that net value, is treated as a derivative and measured at fair value with all gains and losses from changes in fair value recognised immediately in profit or loss.

There is no guidance on the accounting treatment of derivatives under Nigerian GAAP. In practice, changes in the value of a derivative on own equity, regardless of the manner of settlement, is recognised on the balance sheet.

In addition, unlike IFRS, the initial amount paid or received, is recognised in the income statement immediately under Nigerian GAAP.

Treasury shares

Under IFRS, any amounts paid by an entity to acquire its own equity instruments are debited directly to equity. This applies whether the equity instruments are cancelled immediately or are held for resale (i.e., treasury shares). Amounts received on the sale of treasury shares are credited directly to equity. No gains or losses are recognised in profit or loss on any purchase, sale, issue or cancellation of own equity instruments, or in respect of any changes in the value of treasury shares. Own equity instruments held in connection with an equity compensation plan are required to be presented as treasury shares.

There is no guidance under Nigerian GAAP as to how own equity instruments acquired by an entity should be treated. Generally, entities adopt IFRS practice as long as it does not contravene any regulatory requirement. However, in terms of presentation, Nigerian GAAP indicates that treasury shares (or own shares) are presented under either long term or short term investments in the balance sheet. This is different from IFRS, where treasury shares are presented as a deduction from equity.

Consolidated and Separate Financial Statements

- An SPE is an entity created to accomplish a narrow and well defined objective. SPEs are consolidated based on control. The determination of control includes an analysis of the risks and rewards associated with an SPE. Unlike IFRS, Nigerian GAAP does not have any guidance on SPEs.
- There is no guidance on accounting for acquisitions of minority interests under IFRS.

Unlike currently effective IFRS, Nigerian GAAP provides guidance on changes in a parent's interest in a subsidiary. 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 and no gains or losses are recognised in the income statement. If loss of control occurs, gains or losses are recognised in the income statement and any retained investment is re measured to fair value and then accounted for in accordance with relevant Nigerian GAAP.

Investments in Associates and Joint Ventures

- IFRS requires that gains and losses on non monetary contributions in return for an equity interest in a jointly controlled entity are recognised to the extent of the other investors' interests in the investee. In some cases no gain or loss is recognised.

  Nigerian GAAP does not provide guidance on recognition of gains and losses on non monetary contributions in return for an equity interest in a jointly controlled entity.

- IFRS requires that venture capital organisations, mutual funds, unit trusts and similar entities may elect to account for investments in associates and jointly controlled entities classified as fair value through profit or loss or held for trading as financial assets.

  Under Nigerian GAAP, venture capital organisations, mutual funds, unit trusts and similar entities may account for interest in jointly controlled entities classified as held for trading at cost, less any provision for impairment and are therefore excluded from the scope of SAS 29.

Business Combinations

- Under IFRS, the cost of acquisition, which is determined at the date of exchange, is the amount of cash or cash equivalents paid, plus the fair value of the other purchase consideration given, including equity instruments issued and the fair value of liabilities incurred or assumed plus any costs directly attributable to the acquisition.

  Unlike currently effective IFRS 3, cost of acquisition, which is determined at the date of exchange under Nigerian GAAP, is the amount of cash or cash equivalents paid, plus the fair value of the other purchase consideration given, including equity instruments issued and the fair value of liabilities assumed. This excludes any costs directly attributable to the acquisition.

Foreign Currency Translation

- Under IFRS, an entity may present its financial statements in a currency other than its functional currency (presentation currency).

  Nigerian GAAP only permits entities operating in the upstream sector of the oil and gas industry to present their financial statements (for statutory purposes) in a currency other than Naira.

Translation of foreign currency financial statements

The financial information regarding foreign operations is translated as follows:

- Assets and liabilities are translated at the exchange rate at the reporting date under both IFRS and Nigerian GAAP;
- For items of revenue and expense under IFRS, translation at exchange rates at the dates of the relevant transactions, or at appropriate average rates. Nigerian GAAP requires translation at either the closing rate or exchange rates at the dates of the relevant transactions; and
- Under IFRS, the resulting exchange differences are recognised directly in equity, and are presented as a separate component of equity, often referred to as a foreign currency translation reserve; under Nigerian GAAP the resulting exchange differences are recognised directly in an equity account called Income or Revenue Reserve.

Accounting policies, errors and estimates

- Under IFRS, accounting policy changes and corrections of prior period errors are accounted for retrospectively by adjusting opening equity and comparatives, unless impracticable.

  Unlike IFRS, Nigerian GAAP requires that adjustments to correct prior period errors in retained earnings should be reported net of associated taxes.

- When it is difficult to determine whether a change is a change in accounting policy or a change in estimate, IFRS requires that it is treated as a change in estimate.

  There is no such guidance under Nigerian GAAP.

- IFRS requires that comparatives are adjusted, unless impracticable, if the classification or presentation of items in the financial statements is changed. In addition, when an entity restates comparative information following a change in accounting policy, the correction of an error, or the reclassification of items in the financial statements, the entity prepares additional statements of financial position (currently called balance sheet) as at the beginning of the comparative period. In such cases three statements of financial position will be presented.

Unlike IFRS, Nigerian GAAP does not provide guidance with respect to the treatment of comparatives, if the classification or presentation of items in the financial statements is changed.

Property, Plant and Equipment (PPE)

Land and buildings

In Nigeria, the Land Use Act Cap L5 LFN 2004 ("**the Land Use Act**") vests ownership of all land in Nigeria in various tiers of governments. Individual and corporate entities which acquired land after the Land Use Act came into effect are provided the land they occupy for use under a 99 year lease arrangement. These land plots are called leasehold land. Land plots acquired before the Land Use Act came into effect are held as freehold.

Under Nigerian GAAP, land and buildings including leasehold lands are classified as property and equipment. IFRS requires land and building components to be evaluated separately for the purpose of lease classification. IFRS generally requires leasehold land to be classified as an operating lease unless title is expected to pass to the lessee at the end of the lease term.

Software

Under Nigerian GAAP, software is treated as property and equipment. Under IFRS, software is accounted for as intangible assets, unless it is an integral part of the hardware in which case such software is treated as tangible assets under IAS16 Property, Plant and Equipment.

- IFRS requires an entity to start depreciating an asset when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating manner intended by management. Therefore, depreciation under IFRS commences when available for use and continues even if there is no usage.

  Under Nigerian GAAP, no depreciation is charged until the assets are put into use.

- IFRS includes the cost of dismantling and removing the asset and restoring the site as part of the cost of PPE.

  Unlike IFRS, the requirement for cost to include the cost of dismantling and removing the asset and restoring the site under Nigerian GAAP is only specific to entities engaged in upstream oil and gas activities and entities engaged in telecoms activities.

- IFRS provides that estimates of useful life and residual value, and the method of depreciation, should be reviewed at least at each annual reporting date. Any changes are accounted for prospectively as a change in estimate.

  Under Nigerian GAAP, there is no requirement to annually review estimates of useful life and residual value, and the method of depreciation for indications that the current estimates or depreciation method are no longer appropriate. However, permanent impairments (when identified) which cause the recoverable amount to fall below the carrying amount are written to the income statement.

- IFRS provides that the residual value of an asset is the estimated amount that an entity would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

  Under Nigerian GAAP, the residual value of an asset is the estimated net amount recoverable from an asset's disposal after its expected useful economic life.

- Under IFRS, when an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is depreciated separately.

  The requirement to componentise an item of property, plant and equipment under Nigerian GAAP is only included in SAS 25.

- Under IFRS, revaluation surplus in respect of disposed property, plant and equipment is transferred to retained earnings. Alternatively, the revaluation surplus may be transferred to retained earnings as the asset is used. Transfer of revaluation surplus through profit or loss is not permitted.

Unlike IFRS, transfer of revaluation surplus in respect of disposed item of property, plant and equipment to profit and loss is permitted under Nigerian GAAP. In addition, Nigerian GAAP is silent on the transfer of revaluation surplus to retained earnings as the asset is used.

Investment Properties

- IFRS provides that property held by a lessee under an operating lease may be classified as investment property if the definition of investment property otherwise is met and the lessee measures investment property at fair value.

  Unlike IFRS, Nigerian GAAP does not address whether property held by a lessee under an operating lease can be recognised in the balance sheet.

- IFRS provides that a portion of a dual use property is classified as investment property only if the portion could be sold or leased out under a finance lease. Otherwise the entire property is classified as property, plant and equipment unless only an "**insignificant**" portion is held for own use.

  Unlike IFRS, Nigerian GAAP provides no guidance on how to classify dual use property but it deems a property to be occupied substantially for use if the owner or another entity within the same group occupies more than 15 per cent. of the lettable space.

- IFRS requires that subsequent to initial recognition, all investment properties are measured using either the fair value model or the cost model and if the fair value model is chosen, changes in fair value are recognised in profit or loss and, disclosure of the fair value of all investment property is required, regardless of the measurement model used.

  Unlike the IFRS, the Nigerian GAAP requires that subsequent to initial recognition, investment property should be measured using either the revaluation model which requires that investment property must be revalued periodically on a systematic basis at least once in three years.

Short term employee benefits

Low interest loans

Under IFRS, loans granted to employees at lower than market interest rates generally are recognised as employee benefits, which must be measured at the present value of the anticipated future cash flows (discounted using a market interest rate). Loans to employees who are either directors or members of the management team often are related party transactions.

In practice, accounting for compensated absences, profit sharing and bonus plans under Nigerian GAAP generally follow the IFRS treatment. However, low interest loans would most likely not be recognised as employee benefits as such loans are generally not discounted at the market rate of interest on initial recognition.

Scope of post employment benefits

Under IFRS, post employment benefits include all benefits payable after employment (before or during retirement), for example, pensions, medical benefits after employment and severance payments.

Nigerian GAAP does not refer to the term "**post employment benefits**". Instead Nigerian GAAP refers to employee retirement benefits. In practice, those benefits which would be regarded as post employment benefits under IFRS are generally treated as retirement benefits under Nigerian GAAP.

Nigerian GAAP also recognises that retirement benefits may arise from both formal and informal arrangements between employers and employees.

Income recognition

Under IFRS, interest income is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability or, when appropriate a shorter period to the net carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of effective interest rate includes all fees and points paid or received (fees and commission), transaction costs and discounts or premiums that are an integral part of the effective interest rate. 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 thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Under Nigerian GAAP, interest income is recognised on an accrual basis over the life of the credit, except for interests on non performing credit facilities that are overdue by more than 90 days, which are suspended and subsequently recognised on a cash basis. Non credit related fee income charged to customers for services rendered is recognised at the time the service or transaction is considered substantially completed.

Credit related fee income, where material (credit related fee income will be considered material if it constitutes at least 10 per cent. of the projected average annual yield of the facility), is systematically spread over the lifespan of the facility or otherwise credited to income on occurrence.

Commissions and fees charged to customers for services rendered are recognised at the time the transaction is effected; Investment income is recognised on an accrual basis and credited to the income statement. Substantial directly related (origination) costs are deducted from related fee income before deferral and amortised over the lifespan of the facility.

Current and deferred taxation

Under IFRS, current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Under Nigerian GAAP, income tax expenses/credits are recognised in the profit and loss account. Current income tax is the expected tax payable on the taxable income for the year, using statutory tax rates at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxation, which arises from timing differences in the recognition of items for accounting and tax purposes, is calculated using the liability method. Deferred taxation is provided fully on timing differences, which are expected to reverse at the rate of tax likely to be in force at the time of reversal. Currently enacted tax rates are used to determine deferred income tax.

INDEX TO FINANCIAL STATEMENTS OF THE BANK

FIRST BANK OF NIGERIA LIMITED
IFRS Condensed Consolidated Interim Financial Information
for the period ended 31 March 2013

First Bank of Nigeria Limited
Index to the condensed consolidated interim financial information for the period ended 31 March 2013

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE THREE MONTHS ENDED 31 MARCH

		Group		Bank	
		31 March 2013 N' million	31 March 2012 N' million	31 March 2013 N' million	31 March 2012 N' million
	Note				
Interest income	7	69,637	59,596	64,318	54,117
Interest expense	8	(19,802)	(11,815)	(18,062)	(10,383)
Net interest income		**49,835**	**47,781**	**46,256**	**43,734**
Impairment charge for credit losses	9	(1,268)	(3,070)	(1,424)	(2,475)
Net interest income after impairment charge for credit losses		**48,567**	**44,711**	**44,832**	**41,259**
Fee and commission income	10	15,104	13,606	13,843	12,027
Foreign Exchange income		6,015	1,428	5,860	1,183
Net (losses)/gains on investment securities		(1,056)	1	(1,056)	(119)
Net gains/(losses) from financial assets classified as held for trading	11	564	24	564	24
Net insurance premium		-	475	-	-
Net insurance benefits and claims		-	(303)	-	-
Other operating income		476	515	153	160
Other operating expenses		(44,308)	(41,858)	(41,347)	(38,946)
Operating profit		**25,362**	**18,599**	**22,849**	**15,588**
Share of (loss)/profit of associates accounted for using the equity method		282	(854)	-	-
Profit before tax		**25,644**	**17,745**	**22,849**	**15,588**
Income tax expense	12	(3,713)	(2,591)	(3,336)	(2,276)
PROFIT FOR THE PERIOD		**21,931**	**15,154**	**19,513**	**13,312**
Profit attributable to:					
Owners of the Company		21,877	15,453	19,513	13,312
Non-controlling interests		54	(299)	-	-
		21,931	**15,154**	**19,513**	**13,312**
Earnings per share for profit attributable to owners of the parent					
Basic/diluted earnings per share:	32	0.66	0.47	0.60	0.41

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31ST MARCH	Note	*Group* 31 March 2013 N' million	 31 March 2012 N' million	*Bank* 31 March 2013 N' million	 31 March 2012 N' million
PROFIT FOR THE PERIOD		**21,931**	**15,154**	**19,513**	**13,312**
Other comprehensive income:					
Items that may be reclassified subsequently to net income					
Net gains on available-for-sale financial assets					
- Unrealised net gains/(losses) arising during the period, before tax		4,347	3,681	4,322	3,681
- Net reclassification adjustment for realised net (losses) or gains, before tax		-			
Exchange difference on translation of foreign operations		(157)	370		
Items that will not be reclassified to net income					
Return on plan assets		841	78	841	78
Other comprehensive income for the period, net of tax		**5,031**	**4,129**	**5,163**	**3,759**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**26,962**	**19,283**	**24,676**	**17,071**
Total comprehensive income attributable to:					
Owners of the Company		26,908	19,582	24,676	17,071
Non-controlling interests		54	(299)	-	-
		26,962	**19,283**	**24,676**	**17,071**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Group 31 March 2013 N' million	Group 31 December 2012 N' million	Bank 31 March 2013 N' million	Bank 31 December 2012 N' million
ASSETS					
Cash and balances with central banks	13	322,384	298,024	256,190	288,125
Loans and advances to banks	15	366,147	393,125	340,674	329,120
Loans and advances to customers	16	1,554,669	1,563,005	1,282,536	1,316,407
Financial assets at fair value through profit or loss	17	6,836	2,565	6,836	1,942
Investment securities	18				
-Available for sale		575,480	351,374	495,950	300,351
-Held to maturity		294,609	330,860	291,520	330,860
Asset pledged as collateral	18.3	49,558	50,109	49,558	50,109
Investment in subsidiary		-	-	40,348	40,348
Investments in associates accounted for using the equity method		5,894	5,609	2,224	2,224
Other assets	19	48,276	33,733	45,246	32,459
Property and equipment	21	77,018	74,454	71,847	70,724
Intangible assets	22	2,664	3,417	1,148	1,302
Deferred tax asset		7,538	7,955	6,703	6,703
		3,311,073	3,114,230	2,890,780	2,770,674
Assets classified as held for sale	23	12,736	12,978	-	-
Total assets		**3,323,809**	**3,127,208**	**2,890,780**	**2,770,674**
LIABILITIES					
Deposits from banks		78,029	87,551	12,083	18,463
Deposits from customers	24	2,604,062	2,405,858	2,292,378	2,171,807
Financial liabilities held for trading	17	6,332	1,796	2,119	1,278
Borrowings	25	35,810	75,541	35,804	81,987
Retirement benefit obligations	26	18,559	18,648	18,051	18,156
Current income tax liability		24,796	22,374	23,104	19,768
Deferred income tax liability		6	5	-	-
Other liabilities	27	132,610	118,066	110,389	87,039
		2,900,204	2,729,839	2,493,928	2,398,498
Liabilities included in assets classified as held for sale	23	1,929	2,836	-	-
Total liabilities		**2,902,133**	**2,732,675**	**2,493,928**	**2,398,498**
EQUITY					
Share capital		16,316	16,316	16,316	16,316
Share premium		189,241	189,241	189,241	189,241
Retained earnings		114,882	94,991	94,902	77,342
Other reserves					
-Statutory reserve		45,932	42,972	45,349	42,422
-SSI Reserve		6,076	6,076	6,076	6,076
-AFS Fair Value Reserve		30,162	25,815	29,000	24,678
-Statutory credit reserve		15,968	16,101	15,968	16,101
-Foreign currency translation reserve		1,511	1,668	-	-
		420,088	393,180	396,852	372,176
Non-controlling interest		1,588	1,353	-	-
Total equity		**421,676**	**394,533**	**396,852**	**372,176**
Total equity and liabilities		**3,323,809**	**3,127,208**	**2,890,780**	**2,770,674**

The financial statements on pages 3 to 37 were approved by the Board of Directors on 9 July 2013 and signed on its behalf by:

Prince Ajibola Afonja	Bisi Onasanya	Adebayo Adelabu
Chairman	Group Managing Director / CEO	Executive Director/Group CFO

FIRST BANK OF NIGERIA LIMITED

BANK STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent							
	Share capital	Share premium	Retained earnings	Statutory reserve	SSI reserve	AFS Fair value reserve	Statutory credit reserve	Total
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Balance at 1 January 2012	16,316	254,524	49,649	31,752	6,076	9,160	9,766	377,243
Profit for the year	-	-	13,312	-		-	-	13,312
Other comprehensive income								
Fair value movements on equity financial assets	-	-	-	-	-	3,681	-	3,681
Return on plan assets	-	-	78	-	-	-	-	78
Total comprehensive income	-	-	13,389	-	-	3,681	-	17,071
Transactions with owners								
Transfer between reserves	-	-	4,061	1,997	-	-	(6,058)	-
Total transactions with Owners	-	-	4,061	1,997	-	-	(6,058)	-
At 31 March 2012	16,316	254,524	67,100	33,749	6,076	12,841	3,708	394,314
Balance at 1 January 2013	16,316	189,241	77,342	42,422	6,076	24,678	16,101	372,176
Profit for the year			19,513					19,513
Other comprehensive income								
Fair value movements on equity financial assets	-	-	-	-	-	4,322	-	4,322
Return on plan assets	-	-	841	-	-	-	-	841
Total comprehensive income	-	-	20,354	-	-	4,322	-	24,676
Transactions with owners								
Tranfer between reserves	-	-	(2,794)	2,927	-	-	(133)	-
Total transactions with Owners	-	-	(2,794)	2,927	-	-	(133)	-
At 31 March 2013	16,316	189,241	94,902	45,349	6,076	29,000	15,968	396,852

FIRST BANK OF NIGERIA LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent												
	Share capital	Share premium	Retained earnings	Statutory reserve	SSI reserve	AFS Fair value reserve	Contingency reserve	Statutory credit reserve	Treasury share reserve	FCTR	Total	Non-controlling interest	Total equity
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Balance at 1 January 2012	16,316	254,524	41,587	32,144	6,076	8,524	13	9,766	(1,941)	606	367,615	964	368,579
Profit for the year	-	-	15,453	-	-	-	-	-	-	-	15,453	(299)	15,154
Other comprehensive income													
Foreign currency translation differences,net of tax	-	-	-	-	-	-		-	-	370	370	-	370
Acqusition of subsidiary	-	-	-	-	-	-	-	-	-	-	-	1,286	1,286
Fair value movements on equity financial assets	-	-	-	-	-	3,681	-	-	-	-	3,681	-	3,681
Return on plan assets	-	-	78	-	-	-	-	-	-	-	78	-	78
Total comprehensive income	-	-	15,531	-	-	3,681	-	-	-	370	19,582	987	20,569
Transactions with owners											-		-
Transfer between reserves	-		4,061	1,997				(6,058)		-	-	-	-
Total transactions with Owners	-	-	4,061	1,997	-	-	-	(6,058)	-	-	-	-	-
At 31 March 2012	16,316	254,524	61,179	34,141	6,076	12,205	13	3,708	(1,941)	976	387,197	1,951	389,148
Balance at 1 January 2013	16,316	189,241	94,991	42,972	6,076	25,815		16,101		1,668	393,180	1,353	394,533
Profit for the year	-	-	21,877	-	-	-	-	-	-	-	21,877	54	21,931
Other comprehensive income													
Foreign currency translation differences,net of tax	-	-	-	-	-	-	-	-	-	(157)	(157)	-	(157)
Fair value movements on equity financial assets	-	-	-	-	-	4,347	-	-	-	-	4,347	-	4,347
Return on plan assets	-	-	841	-	-	-	-	-	-	-	841	-	841
Total comprehensive income	-	-	22,718	-	-	4,347	-	-	-	(157)	26,908	54	26,962
Transactions with owners					-	-	-	-	-		-		-
Remeasurement of goodwill	-	-	-	-	-	-	-	-	-	-	-	181	181
Transfer between reserves			(2,827)	2,960				(133)			-	-	-
Total transactions with Owners	-	-	(2,827)	2,960	-	-	-	(133)	-	-	-	-	-
At 31 March 2013	16,316	189,241	114,882	45,932	6,076	30,162	-	15,968	-	1,511	420,088	1,588	421,676

First Bank of Nigeria Limited

STATEMENT OF CASH FLOWS

	Note	GROUP 31 March 2013 N 'millions	GROUP 31 March 2012 N 'millions	BANK 31 March 2013 N 'millions	BANK 31 March 2012 N 'millions
Operating activities					
Cash flow generated from operations	28	157,833	112,594	112,332	107,475
Income taxes paid		(875)	(2,382)	(3)	(2,187)
Interest received		65,187	71,966	62,026	58,557
Interest paid		(18,630)	(13,929)	(17,366)	(12,274)
Purchase of investment securities		(237,467)	(47,469)	(237,452)	(45,235)
Proceeds on disposal of investment securities		214,638	7,567	212,215	7,481
Net cash flow generated from operating activities		180,686	128,348	131,752	113,817
Investing activities					
Acquisition from subsidiary		-	11,463	-	-
Purchase of investment property		-	(778)	-	-
Purchase of property, plant and equipment		(4,392)	(4,098)	(3,424)	(3,405)
Proceeds on disposal of property, plant and equipment		141	238	82	208
Purchase of intangible assets		(9)	(1,050)	(9)	(956)
Proceeds on disposal of intangible assets		40	-	-	-
Net cash (used in)/generated from investing activities		(4,220)	5,775	(3,353)	(4,153)
Financing activities					
Repayment of borrowing		(50,959)	(46,201)	(50,959)	(46,197)
Proceeds of borrowings		11,238	3,926	4,786	3,926
Net cash used in financing activities		(39,721)	(42,275)	(46,173)	(42,271)
Increase in cash and cash equivalents		136,745	91,848	82,226	67,393
Cash and cash equivalents at start of year	14	595,917	708,991	500,389	467,546
Effect of exchange rate fluctuations on cash held		42	(365)	199	(735)
Cash and cash equivalents at end of year	14	732,704	800,473	582,814	534,204

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE 3 MONTHS ENDED 31 MARCH 2013

1 General information

These financial statements are the condensed interim consolidated financial statements of First Bank Nigeria Limited (the Bank), and its subsidiaries (hereafter referred to as 'the Group').

The Regsitered office address of the Bank is at 35 Marina, Samuel Asabia House.

The principal activities of the Bank are mainly retail banking and corporate banking. Retail banking provides banking activities relating to individuals, such as savings account, investment savings products, loans and money transfers. Corporate banking includes activities relating to multinational and local corporations, as well as financial and governmental institutions, such as funds management, credit facilities and project finance.

In the last financial period (year to 31 December 2012), there was a business restructuring within the First Bank Group, which resulted in the adoption of the holding company model. Thus, FBN Holdings Plc was set up as a non-operating legal entity domiciled in Nigeria, and regulated by the Central Bank of Nigeria as an “other financial institution".

The financial information for 31st March 2013 represents the results of First Bank of Nigeria Limited after the restructuring and inludes the following five subsidiaries.

FBN Bank (UK) Limited
FBN Pension Custodian Limited
FBN Mortgages Limited
FBN Bureau de Change Limited
Banque Internationale de Credit

The financial information for 31st March 2012 represents the results of First Bank of Nigeria Limited before the restructuring and includes the following twelve subsidiaries
FBN Bank (UK) Limited
FBN Capital Limited
FBN Pension Custodian Nigeria Limited
First Trustees Nigeria Limited
FBN Mortgages Limited
FBN Insurance Brokers Limited
FBN Registrars Nigeria Limited
FBN Bureau De Change Limited
FBN Micro-Finance Bank Limited
First Funds Limited
FBN Life Assurance
Banque International de Credit

These Group condensed consolidated interim financial statements for the year ended 31 March 2013 were approved for issue by the Board of Directors on 5 July 2013

2 Basis of preparation

These condensed interim financial statements for the three months ended 31 March 2013 have been prepared in accordance with IAS 34, ‘Interim financial reporting’. The condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with IFRSs.

3 Accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the following:

a) taxes on income in the interim periods which are accrued using the tax rate that would be applicable to expected total annual profit or loss
b) accounting policies newly adopted as described in note 3.1
c) segment reporting in note 6

3.1 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the group

A number of new standards and amendments to standards came into effect for annual periods beginning after 1 January 2013. These include IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 19 (Revised 2011) Employee Benefits, IFRS 13 Fair Value Measurement and amendments to IAS 1 Presentation of Financial Statements. As required by IAS 34, the nature and the effect of these changes are disclosed below. In addition, the application of IFRS 12 Disclosure of Interest in Other Entities would result in additional disclosures in the annual consolidated financial statements.

Several other new standards and amendments apply for the first time in 2013.

The nature and the impact of each new standard/amendment is described below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Group’s financial position or performance.The group has reclassified comprehensive income items of the comparative period.These changes did not result in any adjustments to other comprehensive income or comprehensive income.

IAS 1 Clarification of the requirement for comparative information (Amendment)
The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements

An opening statement of financial position (known as the ‘third balance sheet’) must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim condensed financial statements do not include a third balance sheet.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)
The amendment to IAS 32 Financial Instruments: Presentation clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed consolidated financial statements for the Group, as there is no tax consequences attached to cash or non-cash distribution.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)
IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.
The group continues to immediately recognize in retained earnings all pension adjustments recognized in other comprehensive income.The group also continues to recognize interest expense (income) on net post-employment benefits liabilities (assets) in finance expense (income) in the condensed consolidated income statement. See note 26 for impact of the application of IAS19R.

3.1 Changes in accounting policies and disclosures continued

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7
The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. The group assessed its consolidation conclusions on 1 January, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.

The application of this new standard had no material impact on the group

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period requires that they are provided. Accordingly, the Group has not made such disclosures.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The group adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustements to the valuation techniques used by the company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements period.

(b) New standards and interpretations not early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these condensed interim consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the group, except the following set out below:

Amendment to IAS 32, 'Financial instruments:Presentation', on asset and liability offsetting' (effective for periods beginning on or after 1 January 2014):
This amendment clarifies some of the requirements for offsetting financial assets and liabilities on the reporting date. The Group is yet to assess the full effect of IAS 32 and intends to adopt IAS 32 no later than the accounting period beginning on or after 1 January 2014.

3.1 Changes in accounting policies and disclosures continued

IFRS 9, 'Financial Instruments' (effective for periods beginnning on or after 1 January 2015):
This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The Group is yet to assess the full effect of IFRS 9 and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.The directors will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

4 Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2012, with the exception of changes in estimates that are required in determining the provision for income taxes.

5 Financial risk management

The group's activities expose it to a variety of financial risks. The risks arising from financial instruments to which the Group is exposed are financial risks, which includes credit risk, liquidity risk and market risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the group's annual financial statements as at 31 December 2012. There have been no changes in the risk management structure since year end or in any risk management policies.

5.1 Fair value estimation of financial assets and liabilities

a Fair value Heirarchy

IFRS 7 specifies a heirarchy of valuation techniques based on whether the inputs to those valuations are observable or unobservable. Observable inputs reflect market data obtained from independent sources while unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following heirarchy.

The different levels have been defined as follows:
- 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 (that is, as prices) or indirectly (that is, derived from prices).
-Level 3- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. As at 31 March 2013, the Group held the following classes of financial instruments measured at fair value on a recurring basis.

5.1 Fair value estimation of financial assets and liabilities

a Fair value Heirarchy continued

GROUP

	Level 1 N 'millions	Level 2 N 'millions	Level 3 N 'millions	Total N 'millions
31 March 2013				
Financial assets held for trading				
Debt Securities	4,224	-	-	4,224
Derivatives	-	2,612	-	2,612
Available-for-sale financial assets				
Investment securities - debt	475,942	55,578	-	531,520
Investment securities - unlisted equity		42,631	44	42,675
Investment securities - listed equity	1,285	-	-	1,285
Assets pledged as collateral	18,530	-	-	18,530
Loans and receivables		-	-	-
Cash and balances with central banks	322,384	-	-	322,384
Loan and advances to banks	366,147	-	-	366,147
Loans and advances to customers				-
- Overdrafts	-	307,232	-	307,232
- Term loans	-	1,291,012	-	1,291,012
- Staff loans	-	5,159	-	5,159
- Project finance	-	61,906	-	61,906
- Advances under finance lease	-	3,172	-	3,172
Other assets (excluding prepayments)	-	34,819	-	34,819
Debt instruments				
Assets pledged as collateral (held to maturity)	-	24,957	-	24,957
Investment securities (held to maturity)	126,497	151,530	-	278,027
Financial liabilities held for trading				
Derivatives	4,213	2,119	-	6,332
Financial liabilities at ammortised cost				
Deposits from Banks	78,029	-	-	78,029
Deposits from customers	-	2,604,062	-	2,604,062
Other liabilities (excluding provisions and accruals)	-	108,216	-	108,216
Borrowings	-	35,810	-	35,810
31 December 2012				
Financial assets held for trading				
Debt Securities	679	-	-	679
Derivatives	623	1,262	-	1,885
Available-for-sale financial assets				
Investment securities - debt	208,531	95,342	-	303,873
Investment securities - unlisted equity	-	46,311	59	46,370
Investment securities - listed equity	1,131	-	-	1,131
Assets pledged as collateral	19,046	-	-	19,046
Financial liabilities held for trading				
Derivatives	518	1,278	-	1,796

5.1 Fair value estimation of financial assets and liabilities

a Fair value Heirarchy continued

Reconciliation of recurring fair value measurements categorised within Level 3 of the fair value hierarchy

At 1 January 2012	31,122
Transfer out of Level 3 due to change in observability of market data	(31,063)
At 31 December 2012	59
Total Gains/(losses) recognised through OCI	(15)
Transfer out of Level 3 due to change in observability of market data	-
At 31 March 2013	44

Total gains or losses for the period included in profit or loss are presented in 'Net gains/(losses) from investment
During the three-month period ended 31 March 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements. Fair value increases/decreases are recorded in other comprehensive income.

BANK

	Level 1 N 'millions	Level 2 N 'millions	Level 3 N 'millions	Total N 'millions
31 March 2013				
Financial assets held for trading				
Debt Securities	4,224	-	-	4,224
Derivatives		2,612	-	2,612
Available-for-sale financial assets				
Investment securities - debt	396,456	55,578	-	452,034
Investment securities - unlisted equity	-	42,631	-	42,631
Investment securities - listed equity	1,285	-	-	1,285
Assets pledged as collateral	18,530	-	-	18,530
Loans and receivables		-	-	-
Cash and balances with central banks	256,190	-	-	256,190
Loan and advances to banks	340,674	-	-	340,674
Loans and advances to customers				-
- Overdrafts	-	299,673	-	299,673
- Term loans	-	1,002,254	-	1,002,254
- Staff loans	-	5,084	-	5,084
- Project finance	-	61,905	-	61,905
- Advances under finance lease	-	3,173	-	3,173
Other assets (excluding prepayments)	-	32,689	-	32,689
Debt instruments				
Assets pledged as collateral (held to maturity)	-	24,957	-	24,957
Investment securities (held to maturity)	123,408	151,530	-	274,938
Financial liabilities held for trading				
Derivatives	-	2,119	-	2,119
Financial liabilities at ammortised cost				
Deposits from Banks	12,083	-	-	12,083
Deposits from customers	-	2,292,378	-	2,292,378
Other liabilities (excluding provisions and accruals)	-	87,917	-	87,917
Borrowings	-	35,804	-	35,804

5.1 Fair value estimation of financial assets and liabilities

a Fair value Heirarchy continued

	Level 1 N 'millions	Level 2 N 'millions	Level 3 N 'millions	Total N 'millions
31 December 2012				
Financial assets held for trading				
Debt Securities	680	-	-	680
Derivatives	-	1,262	-	1,262
Available-for-sale financial assets				
Investment securities -debt	157,568	95,342	-	252,910
Investment securities - unlisted equity	-	46,311	-	46,311
Investment securities - listed equity	1,131	-	-	1,131
Assets pledged as collateral	19,046	-	-	19,046
Financial liabilities held for trading				
Derivatives	-	1,278	-	1,278

Reconciliation of recurring fair value measurements categorised within Level 3 of the fair value hierarchy

At 1 January 2012	22,698
Transfer out of Level 3 due to change in observability of market data	(22,698)
At 31 December 2012	-
Transfer out of Level 3 due to change in observability of market data	-
At 31 March 2013	-

Total gains or losses for the period included in profit or loss are presented in 'Net gains/(losses) from investment
During the three-month period ended 31 March 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements. Fair value increases/decreases are recorded in other comprehensive income.
For the bank and group, there were no transfers between the three levels during the period.

5.1 Fair value estimation of financial assets and liabilities

b Valuation techniques used to determine level 2 fair values

Level 2 debt instruments have been fair valued using quoted market prices for securities with similar credit, maturity and yield characteristics.

Level 2 equity instruments have been fair valued using multiples of actively trading stocks of comparable companies.

Currency Swaps have been fair valued using the discounted cash flow (DCF) method. Forward foreign exchange contracts have been fair valeud using forward exchange rates that are quoted in an active market. The put options were fair valued using inputs from observable market data.

Loans and advances have been fair valued 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.

c Group's valuation process

The Group's asset liability management (ALM) unit performs the valuation of financial assets required for financial reporting purposes. This team also enages external specialist valuers when the need arises. The reports directly to the Chief Risk Officer. Discussions of the valuation process and results are held between the ALM team and the Chief Risk Officer on a monthly basis in line with the group's management reporting dates.

d Financial instruments not measured at fair value

The fair value of loans and advances to customers as well as investment securities are as follows:

	At 31st March 2013		At 31st December 2012	
	Carrying value N 'millions	Fair value N 'millions	Carrying value N 'millions	Fair value N 'millions
GROUP				
Financial assets				
Loans and advances to customers				
- Overdrafts	307,232	307,232	266,555	266,555
- Term loans	1,182,576	1,291,012	1,228,397	1,342,131
- Staff loans	4,726	5,159	5,346	5,848
- Project finance	57,204	61,906	59,014	64,109
- Advances under finance lease	2,931	3,172	3,694	3,393
Investment securities (held to maturity)	294,609	278,027	330,860	338,377
Asset pledged as collateral	49,558	24,957	31,063	26,275
TOTAL	**1,898,836**	**1,971,465**	**1,924,929**	**2,046,688**
BANK				
Financial assets				
Loans and advances to customers				
- Overdrafts	299,673	299,673	259,065	259,065
- Term loans	918,071	1,002,254	989,809	1,082,645
- Staff loans	4,658	5,084	5,144	5,627
- Project finance	57,203	61,905	58,695	63,763
- Advances under finance lease	2,931	3,173	3,694	3,393
Investment securities (held to maturity)	291,520	274,938	330,860	338,377
Asset pledged as collateral	49,558	24,957	31,063	26,275
TOTAL	**1,623,614**	**1,671,984**	**1,678,330**	**1,779,145**

The fair value of the following financial assets and liabilties for both the bank and group approximate their fair values:

Cash and balances with Central banks
Loans and advances to banks
Other assets (excluding prepayments)
Deposits from banks
Deposits from customers
Other liabilities (excluding provisions and accruals)
Borrowings

6 Segment information

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reports provided to the Group's 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:

Retail Banking
Retail Banking comprises cuts across private individuals, businesses and public sector clients, at the lower end of the market. It also covers small and medium enterprises (SMEs), local government agencies, and affluent customers.

Corporate Banking
Corporate Banking serves the middle segment of the business banking value chain, and clients comprise predominantly unrated and non-investment grade companies with a generally higher risk profile compared to institutional clients.

Institutional Banking
The Institutional Banking segment is the top end of the business banking value chain and consists of the largest organisations across our target industries i.e., oil and gas, conglomerates and services, manufacturing, telecommunications, transport, financial institutions/multilaterals, construction and infrastructure.

Others
This segment includes the corporate office and treasury services.

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.

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 executive commitee.

Segment result of operations
The segment information provided to the Group executive commitee for the reportable segments for the period ended 31 March 2013 is as follows:

	Institutional Banking	Corporate Banking	Retail Banking	Others	Total
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
At 31st March 2013					
Total segment revenue	24,054	24,456	21,391	20,840	**90,740**
Inter-segment revenue	574	143	62	(779)	**-**
Revenue from external customers	24,628	24,599	21,453	20,061	**90,740**
Profit/(loss) before tax	11,751	6,260	(8,247)	15,880	**25,644**
Income tax expense				(3,713)	**(3,713)**
Profit for the period	11,751	6,260	(8,247)	12,167	**21,931**
Impairment charge on credit losses	(603)	(417)	(231)	(18)	**(1,269)**
Impairment charge on doubtful receivables	-	-	-	(5)	**(5)**
Share of profit/(loss) from associates				282	**282**
Depreciation	-	-	-	(2,436)	**(2,436)**

6 Segment information continued

	Institutional Banking N 'millions	Corporate Banking N 'millions	Retail Banking N 'millions	Others N 'millions	Total N 'millions
At 31st March 2013					
Total assets	936,250	513,117	292,848	1,581,594	**3,323,809**
Other measures of assets:					
Loans and advances to customers	739,105	510,306	282,935	22,323	**1,554,669**
Investment in associates	-	-	-	5,893	**5,893**
Expenditure on non-current assets	-	-	-	4,391	**4,391**
Investment securities		-	-	870,089	**870,089**
Total liabilities	511,917	870,942	1,261,968	257,306	**2,902,133**
At 31st March 2012					
Total segment revenue	18,133	19,764	19,187	18,562	**75,646**
Inter-segment revenue	282	460	741	(1,483)	**-**
Revenue from external customers	18,415	20,224	19,928	17,079	**75,646**
Profit/(loss) before tax	6,926	4,365	(7,643)	14,097	**17,745**
Income tax expense				(2,591)	**(2,591)**
Profit for the period	6,926	4,365	(7,643)	11,506	**15,155**
Impairment charge on credit losses	(1,520)	(953)	(564)	(33)	**(3,070)**
Impairment charge on doubtful receivables		-	-	(5)	**(5)**
Share of profit/(loss) from associates	-	-	-	(854)	**(854)**
Depreciation	-	-	-	(2,339)	**(2,339)**
At 31st December 2012					
Total assets	965,285	490,974	293,602	1,377,347	**3,127,208**
Other measures of assets:					
Loans and advances to customers	773,802	485,130	287,188	16,885	**1,563,005**
Investment in associates	-	-	-	5,609	**5,609**
Expenditure on non-current assets	-	-	-	4,878	**4,878**
Investment securities	-	-	-	682,234	**682,234**
Total liabilities	443,090	757,887	1,182,183	349,515	**2,732,675**

Geographical information

Revenues

	31 Mar 2013 N 'millions	31 Mar 2012 N 'millions
Nigeria	84,037	71,311
Outside Nigeria	6,703	4,335
Total	**90,740**	**75,646**

Non current asset

	31 Mar 2013 N 'millions	31 Dec 2012 N 'millions
Nigeria	73,650	70,952
Outside Nigeria	3,368	3,502
Total	**77,018**	**74,454**

7 Interest income

	Group		Bank	
	31 March 2013	31 March 2012	31 March 2013	31 March 2012
	N 'millions	N 'millions	N 'millions	N 'millions
Investment securities	13,906	14,892	13,405	11,482
Loans and advances to banks	2,099	2,311	2,152	580
Loans and advances to customer	53,632	42,393	48,761	42,055
	69,637	**59,596**	**64,318**	**54,117**

Interest income on loans and advances to customers includes interest income on impaired financial assets of N0.98 billion for Group and Bank (2012 :N 0.83 billion for Group and Bank) , recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

8 Interest expense

	Group		Bank	
	31 March 2013	31 March 2012	31 March 2013	31 March 2012
	N 'millions	N 'millions	N 'millions	N 'millions
Deposit from banks	71	2,564	71	2,564
Deposit from customers	19,559	7,297	17,943	7,093
Borrowings	172	1,954	48	726
	19,802	**11,815**	**18,062**	**10,383**

9 Impairment charge on credit losses:

	Group		Bank	
	31 March 2013	31 March 2012	31 March 2013	31 March 2012
	N 'millions	N 'millions	N 'millions	N 'millions
Loans and advances to customers				
Increase in collective impairment (see note 16)	331	1,481	334	2,601
Increase in specific impairment (see note 16)	1,099	2,685	1,257	970
Recoveries	(167)	(1,096)	(167)	(1,096)
Other assets				
Increase in impairment	5	-	-	-
	1,268	3,070	1,424	2,475

10 Fees and commission income

	Group		Bank	
	31 March 2013	31 March 2012	31 March 2013	31 March 2012
	N 'millions	N 'millions	N 'millions	N 'millions
Credit related fees	794	382	379	348
Commission on turnover	6,166	5,034	5,644	5,034
Remittance fees	911	1,443	793	713
Letters of credit commissions and fees	1,501	1,264	1,501	1,264
Western union commission	503	380	503	380
Other fees and commissions	5,229	5,103	5,023	4,288
	15,104	**13,606**	**13,843**	**12,027**

11 Net gains / (losses) from financial assets classified as held for trading

	GROUP 31 March 2013 N 'millions	31 March 2,012 N 'millions	BANK 31 March 2013 N 'millions	31 March 2,012 N 'millions
Derivatives	509	-	509	-
Debt securities	55	24	55	24
	564	**24**	**564**	**24**

12 Income Taxes

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the period ended 31 March 2013 is 14.6% (the estimated tax rate for the three months ended 31 March 2012 was 14.6%).

13 Cash and balances with central banks

	Group		Bank	
	31 March 2013 N 'millions	31 Dec 2012 N 'millions	31 March 2013 N 'millions	31 Dec 2012 N 'millions
Cash	92,500	53,083	32,378	47,238
Balances with central banks excluding mandatory reserve deposits	22,258	53,432	16,190	53,432
	114,758	106,515	48,568	100,670
Mandatory reserve deposits with Central Bank	207,626	191,509	207,622	187,455
	322,384	298,024	256,190	288,125

14 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with other banks and other short-term highly liquid investments with original maturities less than three months.

	Group		Bank	
	31 March 2013 N 'millions	31 Dec 2012 N 'millions	31 March 2013 N 'millions	31 Dec 2012 N 'millions
Cash (note 13)	92,500	53,083	32,378	47,238
Balances with central banks other than mandatory reserve deposits (note 13)	22,258	53,432	16,190	53,432
Loans and advances to banks excluding long term placements (note 15)	364,930	392,419	327,714	315,856
Treasury bills included in financial assets held for trading (note 17)	116	193	116	193
Treasury bills and eligible bills excluding pledged treasury bills (note 18)	252,901	96,790	206,417	83,670
	732,705	**595,917**	**582,815**	**500,389**

15 Loans and advances to banks

	Group		Bank	
	31 March 2013 N 'millions	31 Dec 2012 N 'millions	31 March 2013 N 'millions	31 Dec 2012 N 'millions
Current balances with banks within Nigeria	44,537	15,749	6,998	1,433
Currrent balances with banks outside Nigeria	246,753	322,703	267,965	272,998
Placements with banks and discount houses	73,640	53,967	52,751	41,425
	364,930	392,419	327,714	315,856
Long term placement	1,217	706	12,960	13,264
	366,147	**393,125**	**340,674**	**329,120**

Included in loans to banks is a non current placement of N1.2 billion for Group and N12.9 billion for Bank(31 December 2012: N706 million for Group and N13.2b for Bank) which does not qualify as cash and cash equivalent. All other loans to banks are due within 3 months.

16 Loans and advances to customers

GROUP

	Gross amount N 'millions	Specific impairment N 'millions	Collective impairment N 'millions	Total impairment N 'millions	Carrying amount N 'millions
31 March 2013					
Overdrafts	319,653	8,335	4,086	12,421	307,232
Term loans	1,209,441	9,483	17,382	26,865	1,182,576
Staff loans	4,927	-	201	201	4,726
Project finance	57,994	-	790	790	57,204
	1,592,015	17,818	22,459	40,277	1,551,738
Advances under finance lease	3,410	414	65	479	2,931
	1,595,425	18,232	22,524	40,756	1,554,669
31 December 2012					
Overdrafts	276,839	6,882	3,402	10,284	266,555
Term loans	1,256,019	10,251	17,372	27,623	1,228,396
Staff loans	5,947	-	600	600	5,346
Project finance	59,746	-	732	732	59,014
	1,598,551	17,133	22,106	39,239	1,559,311
Advances under finance lease	3,781	-	87	87	3,694
	1,602,332	17,133	22,193	39,326	1,563,005

BANK

	Gross amount N 'millions	Specific impairment N 'millions	Collective impairment N 'millions	Total impairment N 'millions	Carrying amount N 'millions
31 March 2013					
Overdrafts	311,453	7,694	4,086	11,780	299,673
Term loans	943,389	7,956	17,362	25,318	918,071
Staff loans	4,858	-	200	200	4,658
Project finance	57,994	-	791	791	57,203
	1,317,694	15,650	22,439	38,089	1,279,605
Advances under finance lease	3,410	414	65	479	2,931
	1,321,104	16,064	22,504	38,568	1,282,536
31 December 2012					
Overdrafts	269,252	6,585	3,602	10,187	259,065
Term loans	1,015,181	8,222	17,150	25,372	989,809
Staff loans	5,744	-	600	600	5,144
Project finance	59,427	-	732	732	58,695
	1,349,604	14,807	22,084	36,891	1,312,713
Advances under finance lease	3,781	-	87	87	3,694
	1,353,385	14,807	22,171	36,978	1,316,407

	31 March 2013 N 'millions	31 December 2012 N 'millions
GROUP		
Current	551,972	592,842
Non-current	1,002,697	970,163
	1,554,669	1,563,005
BANK		
Current	375,278	585,422
Non-current	907,258	730,985
	1,282,536	1,316,407

16 Loans and advances to customers continued

Reconciliation of impairment allowance on loans and advances to customers:
GROUP

	Overdrafts N 'millions	Term loans N 'millions	Finance lease N 'millions	Other N 'millions	Total N 'millions
At 1st January 2013					
Specific impairment	6,882	10,251	-	-	17,133
Collective impairment	3,402	17,372	87	1,332	22,193
	10,284	27,623	87	1,332	39,326
Additional provision					
Specific impairment	1,453	(768)	414	-	1,099
Collective impairment	684	10	(22)	(341)	331
Specific impairment	8,335	9,483	414	-	18,232
Collective impairment	4,086	17,382	65	991	22,524
At 31 March 2013	12,421	26,865	479	991	40,756

	Overdrafts N 'millions	Term loans N 'millions	Finance lease N 'millions	Other N 'millions	Total N 'millions
At 1 January 2012					
Specific impairment	1,671	11,265	-	-	12,936
Collective impairment	3,148	16,068	86	704	20,006
	4,819	27,333	86	704	32,942
Additional provision					
Specific impairment	247	720	514	-	1,481
Collective impairment	(43)	2,552	(10)	186	2,685
Specific impairment	1,918	11,985	514	-	14,417
Collective impairment	3,105	18,620	76	890	22,691
At 31 March 2012					
	5,023	30,605	590	890	37,108

16 Loans and advances to customers continued

Reconciliation of impairment allowance on loans and advances to customers:
Bank continued

	Overdrafts N 'millions	Term loans N 'millions	Finance lease N 'millions	Other N 'millions	Total N 'millions
At 1st January 2013					
Specific impairment	6,585	8,222	-	-	14,807
Collective impairment	3,602	17,150	87	1,332	22,171
	10,187	25,372	87	1,332	36,978
Additional provision					
Specific impairment	1,109	(266)	414	-	1,257
Collective impairment	484	213	(22)	(341)	334
Specific impairment	7,694	7,956	414	-	16,064
Collective impairment	4,086	17,363	65	991	22,505
At 31 March 2013	11,780	25,319	479	991	38,569
At 1 January 2012					
Specific impairment	1,671	6,133	-	-	7,804
Collective impairment	3,148	16,138	86	706	20,078
	4,819	22,271	86	706	27,882
Additional provision					
Specific impairment	247	209	514	-	970
Collective impairment	(43)	2,470	(10)	184	2,601
Specific impairment	1,918	6,342	514	-	8,774
Collective impairment	3,105	18,608	76	890	22,679
At 31 March 2012	5,023	24,950	590	890	31,453

Loans and advances to customers include finance lease receivables as follows:	Group		Bank	
	31 March 2013	31 Dec 2012	31 March 2013	31 Dec 2012
	N 'millions	N 'millions	N 'millions	N 'millions
Gross investment in finance lease, receivable				
- No later than 1 year	1,562	729	1,562	729
- Later than 1 year and no later than 5 years	2,130	3,282	2,130	3,282
- Later than 5 years	-	84	-	84
	3,692	4,095	3,692	4,095
Unearned future finance income on finance leases	(282)	(314)	(282)	(314)
Impairment allowance on leases	(479)	(87)	(479)	(87)
Net investment in finance lease, receivable	2,931	3,694	2,931	3,694

Net investment in finance lease, receivable is analysed as follows				
- No later than 1 year	1,240	416	1,240	416
- Later than 1 year and no later than 5 years	1,691	3,194	1,691	3,194
- Later than 5 years	-	84	-	84
	2,931	3,694	2,931	3,694

17 Financial assets held for trading

	Group		Bank	
	31 March 2013	31 Dec 2012	31 March 2013	31 Dec 2012
	N' million	N' million	N' million	N' million
Treasury bills with maturity of less than 90 days	116	193	116	193
Treasury bills with maturity over 90 days	1,614	487	1,614	487
Government bonds	2,494	-	2,494	-
Total debt securities	4,224	680	4,224	680
Derivative assets	2,612	1,885	2,612	1,262
Total assets held for trading	6,836	2,565	6,836	1,942

The Group did not designate any financial assets as fair value through profit or loss on initial recognition. The Group's derivative strategy has not changed since 31st December 2012.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

	GROUP 31 March 2013			BANK 31 March 2013		
	Notional contract amount	Fair values		Notional contract amount	Fair values	
		Asset	Liability		Asset	Liability
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Foreign exchange derivatives						
Forward FX contract	200,512		(4,623)	1,983		(410)
Currency swap	16,776	579	-	16,776	579	-
Put options	42,473	2,033	(1,709)	42,473	2,033	(1,709)
	259,761	2,612	(6,332)	61,232	2,612	(2,119)
Current	238,973	579	(4,325)	40,444	579	(112)
Non Current	20,788	2,033	(2,007)	20,788	2,033	(2,007)

	31 Dec 2012			31 Dec 2012		
	Notional contract amount	Fair values		Notional contract amount	Fair values	
		Asset	Liability		Asset	Liability
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Interest rate derivatives						
Interest rate swaps	13,198	-	(61)	13,198	-	(61)
Foreign exchange derivatives						
Forward FX contract	5,302	626	(860)	4,733	3	(342)
Currency swap	10,750	54	-	10,750	54	-
Put options	41,581	1,205	(875)	41,581	1,205	(875)
	70,831	1,885	(1,796)	70,262	1,262	(1,278)
Current	5,302	680	(660)	4,733	57	(142)
Non Current	65,529	1,205	(1,136)	65,529	1,205	(1,136)

18 Investment securities

	Group		Bank	
	31 March 2013 N' million	31 Dec 2012 N' million	31 March 2013 N' million	31 Dec 2012 N' million
18.1 Securities available for sale				
Debt securities – at fair value:				
– Treasury bills with maturity of less than 90 days	252,901	96,790	206,417	83,670
– Treasury bills with maturity of more then 90 days	120,908	24,457	120,908	24,457
– Government bonds	157,711	182,629	124,709	144,784
Equity securities – at fair value:				
– Listed	1,285	1,131	1,285	1,131
Equity securities – at fair value:				
– Unlisted	42,675	46,367	42,631	46,309
	575,480	351,374	495,950	300,351
Assets pledged as collateral				
Debt securities - at fair value				
– Treasury bills	16,948	17,531	16,948	17,531
– Government bonds	1,582	1,515	1,582	1,515
	18,530	19,046	18,530	19,046
Total securities classified as available for sale	594,010	370,420	514,480	319,397

	Group		Bank	
	31 March 2013 N' million	31 Dec 2012 N' million	31 March 2013 N' million	31 Dec 2012 N' million
18.2 Securities held to maturity				
Debt securities – at amortised cost:				
– Treasury bills with maturity of less than 90 days	3,089	-	-	-
– Listed debt	145,860	155,636	145,860	155,636
– Unlisted debt	145,660	175,224	145,660	175,224
	294,609	330,860	291,520	330,860
Assets pledged as collateral				
Debt securities - at amortised cost				
– Government bonds	31,028	31,063	31,028	31,063
	31,028	31,063	31,028	31,063
Total securities classified as held-to-maturity	325,637	361,923	322,548	361,923
Total investment securities	919,647	732,343	837,028	681,320

18.3 Assets pledged as collateral

The assets pledged by the group are strictly for the purpose of providing collateral to the counterparty. To the extent that the counterparty is not permitted to sell and/or repledge the assets in the absence of default, they are classified in the statement of financial position as pledged assets. These transactions are conducted under terms that are usual and customary to standard securities borrowing and lending activities.

The nature and carrying amounts of the assets pledged as collaterals are as follows:

	Group		Bank	
	31 March 2013 N' million	31 Dec 2012 N' million	31 March 2013 N' million	31 Dec 2012 N' million
Available for sale debt securities (note 18.1)	18,530	19,046	18,530	19,046
Held to maturity debt securities (note 18.2)	31,028	31,063	31,028	31,063
	49,558	50,109	49,558	50,109

19 Other assets

	Group		Bank	
	31 March 2013 N' million	31 Dec 2012 N' million	31 March 2013 N' million	31 Dec 2012 N' million
Prepayments	13,457	8,459	12,557	7,351
Accounts receivable	14,873	17,330	15,086	18,721
Other receivables	26,189	14,182	23,828	12,611
	54,519	39,971	51,471	38,683
Less specific allowances for impairment	(6,243)	(6,238)	(6,224)	(6,224)
	48,276	33,733	45,246	32,459

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.

Reconciliation of impairment account	Group		Bank	
	31 March 2013 N' million	31 Dec 2012 N' million	31 March 2013 N' million	31 Dec 2012 N' million
At start of period	6,238	7,035	6,224	6,224
Increase in impairment	5	-	-	-
Discontinued operations	-	(797)	-	-
At end of period	6,243	6,238	6,224	6,224

20 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 N5.5 billion.

The acquired company contributed interest income of N2,123 million and fee commision of N2,251 to the group for the period 1 April 2012 to 31 December 2012 as well as profit of N671million . If the acquisition had occurred on 1 January 2012, the group interest income for the year would show N277,705 million, group fee and commission would be N54,123 and group profit before tax would have been N86,400 million.

In the period ended 31 March 2013, BIC contributed interest income of N723 million, and fee commision of N675 million to the group, as well as profit of N255 million.

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.

20 Acquisition of subsidiary continued

The following table summarises the consideration paid for BIC, the fair value of assets acquired, liabilities assumed and the non-controlling interest

Consideration

	N'm
Cash	5,503

Recognised amounts of identifiable assets acquired and liabilities assumed

	Fair value
Cash and balances with central banks	10,081
Treasury bills	44
Loans and advances to banks	6,841
Loans and advances to customers	16,046
Inventory	144
Deferred tax asset	1,045
Other assets	1,976
Property, plant and equipment	3,392
Deposits	(27,521)
Other liabilities	(6,182)
Total identifiable net assets	5,866
Non controlling interest	1,467
Goodwill	1,104

The goodwill of N1.1 billion arises from a number of factors such as expected synergy's through combining a highly skilled workforce and obtaining economies of scale.

There were no contingent consideration. So the fair value of the contingent consideration arrangement was deemed nil.

The treasury bills were not marked to market as at 31 March 2012.The treasury bills are highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months. The maturity of the treasury bills ranges between 7days and 28 days. The amount represents its fair value.

The carrying amount of cash and balances with central bank and loans and advances to banks represents their respective fair value.

The net contractual amount for loans and advances to customers is N18.166 billion which is net of a loan loss provision of N2.2 billion.

The gross carrying value of other assets is N1.9 billion, this include an account receivable of N0.987 billion. The fair value of the trade receivables amounts to N0.968. None of the trade receivables have been impaired and it is expected that the full contractual amount can be collected. The difference between the fair value and the gross amount is the result of discounting over the expected timing of the cash collection.

The fair value of property, plant and equipment at acquisition date has been determined by professional valuaers and as a result; the value of property, plant and equipment increased from N 2.7 billion (provisional figure at acquisition) to N 3.4 billion. This resulted in an increase in the pre-acquisition reserves by N 0.7 billion, which is allocated between the group (N 0.5 billion) and non-controlling interest (N 0.18 billion). The group's remeasurement of goodwill is therefore N 0.5 billion.

The non-controlling interest has been recognised as a proportion of net assets acquired.

21 Property, plant and equipment

BANK	Improvement & buildings N'000	Land N'000	Motor vehicles N'000	Office equipment N'000	Computer equipment N'000	Furniture, fittings & equipment N'000	Total N'000
Cost							
At 1 January 2012	33,796	13,610	9,032	29,839	13,170	5,116	104,563
Additions	2,273	2,658	2,704	6,188	1,761	1,297	16,881
Disposals	(292)	-	(1,746)	(1,385)	(353)	(176)	(3,952)
At 31 December 2012	35,777	16,268	9,990	34,642	14,578	6,237	117,492
Accumulated depreciation							
At 1 January 2012	3,120	-	6,311	17,272	10,561	3,243	40,507
Charge for the year	607		1,442	4,741	1,664	711	9,165
Disposals	(96)		(1,356)	(942)	(353)	(157)	(2,904)
At 31 December 2012	3,631	-	6,397	21,071	11,872	3,797	46,768
Net book amount at 31 December 2012	**32,146**	**16,268**	**3,593**	**13,571**	**2,706**	**2,440**	**70,724**
Cost							
At 1 January 2013	35,777	16,268	9,990	34,642	14,578	6,237	117,492
Additions	446	1,021	658	762	176	361	3,424
Reclassifications							-
Disposals	(71)		(148)	(274)	(152)	(17)	(662)
At 31 March 2013	36,152	17,289	10,500	35,130	14,602	6,581	120,254
Accumulated depreciation							
At 1 January 2013	3,631	-	6,397	21,071	11,872	3,797	46,768
Exchange differences							-
Charge for the year	155		384	1,152	351	183	2,225
Reclassifications							-
Write offs							-
Disposals	(20)		(124)	(273)	(152)	(17)	(586)
At 31 March 2013	3,766	-	6,657	21,950	12,071	3,963	48,407
Net book amount at 31 March 2013	**32,386**	**17,289**	**3,843**	**13,180**	**2,531**	**2,618**	**71,847**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
FOR THE 3 MONTHS ENDED 31 MARCH 2013

21 Property, plant and equipment
GROUP

	Improvement & buildings N'000	Land N'000	Motor vehicles N'000	Office equipment N'000	Computer equipment N'000	Furniture, fittings & equipment N'000	Plant & machinery	Work in progress N'000	Total N'000
Cost									
At 1 January 2012	29,977	13,610	10,026	28,873	14,119	5,630	24	6,006	108,265
Additions	2,421	2,658	3,181	6,296	2,025	1,459	-	595	18,635
Acquisition of subsidiary	1,546		297	576	983	616		420	4,438
Write offs	(101)	-	-	-	(85)	(49)	-	-	(235)
Disposals	(292)		(1,916)	(1,386)	(369)	(181)		(8)	(4,152)
Discontinued operations	(199)	(368)	(879)	(266)	(668)	(339)	(24)		(2,743)
At 31 December 2012	33,352	15,900	10,709	34,093	16,005	7,136	-	7,013	124,208
Accumulated depreciation									
At 1 January 2012	3,314	-	6,756	17,460	11,242	3,600	19	-	42,391
Acquisition of subsidiary	79		242	445	640	363		-	1,769
Discontinued operations	(14)	-	(355)	(171)	(483)	(245)	(21)		(1,289)
Charge for the year	674		1,760	4,860	2,017	855	2	-	10,168
Write offs	(101)	-	-	-	(85)	(49)	-	-	(235)
Disposals	(96)		(1,509)	(943)	(354)	(148)	-	-	(3,050)
At 31 December 2012	3,856	-	6,894	21,651	12,977	4,376	-	-	49,754
Net book amount at 31 December 2012	**29,496**	**15,900**	**3,815**	**12,442**	**3,028**	**2,760**	**-**	**7,013**	**74,454**
Cost									
At 1 January 2013	33,352	15,900	10,709	34,093	16,005	7,136	-	7,013	124,208
Additions	1,306	1,744	703	778	201	366	-	17	5,115
Disposals	(71)	(59)	(164)	(275)	(152)	(18)	-	-	(739)
At 31 March 2013	34,587	17,585	11,248	34,596	16,054	7,484	-	7,030	128,584
Accumulated depreciation									
At 1 January 2013	3,856	-	6,894	21,651	12,977	4,376	-	-	49,754
Exchange differences									-
Charge for the year	213	-	420	1,177	414	192	-	-	2,416
Exchange differences	0	-	-	-	-	-	-	-	-
Disposals	(20)	-	(140)	(274)	(152)	(18)	-	-	(604)
At 31 March 2013	4,049	-	7,174	22,554	13,239	4,550		-	51,566
Net book amount at 31 March 2013	**30,538**	**17,585**	**4,074**	**12,042**	**2,815**	**2,934**	**-**	**7,030**	**77,018**

22 Intangible assets

	Goodwill	Computer software	Group Total	Computer software	Bank Total
	N'million	N'million	N'million	N'million	N'million
Cost					
At 1 January 2012	-	3,636	3,636	2,780	2,780
Additions	-	1,494	1,494	1,124	1,124
Disposals	-	(191)	(191)	-	-
Write off	-	(237)	(237)	-	-
Acquisition of subsidiary	1,646	-	1,646	-	-
Exchange difference	-	20	20	-	-
At 31 December 2012	1,646	4,722	6,368	3,904	3,904
Additions	-	9	9	9	9
Disposals	-	(40)	(40)		
Remeasurement of goodwill (Note 20)	(542)	-	(542)		
At 31 March 2013	1,104	4,691	5,795	3,913	3,913

	Goodwill	Computer software	Group Total	Computer software	Bank Total
	N'million	N'million	N'million	N'million	N'million
Amortisation and impairment					
At 1 January 2012	-	2,628	2,628	2,046	2,046
Amortisation charge	-	645	645	556	556
Write off	-	(237)	(237)	-	-
Disposals	-	(99)	(99)	-	-
Exchange difference	-	14	14	-	-
At 31 December 2012	-	2,951	2,951	2,602	2,602
Amortisation charge	-	180	180	163	163
At 31 March 2013	-	3,131	3,131	2,765	2,765
Net book value					
At 31 March 2013	1,104	1,560	2,664	1,148	1,148
At 31 December 2012	1,646	1,771	3,417	1,302	1,302
At 1 January 2012	-	1,008	1,008	734	734

23 Assets classified as held for sale

The assets and liabilities held for sale relate to the property development portfolio of First Mortages Limited which is being presented as held for sale following the commitment to its sale by the Group's management in compliance with the Central Bank of Nigeria's (CBN) Regulation on the scope of Banking Activities and Ancillary Matters No 3, 2010, which require banks in Nigeria to concentrate on banking businesses. In August 2012, as part of the capital restructuring scheme of the FirstBank Group, shareholders approved the full divestment by FirstBank , of all the property development business of FBN Mortages, prior to the Central Bank of Nigeria cut off date of June 2013. The sale is expected to take place within the financial year ending 31 December 2013.

The carrying amount of the assets and liabilities of the disposed group classified as held for sale are as listed below.

	31 March 2013	31 Dec 2012
	N'million	N'million
Assets classified as held for sale		
Inventory	5,637	5,637
Accounts receivable	7,099	7,341
	12,736	**12,978**
Liabilities classified as held for sale		
Accounts payable - Deposit for property	**1,929**	**2,836**
Net Asset	**10,807**	**10,142**

24 Deposits from customers

	Group		Bank	
	31 March 2013	**31 Dec 2012**	**31 March 2013**	**31 Dec 2012**
	N' million	**N' million**	**N' million**	**N' million**
Current deposits	850,927	805,222	774,556	755,738
Savings deposits	570,800	548,391	566,595	544,807
Term deposits	624,068	501,371	392,960	320,898
Domiciliary deposit	553,187	541,210	553,187	540,700
Electronic purse	5,080	9,664	5,080	9,664
	2,604,062	2,405,858	2,292,378	2,171,807
Current	2,604,002	2,405,854	2,292,338	2,171,803
Non-current	60	4	40	4
	2,604,062	2,405,858	2,292,378	2,171,807

Deposits from customers only include financial instruments classified as liabilities at amortised cost.

25 Borrowings

	Group		Bank	
	31 March 2013	**31 Dec 2012**	**31 March 2013**	**31 Dec 2012**
	N' million	**N' million**	**N' million**	**N' million**
Long term borrowing comprise:				
Due to European Investment Bank (i)	2,526	2,560	2,526	2,560
On-lending facilities from financial institutions (ii)	25,150	25,846	25,150	25,846
Borrowing from correspondence banks (iii)	8,134	47,135	8,128	53,581
	35,810	75,541	35,804	81,987
Current	10,717	54,004	10,717	54,004
Non-current	25,093	21,537	25,087	27,983
	35,810	75,541	35,804	81,987

25 Borrowings continued

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (31 December 2012: nil).

(i) 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 year and tranche B of euro 15 million for a tenure of eight years, which qualifies it as tier II capital. Interest is payable half-yearly at 2% and 3% above LIBOR rate for tranche A and tranche B respectively.

(ii) Included in on-lending facilities from financial institutions are disbursements from banks which are guaranteed by FBN for specific customers. These facilities include the BOI funds and CACS intervention funds.

(iii) Borrowings from correspondence banks include loans from foreign banks utilised in funding letters of credits for international trade.

26 Retirement Benefits

	Group		Bank	
	31 March 2013 N' million	31 Dec 2012 N' million	31 March 2013 N' million	31 Dec 2012 N' million
Defined benefit plans				
Gratuity Scheme (1)	14,803	14,158	14,427	13,792
Defined benefits - Pension scheme (2)	3,624	4,358	3,624	4,364
Gratuity Scheme (3)	132	132	-	-
	18,559	18,648	18,051	18,156

An actuarial valuation was not conducted for the purposes of the interim reporting. The Directors have applied the same assumptions used at 31 December 2012. However a discount rate of 11.98% was used to estimate liability for the period. This discount rate is the 7-year Government bond yield as at 31 March 2013.

Change in accounting policy due to application of IAS 19 (as revised in 2011) Employee benefits

In the current year, the Group has applied IAS 19 (as revised June 2011) Employee Benefits and the related consequential amendments. The Group has applied IAS 19R retrospectively and in accordance with the transitional provisions as set out in IAS 19.17.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. the most significant change relates to the accounting for changes in defined benefit obligation and plan assets. The amendments require the recognition of changes in defined benefits obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach permitted under the previous version IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statements of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and the return on plan assets used in the previous version of IAS 19 are replaced with a "net-interest" amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

The Group already fully recognises actuarial gains and losses in other comprehensive income and all past service costs are fully recognised in the period in which they arise. Therefore the change to the accounting policy in relation to the revised standard mainly impacts on the treatment of the return on plan assets. The return on plan assets which was previously included in the income statement is now reported in to the statement of other comprehensive income. Schemes (1) & (3) has no plan assets.

Gratuity scheme (1)
The Group has a non-contributory defined gratuity scheme (unfunded) whereby on separation, staff who have spent a minimum number of 5 years are paid a sum based on their qualifying emoluments and the number of periods spent in service of the Bank. Amounts recognised in the statement of financial position are as follows:

26 Retirement Benefits continued

Movement in the present value of the defined benefit obligation (gratuity scheme 1) in the current year is as follows:

	GROUP N 'millions	BANK N 'millions
Defined benefit obligations at 1 January 2013	14,158	13,793
Service cost	266	266
Interest expense	424	413
Benefits paid (in the period)	(45)	(45)
Defined benefit obligations at 31 March 2013	14,803	14,427

Amounts recognised in the income statement (gratuity scheme 1) are as follows:

	Group 31 March 2013 N' million	Group 31 March 2012 N' million	Bank 31 March 2013 N' million	Bank 31 March 2012 N' million
Current service cost	266	336	266	259
Interest expense on obligation	424	264	413	259
Total employee benefits expense	690	600	679	518

Defined benefit - Pension 2

The Bank has an old Defined Benefit scheme, discontinued in March 2001. The funds are placed with fund managers and the Bank is under obligation to fund the deficit, and has elected to do this over the next five years commencing January 2010 with an annual contribution of N1.2 billion.

Movement in the present value of the defined benefit obligation (Pension 2) in the current year is as follows:

	GROUP N 'millions	BANK N 'millions
Defined benefit obligations at 1 January 2013	13,596	13,596
Interest expense	407	407
Benefits paid (in the period)	(470)	(470)
Defined benefit obligations at 31 March 2013	13,533	13,533

Movement in the present value of the plan assets (Pension 2) in the current year is as follows:

	GROUP	BANK
Fair value of plan assets at 1 January 2013	9,233	9,233
Interest income	276	276
Return on plan assets	841	841
Employer contributions	29	29
Benefits paid	(470)	(470)
Closing fair value of plan assets at 31 March 2013	9,909	9,909
Net obligations at 31 December 2012	4,363	4,363
Net obligations at 31 March 2013	3,624	3,624

	Group 31 March 2013 N' million	Group 31 March 2012 N' million	Bank 31 March 2013 N' million	Bank 31 March 2012 N' million
Amounts recognised in the income statement (Pension 2) are as follows:				
Net interest expense	(131)	(151)	(131)	(151)
	(131)	(151)	(131)	(151)
Amount recognised in other comprehensive income (Pension 2) are as follows:				
Return on plan assets (excluding amount included in net interest expense)	841	78	841	78
Total remeasurments gains/losses	841	78	841	78

26 Retirement Benefits continued

Major categories of plan assets at the end of the reporting period are as follows:

	GROUP/BANK			
	31 March 2013 N 'millions	31 Dec 2012 N 'millions	31 Dec 2011 N 'millions	31 Dec 2010 N 'millions
Quoted Stock	4,246	3,625	3,020	5,610
Money market investments	1,179	2,093	234	566
Government Securities	3,918	3,103	1,857	862
Money on call	291	303	749	373
Guaranteed commercial papers	151	-	1,061	1,230
Others	124	108	367	7
Total	9,909	9,232	7,288	8,648

Gratuity scheme 3
Banque International de Credit (BIC) Congo has a scheme whereby on separation, staff who have spent a minimum of 3 years are paid a sum based on their qualifying emoluments and the number of periods spent in service of the Bank.

	GROUP/BANK			
	31 March 2013 N 'millions	31 Dec 2012 N 'millions	31 Dec 2011 N 'millions	31 Dec 2010 N 'millions
Record from first application of IAS 19				
Present value of defined benefit obligation	13,533	13,596	14,293	13,550
Fair value of plan assets	(9,909)	(9,233)	(7,288)	(8,647)
Deficit/(surplus) in the plan	3,624	4,363	7,005	4,903
Experience adjustments on plan liabilities	-	536	1,835	538

The principal actuarial assumptions were as follows:

	GROUP/BANK	
	31 March 2013 N 'millions	31 Dec 2012 N 'millions
Discount rate on gratuity scheme	11.98%	14%
Discount rate on pension plan	11.98%	13%
Inflation rate	10%	10%
Return on plan assets	9.28%	9.28%
Future salary increases	12%	12%
Future pension increases	0%	0%

27 Other liabilities

	Group		Bank	
	31 March 2013 N' million	31 Dec 2012 N' million	31 March 2013 N' million	31 Dec 2012 N' million
Customers' deposit for letters of credit	46,129	47,401	31,767	25,028
Accounts payable	19,044	11,116	20,754	11,563
Provision and accruals	24,394	17,048	22,472	16,518
Bank cheques	14,044	14,004	14,009	14,004
Collection on behalf of third parties	8,073	7,131	5,042	5,704
Other Payable	20,926	21,366	16,345	14,222
	132,610	118,066	110,389	87,039

Other liabilities are expected to be settled within no more than 12 months after the date of the consolidated statement of financial position.

28 Cash generated from operations

	Group		Bank	
	31 March 2013 N' million	31 March 2012 N' million	31 March 2013 N' million	31 March 2012 N' million
Profit before tax	25,644	17,745	22,849	15,588
Adjustments for:				
– Depreciation	2,436	2,339	2,226	2,221
-Amortisation	180	161	163	139
– (Profit)/loss from disposal of property and equipment	(6)	17	(6)	17
– Foreign exchange losses / (gains) on operating activities	(6,214)	(693)	(6,059)	(449)
– Profit/(loss) from disposal of investment securties	1,056	(1)	1,056	119
– Net gains/(losses) from financial assets classified as held for trading	(564)	(24)	(564)	(24)
– Impairment on loans and advances	1,430	4,166	1,591	3,571
– Change in provision in other assets	5	-	-	-
– Employee benefits provisions	752	160	738	472
– Share of loss/(profit) from associates	(282)	853	-	-
–Interest income	(67,538)	(57,285)	(62,166)	(53,537)
-Interest expense	19,802	11,815	18,062	10,383
Increase/(decrease) in operating assets:				
– Cash and balances with the Central Bank (restricted cash)	(16,117)	(419)	(20,167)	3,850
– Inventories	-	(1,321)	-	-
– Loans and advances to (long term placement)	(511)	-	304	-
– Loans and advances to customers	8,506	(91,552)	32,144	(18,594)
-Insurance receivables		(29)		
– Financial assets held for trading	(2,657)	3,412	(3,280)	130
-Assets pledged as collateral	551	72,129	551	72,129
– Other assets	(14,524)	(9,672)	(12,787)	(6,458)
-Asset held for sale	242		-	
Increase/(decrease) in operating liabilities:				
– Deposits from banks	(9,449)	49,105	(6,308)	(4,976)
– Deposits from customers	196,950	114,390	119,792	65,440
– Financial liabilities held for trading	4,536	-	841	-
-Liabilities on investment contracts		(17,961)		-
– Other liabilities	14,513	15,258	23,352	17,454
-Liabilities on disposal group held for sale	(907)		-	
Cash generated from operations	**157,833**	**112,594**	**112,332**	**107,475**

29 Related party transactions

The Group is controlled by FBN Holdings Plc incorporated in Nigeria, which owns 99.9% of the ordinary shares.
FBN Holdings Plc is the parent company of FBN Nigeria Limited as well as the ultimate controlling party.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans and deposits.

The outstanding balances at the year-end, and related expense and income for the year are as follows:

29 Related party transactions continued

29.1 Loans and advances to related parties

The Bank granted various credit facilities to other companies which have common directors with the bank and those that are members of the Group. The rates and terms agreed are comparable to other facilities being held in the bank's portfolio. Details of these are described below:

BANK	Entities controlled by Parent and Associates of the Parent	Directors and other key management personnel (and close family members)
Loans and advances to customers		
Loans outstanding at 1 January	22,963	82,548
Loans issued during the year	36,223	63,577
Loan repayments during the year	-	(44,991)
Loans outstanding at 31 March	59,186	101,134

The loans to directors and other key mangement personnel are repayable from various cycles ranging from monthly to annually over the tenor and have interest rates ranging from 9% to 24%

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

	Entities controlled by Parent and Associates of the Parent	Directors and other key management personnel (and close family members)	Associates	Subsidiaries
	N' million	N' million	N' million	N' million
29.2 Deposits from related parties				
BANK				
Deposits at 1 January	8,940	184	302	80,520
Deposits received during the year	224,908	376	13,634	52,522
Deposits repaid during the year	(226,990)	(378)	(12,249)	(52,651)
Deposits at 31 March	6,858	182	1,687	80,391

29.4 Key management compensation

	Group		Bank	
	31 March 2013	31 March 2012	31 March 2013	31 March 2012
	N' million	N' million	N' million	N' million
Salaries and other short-term employee benefits	133	88	133	88
Other long term benefits	105	94	105	94
Termination benefits	-	79	-	79
	238	261	238	261

30 Contingent liabilities and commitments

a Legal proceedings

The Group is a party to a number of legal actions arising out of its normal business operations

The Directors believe that, based on currently available information and advice of counsel, none of the outcomes that result from such proceedings will have a material adverse effect on the financial position of the Group, either individually or in the aggregate. Consequently, no provision has been made in these financial statements.

b Capital commitments

At the balance sheet date, the bank had capital commitments amounting to N1.31b (31 December 2012; N1.3b) in respect of authorized and contracted capital projects. The expenditure will be funded from the group's internal resources.

	31 March 2013 N 'millions	31 December 2012 N 'millions
Authorised and contracted		
Bank	1,310	1,300
Group	1,310	1,300

c 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:

	Group		Bank	
	31 March 2013 N 'millions	31 December 2012 N 'millions	31 March 2013 N 'millions	31 December 2012 N 'millions
Performance bonds and guarantees	441,846	344,079	405,669	320,655
Letters of credit	375,629	220,388	348,772	196,267
	817,475	564,467	754,441	516,922

d Loan Commitments

	Group		Bank	
	31 March 2013 N 'millions	31 December 2012 N 'millions	31 March 2013 N 'millions	31 December 2012 N 'millions
Undrawn irrevocable loan commitments	23,618	27,111	-	-

31 Events occuring after the reporting period

There are no events that occurred after the reporting date that are deemed to have an adjusting effect on the financial statements.

32 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the members of the group and held as treasury shares. The group had 86 million units of treasury shares as at March 2012. Following the business restructuring in November 2012, the group has no treasury shares.

The company does not have potential ordinary shares with convertible options and therefore there is no dilutive impact on the profit attributable to the equity holders of the parent.

	Group		Company	
	31 March 2013 N 'millions	31 March 2012 N 'millions	31 March 2013 N 'millions	31 March 2012 N 'millions
Profit from continuing operations attributable to owners of the parent (N'millions)	21,877	15,453	19,513	13,312
Weighted average number of ordinary shares in issue (in million)	32,632	32,546	32,632	32,632
Basic/diluted earnings per share (expressed in Kobo per share)	0.67	0.47	0.60	0.41

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.

First Bank of Nigeria Limited
Financial Statements for the year ended 31 December 2012

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First Bank of Nigeria Limited

DIRECTORS AND ADVISORS

DIRECTORS	DATE OF APPOINTMENT
Prince Ajibola A. Afonja (Chairman)	
Stephen Olabisi Onansanya (Group Managing Director/CEO)	
Remi Odulami (Mrs)	
Ibiai Ani (Mrs)	
Kehinde Lawanson	
Ambrose Feese	
Tunde Hassan-Odukale	
Lawal K. Ibrahim	
Obafemi A. Otudeko	
Urum.K. Eke	
Ibukun Awosika (Mrs)	
Mahey Rasheed	
Ebenezer Jolaoso	
Khadijah Alao Straub (Mrs)	
Ibrahim Dahiru Waziri	
Dauda Lawal	September 11, 2012
Francis Shobo	September 11, 2012
Adebayo Adelabu	December 13, 2012
Bello Maccido	December 13, 2012

COMPANY SECRETARY: Borodo, Tijjani Mohammed

REGISTERED OFFICE:
Samuel Asabia House
35, Marina
Lagos

AUDITORS:
Price Waterhouse Coopers
(Chartered Accountants)
252E Muri Okunola Street,
Victoria Island
Lagos

PKF Professional Services
(Chartered Accountants)
PKF House
205A, Ikorodu Road
Obanikoro
Lagos.

REGISTRARS:
First Registrars Nigeria Limited
Plot 2, Abebe Village Road,
Iganmu, Lagos

FIRST BANK OF NIGERIA LIMITED

Directors' Report

For the Year Ended 31 December 2012

The Directors present their annual report on the affairs of First Bank of Nigeria Limited ("the Bank") and its subsidiaries ("the Group"), together with the financial statements and auditors' report for the financial year ended 31 December, 2012.

a. *Legal Form*

The Bank which commenced operations in Nigeria on 31 March 1894 as a branch of Bank of British West Africa Limited (BBWA) was incorporated as a private limited liability company in Nigeria in 1969. It was converted to a public company in March 1970. The Bank's shares were listed on the floor of the Nigerian Stock Exchange by way of introduction in March 1971.

b. *Principal Activity and Business Review*

The principal activity of the Bank is the provision of banking and other financial services to corporate and individual customers. Such services include: granting of loans and advances, corporate finance and money market activities

The Bank has 5 subsidiaries namely; FBN Bank (UK) Limited, FBN Mortgages Limited, First Pension Custodian Nigeria Limited, FBN Bureau De Change Limited and Banque Internationale de Credit (BIC).

The Bank prepares consolidated financial statements.

c. *Operating Results*

Gross earnings and Profit before Tax of the Group increased by 28% and 48% respectively while the Profit before Tax for the Bank grew by 57% during the year.

The Directors recommend the approval of a final dividend of N32.632 billion (December 2011: N26.1 billion). Highlights of the Group's operating results for the period under review are as follows:

FIRST BANK OF NIGERIA LIMITED

Directors' Report

For the Year Ended 31 December 2012

h. *Donations and Charitable Gifts*

The Bank made contributions to charitable and non-political organizations amounting to N1.044,782,368 (Dec 2011: N968.6million) during the year.

Full Description	Amount (=N=)
Presidential Relief Committee - Support for Flood Victims	300,000,000
Calabar Carnival	102,913,488
Nigeria Leadership Institute - 2012 Future Leaders	35,532,500
Nigerian Police - Building Renovation	39,000,000
18th Nigerian Economic Summit	25,000,000
Nigerian Academy of Entrepreneurial Studies	15,000,000
World Economic Conference	13,578,096
Federal Government of Nigeria - You Win Enterprises	10,000,000
The Future Project	10,000,000
Lagos State Government Economic Summit	10,000,000
Oyo State Government Economic Summit	10,000,000
Lagos State Bankers Nite (CIBN)	10,000,000
South-South Economic Summit	8,334,333
African Women's Economic Summit	8,100,000
Red Cross Clinic	7,869,063
SIFE Foundation GTE	8,618,500
Kaduna Chamber of Commerce, Industry, Mine & Agriculture	5,000,000
6th Annual Banking & Finance Conference (CIBN)	5,000,000
42nd Annual ICAN Accountants Conference	5,000,000
51st First bank Lagos Amateur Open Golf Championship	4,655,194
Youth Alliance Leadership & Development in Africa - 2012 Conference	2,500,000
Lagos Chamber of Commerce and Industry	2,500,000
Federal Ministry of Trade & Investment	2,500,000
46th Annual Banker's Dinner (CIBN)	2,000,000
Down Syndrome Foundation of Nigeria	1,491,650
44th Annual CIPMN Conference	4,000,000
Association of Advertising Agencies of Nigeria - 2012 LAIF awards	3,000,000
Junior Achievement Nigeria	1,980,000
Africa CEO Roundtable	1,200,000
Cancer Awareness Programme	1,000,000
International Women's Society	1,000,000
Business Hallmark - Zik Prize in Leadership	1,000,000
Queens College Students - Sports Pavilion	28,000,000
Toyota Coaster Bus for LASU	23,200,000
Ekiti State University for Sports Development	26,300,000
Others	309,509,544
Total	1,044,782,368

i. Human Resources

Employment of Disabled Persons

It is the policy of the Bank that there should be no discrimination in considering applications for employment including those from physically challenged persons. All employees whether or not physically challenged are given equal opportunities to develop. As at 31 December 2012, 23 physically challenged persons were employed by the Bank.

In the event of members of staff becoming disabled, efforts will be made to ensure that their employment with the Bank continues and appropriate raining arranged to ensure that they fit into the Bank's working environment.

j. *Health, Safety and Welfare at Work*

Health and safety regulations are in force within the Bank's premises and employees are aware of existing regulations. The Bank provides subsidy to all levels of employees for medical, transportation, housing, etc.

Fire prevention and fire-fighting equipment are installed in strategic locations within the company's premises.

The company operates both a Group 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 Bank ensures, through various for a, that employees are informed on matters concerning them. Formal and informal channels are also employed in communication with employees with an appropriate two-way feedback mechanism.

In accordance with the Bank's policy of continuous development, training facilities are provided in the Bank's well-equipped Training School. In addition, employees of the Bank are nominated to attend both locally and internationally organized courses. These are complemented by on the job training.

l. Diversity in Employment

The Bank is committed to maintaining a positive work environment and to conducting business in a positive, professional manner by consistently ensuring equal employment opportunity. As at December 31 2012, the Bank had 29% females in top management positions. The table below shows the gender distribution of top management staff by grade:

TOP MANAGEMENT COMPLIMENT BY GENDER AS AT DECEMBER 2012			
	Female	Male	Grand Total
Group Managing Director/ Chief Executive		1	1
Executive Director	1	5	6
General Manager	2	5	7
Deputy General Manager	13	20	33
Assistant General Manager	5	21	26
Total	21	52	73
% Distribution	29	71	100

m. FBN Holdings

During the year, there was a business restructuring within the First Bank Group, which resulted in the adoption of the holding company model. Thus, FBN Holdings Plc was set up as a non-operating legal entity domiciled in Nigeria. This necessitated the movement of non-permissible assets from the Bank to the Holding Company.

n. Auditors

The Joint Auditors, Messrs PricewaterHouseCoopers and PKF Professional Services, have indicated their willingness to act and continue in office as auditors. In accordance with Section 357 (2) of the Companies and Allied Matters Act, CAP C20 LFN 2004, a resolution will be proposed at the Annual General Meeting to authorize the Directors to determine their remuneration.

BY ORDER OF THE BOARD

Tijjani M Borodo
Company Secretary
Lagos, Nigeria
March, 2013

FirstBank
Established 1894

FINANCIAL CONTROL
Samuel Asabia House, 35 Marina, P.O.Box 5216, Lagos, Nigeria. Telephone: 01-9052000, 9052326, 266 5900-19, Ext. 2040, 9052649. Fax: 264 3103. Website: www.firstbanknigeria.com

February 28, 2013

The Director of Banking Supervision
Central Bank of Nigeria
Abuja

FIRST BANK OF NIGERIA LTD

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 Bank at the end of the year and of its profit or loss. The responsibilities include ensuring that the Bank:

i. keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the bank and comply with the requirements of the Companies and Allied Matters Act and the Banks and Other Financial Institutions Act;
ii. establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and
iii. prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgments 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 judgments and estimates, in conformity with,

- International Financial Reporting Standards (IFRS);
- Financial Reporting Council of Nigeria (FRC) Act;
- Prudential Guidelines for Licensed Banks;
- relevant circulars issued by the Central Bank of Nigeria;
- the requirements of the Banks and Other Financial Institutions Act; and
- the requirements of the Companies and Allied Matters Act.

The directors are of the opinion that the IFRS financial statements give a true and fair view of the state of the financial affairs of the Bank and Group and of the profit for the year. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the Bank will not remain a going concern for at least twelve months from the date of this statement.

'Bayo Adelabu
Executive Director/CFO

Bisi Onasanya
Group Managing Director/CEO

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF FIRST BANK OF NIGERIA LIMITED

Report on the financial statements

We have audited the accompanying consolidated and separate financial statements of First Bank Nigeria Limited ("the Bank") and its subsidiaries (together "the Group"). These financial statements comprise the consolidated and separate statements of financial position as at 31 December 2012 and 31 December 2011 and 1 January 2011; the consolidated and separate income statement and statement of comprehensive income , consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the years ended 31 December 2012 and 31 December 2011, 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 CAP C20 LFN 2004 and the Banks and Other Financial Institutions Act, CAP B3 LFN 2004 and the Financial Reporting Council of Nigeria ACT No 6, 2011 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 statement 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 judgment, 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 statement of the financial affairs of the bank and the group at 31 December 2012 and the comparative financial information at 31 December 2011 and 1 January 2011 and of the financial performance and cash flows of the bank and group for the years then ended 31 December 2012 and the comparative 31 December 2011 in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act CAB C20 LFN 2004, the Banks and Other Financial Institutions Act CAP B3 LFN 2004 and the Financial Reporting Council of Nigeria Act No 6, 2011.

pwc

PKF

Emphasis of matter

The 2011 IFRS financial statements were prepared as comparative financial information for inclusion in the bank's 2012 IFRS financial statements (the bank's first set of IFRS financial statements). The accounting policies applied in their preparation are the same as those used in the preparation of the 2012 IFRS financial statement. Accordingly, the 2011 IFRS financial statements should be read in conjunction with the 2012 IFRS financial statements.

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 Bank 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 Bank'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 45 to the financial statements in accordance with the Central Bank of Nigeria Circular BSD/1/2004;

v. Except for the contraventions disclosed in Note 48 to the financial statements, the bank has complied with the requirements of the relevant circulars issued by the Central Bank of Nigeria.

PricewaterhouseCoopers
Chartered Accountants
Lagos, Nigeria
FRC/2013/ICAN/00000000639
31 March 2013

PKF Professional Services
Chartered Accountants
Lagos, Nigeria
FRC/2013/ICAN/00000000753
31 March 2013

FirstBank
Since 1894

COMPANY SECRETARY'S DEPARTMENT

Samuel Asabia House, 35 Marina, P.O.Box 5216, Lagos, Nigeria. Telephone: 01-9052000, 9052326, Ext. 2222, 9052222. Fax: 264 0596. Website: www.firstbanknigeria.com

REPORT OF THE AUDIT COMMITTEE

In compliance with section 359(6) of the Companies and Allied Matters Act 1990, we have reviewed the Audit Report for the year ended December 31, 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).

Dated February 28, 2013

Chief Peter Kehinde Asu
Chairman, Audit Committee

Members of the Committee
Chief Peter Kehinde Asu
Mrs. Ibiai A. Ani
Alhaji Lawal K. Ibrahim
Mrs. Ibukun A. Awosika
Alhaji Adamu Kiyawa
Mr. Attu Naji Raphael

INCOME STATEMENT

	Note	GROUP 31 December 2012 N 'millions	GROUP 31 December 2011 N 'millions	BANK 31 December 2012 N 'millions	BANK 31 December 2011 N 'millions
Continuing operations					
Interest income	6	276,795	207,019	257,325	197,829
Interest expense	7	(58,511)	(34,727)	(51,778)	(30,606)
Net interest income		**218,284**	**172,292**	**205,547**	**167,223**
Impairment charge for credit losses	8	(12,912)	(38,011)	(9,847)	(32,165)
Net interest income after impairment charge for credit losses		**205,372**	**134,281**	**195,700**	**135,058**
Fee and commission income	9	54,862	43,591	47,571	41,914
Foreign exchange income	10	2,456	7,497	924	7,502
Net gains/(losses) on investment securities	11	(860)	458	(957)	(738)
Net gains/(losses) from financial assets classified as held for trading	12	1,752	2,828	168	(996)
Gain from disposal of subsidiary	27	-	-	3,490	-
Loss on sale of assets to AMCON	13	-	(15,501)	-	(15,501)
Dividend income		518	4,175	3,766	5,801
Other operating income	14	3,398	12	1,535	-
Operating expenses	15	(182,329)	(136,668)	(168,908)	(133,368)
Operating profit		85,169	40,673	83,289	39,672
Share of profit / (loss) of associates	27	1,008	(1,507)	-	-
Profit before tax		**86,177**	**39,166**	**83,289**	**39,672**
Income tax expense	16	(14,918)	(18,864)	(12,145)	(16,620)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**71,259**	**20,302**	**71,144**	**23,052**
Discontinued operations					
Profit for the year from discontinued operations	26	3,838	(1,666)	**-**	**-**
PROFIT FOR THE YEAR		**75,097**	**18,637**	**71,144**	**23,052**
Profit attributable to:					
Owners of the parent		75,040	19,521	71,144	23,052
Non-controlling interests		57	(884)	-	-
		75,097	**18,637**	**71,144**	**23,052**

STATEMENT OF COMPREHENSIVE INCOME

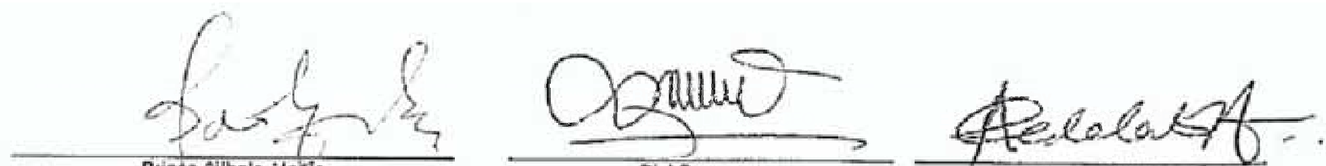
	Note	GROUP 31 December 2012 N 'millions	GROUP 31 December 2011 N 'millions	BANK 31 December 2012 N 'millions	BANK 31 December 2011 N 'millions
PROFIT FOR THE YEAR		**75,097**	**18,637**	**71,144**	**23,052**
Other comprehensive income:					
Exchange difference on translation of foreign operations		1,827	606	-	-
Net gains on available-for-sale financial assets					
-Unrealised net gains arising during the period, before tax		15,846	(38,509)	13,588	(39,476)
-Net reclassification adjustments for realised net gains or losses, before tax		1,930	-	1,930	-
Actuarial gains/(losses) on defined benefit pension scheme	39	(485)	(3,042)	(485)	(3,042)
Income tax relating to components of other comprehensive income		146	913	146	913
Other comprehensive income for the year, net of tax		**19,264**	**(40,032)**	**15,179**	**(41,605)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**94,361**	**(21,395)**	**86,323**	**(18,553)**
Total comprehensive income attributable to:					
Owners of the parent		94,304	(20,511)	86,323	(18,553)
Non-controlling interests		57	(884)	-	-
		94,361	**(21,395)**	**86,323**	**(18,553)**
Total comprehensive income attributable to owners of the parent arises from :					
Continuing operations		90,466	(18,846)	86,323	(18,553)
Discontinued operations	26	3,838	(1,666)	-	-
		94,304	**(20,511)**	**86,323**	**(18,553)**

First Bank of Nigeria Limited

STATEMENT OF FINANCIAL POSITION

	Note	GROUP 31 December 2012 N 'millions	GROUP 31 December 2011 N 'millions	GROUP 1 January 2011 N 'millions	BANK 31 December 2012 N 'millions	BANK 31 December 2011 N 'millions	BANK 1 January 2011 N 'millions
ASSETS							
Cash and balances with central banks	17	298,024	199,228	75,517	288,125	199,091	74,894
Loans and advances to banks	19	393,125	462,856	575,467	329,120	222,347	383,880
Loans and advances to customers	20	1,563,005	1,252,462	1,160,293	1,316,407	1,144,461	1,046,925
Financial assets held for trading	21	2,565	5,964	16,636	1,942	2,552	11,485
Investment securities							
-Available-for-sale investments	22.	351,374	356,933	222,822	300,351	340,767	201,163
-Held to maturity investments	22.	330,860	337,336	31,886	330,860	329,857	44,331
Asset pledged as collateral	23	50,109	72,129	122,009	50,109	72,129	122,009
Inventory	29	-	25,609	23,081	-	-	-
Investment in subsidiaries	24	-	-	-	40,348	32,416	30,416
Investments in associates accounted for using the equity method	27	5,609	7,489	8,996	2,224	14,099	14,099
Other assets	33	33,733	62,272	39,282	32,459	43,734	33,344
Investment properties	28	-	4,055	2,440	-	-	-
Intangible assets	31	3,417	1,008	494	1,302	734	265
Property, plant and equipment	30	74,454	65,874	63,634	70,724	64,056	62,252
Deferred tax	32	7,955	6,954	12,274	6,703	5,195	12,146
		3,114,230	2,860,169	2,354,831	2,770,674	2,471,438	2,037,209
Asset held for sale	26	12,978	-	-	-	-	-
Total assets		**3,127,208**	**2,860,169**	**2,354,831**	**2,770,674**	**2,471,438**	**2,037,209**
LIABILITIES							
Deposits from banks	34	87,551	183,500	148,352	18,463	51,306	55,221
Deposits from customers	35	2,405,858	1,951,321	1,447,600	2,171,807	1,784,490	1,328,218
Financial liabilities held for trading	36	1,796	2,857	1,639	1,278	1,143	1,639
Liability on investment contracts	38	-	49,440	76,446	-	-	-
Liability on insurance contracts		-	824	-	-	-	-
Borrowings	37	75,541	104,473	126,350	81,987	104,287	126,096
Retirement benefit obligations	39	18,648	15,081	11,426	18,156	14,676	11,075
Current income tax liability	16.	22,374	24,254	20,052	19,768	21,354	15,118
Deferred tax	32	6	1,067	901	-	-	-
Other liabilities	40	118,066	158,773	120,470	87,039	116,938	84,233
		2,729,840	2,491,590	1,953,236	2,398,498	2,094,194	1,621,600
Liabilities held for sale	26	2,836	-	-	-	-	-
Total liabilities		**2,732,675**	**2,491,590**	**1,953,236**	**2,398,498**	**2,094,194**	**1,621,600**
EQUITY							
Share capital	41	16,316	16,316	16,316	16,316	16,316	16,316
Share premium	42	189,241	254,524	254,524	189,241	254,524	254,524
Retained earnings	42	94,991	41,587	47,304	77,342	49,649	33,310
Other reserves							
Statutory reserve	42	42,972	32,144	28,508	42,422	31,753	28,294
SSI Reserve	42	6,076	6,076	6,309	6,076	6,076	6,309
AFS Fair value reserve	42	25,815	8,524	47,033	24,678	9,160	48,636
Contingency Reserve	42	-	13	-	-	-	-
Statutory credit reserve	42	16,101	9,766	28,220	16,101	9,766	28,220
Treasury share reserve	42	-	(1,941)	(27,767)	-	-	-
Foreign currency translation reserve	42	1,668	606	-	-	-	-
		393,180	367,615	400,447	372,176	377,244	415,609
Non-controlling interest		1,353	964	1,148	-	-	-
Total equity		**394,533**	**368,579**	**401,595**	**372,176**	**377,244**	**415,609**
Total equity and liabilities		**3,127,208**	**2,860,169**	**2,354,831**	**2,770,674**	**2,471,438**	**2,037,209**

The financial statements on pages 11 to 120 were approved by the Board of Directors on 28 February 2013 and signed on its behalf by:



Prince Ajibola Afonja
Chairman

Bisi Onasanya
Group Managing Director / CEO

Adebayo Adelabu
Executive Director / Group CFO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent												
	Share capital	Share premium	Retained earnings	Statutory reserve	SSI reserve	AFS Fair value reserve	Contingency reserve	Statutory credit reserve	Treasury share reserve	FCTR	Total	Non-controllin interest	Total equity
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Balance at 1 January 2011	16,316	254,524	47,304	28,508	6,309	47,033	-	28,220	(27,767)	-	400,447	1,148	401,595
Profit for the year	-	-	19,521	-	-	-	-	-	-	-	19,521	(884)	18,637
Other comprehensive income													
Foreign currency translation differences,net of tax	-	-	-	-	-	-	-	-	-	606	606	-	606
Tax effects on revaluation of financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value movements on equity financial assets						(38,509)					(38,509)		(38,509)
Actuarial gains/(losses) on defined benefit pension scheme	-	-	(2,129)	-	-	-	-	-	-	-	(2,129)	-	(2,129)
Share of OCI of associates, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	17,392	-	-	(38,509)	-	-	-	606	(20,511)	(884)	(21,395)
Transactions with owners											-		-
Issue of new shares											-	700	700
Disposal of treasury shares			(18,335)						25,826		7,491	-	7,491
Transfer to statutory credit reserve			18,454					(18,454)			-	-	-
SMEEIS reserves written off					(233)						(233)	-	(233)
Dividends	-	-	(19,580)	-	-	-	-	-	-	-	(19,580)	-	(19,580)
Transfer from retained earnings	-	-	(3,648)	3,636		-	13	-	-	-	-	-	-
Total transactions with Owners	-	-	(23,109)	3,636	(233)	-	13	(18,454)	25,826	-	(12,322)	700	(11,622)
At 31 December 2011	16,316	254,524	41,587	32,144	6,076	8,524	13	9,766	(1,941)	606	367,614	964	368,578
Profit for the year	-	-	75,040	-	-	-	-	-	-	-	75,040	57	75,097
Other comprehensive income											-	-	-
Foreign currency translation differences,net of tax	-	-	-	-	-	-	-	-	-	1,062	1,062	-	1,062
Tax effects on revaluation of financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value movements on equity financial assets						17,776					17,776	-	17,776
Actuarial gains/(losses) on defined benefit pension scheme	-	-	(340)	-	-	-	-	-	-	-	(340)	-	(340)
Share of OCI of associates, net of tax	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	74,701	-	-	17,776	-	-	-	1,062	93,539	57	93,596
Transactions with owners					-	-	-	-	-		-		-
Dividends	-	-	(26,105)		-	-	-	-	-		(26,105)		(26,105)
Exchange difference					-	-	-	-	-		-		-
Acqusiition of subsidiary (Note 25)					-	-	-	-	-	-	-	1,286	1,286
Transfer from retained earnings	-	-	(27)	-	-	-	27	-	-	-	-	-	-
Transfer between reserves	-	-	(17,219)	10,884	-	-	-	6,335	-	-	-	-	-
Transfer resulting from Business Restructuring (Note 26)		(65,283)	22,054	(56)	-	(484)	(40)		1,941		(41,868)	(953)	(42,821)
Total transactions with Owners	-	(65,283)	(21,297)	10,828	-	(484)	(13)	6,335	1,941	-	(67,973)	333	(67,640)
At 31 December 2012	16,316	189,241	94,991	42,972	6,076	25,815	0	16,101	-	1,668	393,180	1,353	394,533

First Bank of Nigeria Limited

BANK STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent							
	Share capital	Share premium	Retained earnings	Statutory reserve	SSI reserve	AFS Fair value reserve	Statutory credit reserve	Total
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Balance at 1 January 2011	16,316	254,524	33,310	28,294	6,309	48,636	28,220	415,609
Profit for the year	-	-	23,052	-	-	-	-	23,052
Other comprehensive income								
Foreign currency translation differences,net of tax	-	-	-	-	-	-	-	-
Tax effects on revaluation of financial assets	-	-	-	-	-	-	-	-
Fair value movements on equity financial assets						(39,476)		(39,476)
Actuarial gains/(losses) on defined benefit pension scheme	-	-	(2,129)	-	-	-	-	(2,129)
Share of OCI of associates, net of tax	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	20,923	-	-	(39,476)	-	(18,553)
Transactions with owners								
(Increase)/Decrease in Treasury shares	-	-	-	-	-	-	-	-
Dividends	-	-	(19,580)	-	-	-	-	(19,580)
SMEEIS investments written off					(233)			(233)
Transfer from retained earnings	-	-	18,454			-	(18,454)	-
Transfer between reserves			(3,458)	3,458				
Total transactions with Owners	-	-	(4,584)	3,458	(233)	-	(18,454)	(19,813)
At 31 December 2011	16,316	254,524	49,649	31,752	6,076	9,160	9,766	377,243
Profit for the year	-	-	71,144	-	-	-	-	71,144
Other comprehensive income								
Foreign currency translation differences,net of tax	-	-	-	-	-	-	-	-
Fair value movements on equity financial assets						15,518		15,518
Actuarial gains/(losses) on defined benefit pension scheme	-	-	(340)	-	-	-	-	(340)
Share of OCI of associates, net of tax	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	70,804	-	-	15,518	-	86,322
Transactions with owners								
Dividends	-	-	(26,105)	-	-	-	-	(26,105)
SMEEIS investments written off	-	-	-	-		-	-	-
Transfer from retained earnings	-	-	-	-	-	-	-	-
Tranfer between reserves	-	-	(17,007)	10,672	-	-	6,335	(0)
Transfer resulting from Business Restructuring (Note 2	-	(65,283)	-	-	-	-	-	(65,283)
Total transactions with Owners	-	(65,283)	(43,112)	10,672	-	-	6,335	(91,388)
At 31 December 2012	16,316	189,241	77,342	42,422	6,076	24,678	16,101	372,176

First Bank of Nigeria Limited

STATEMENT OF CASH FLOWS

	Note	GROUP 31 December 2012 N 'millions	GROUP 31 December 2011 N 'millions	BANK 31 December 2012 N 'millions	BANK 31 December 2011 N 'millions
Operating activities					
Cash flow (used in)/generated from operations	43	(145,421)	285,287	(40,367)	221,203
Income taxes paid		(21,447)	(6,614)	(17,637)	(2,517)
Interest received		308,413	221,439	269,479	215,568
Interest paid		(65,673)	(43,669)	(51,073)	(38,550)
Purchase of investment securities		(51,473)	(361,998)	(24,774)	(343,328)
Proceeds from the sale of investment securities		17,612	14,014	17,012	9,515
Dividends received		518	3,925	514	440
Gratuity payment to staff		(15,136)	(4,915)	(15,135)	(3,898)
Net cash flow generated from operating activities		27,393	107,469	138,018	58,433
Investing activities					
Acquisition of subsidiary	25	11,463	-	-	-
Net cash flow from disposal of subsidiaries		(30,619)	-	-	-
Net cash flow from business restructuring	26	(24,885)	-	-	-
Additional investment in subsidiaries		-	-	(17,307)	(1,000)
Dividends received		-	-	25	4,336
Purchase of investment property		-	(1,563)	-	-
Purchase of property, plant and equipment		(18,635)	(11,529)	(16,881)	(10,592)
Purchase of intangible assets		(1,494)	(1,712)	(1,124)	(1,551)
Proceeds on disposal of property, plant and equipment		2,862	209	2,808	151
Net cash used in investing activities		(61,308)	(14,595)	(32,478)	(8,656)
Financing activities					
Proceeds from sale of treasury shares		-	7,497	-	-
Dividend paid		(26,105)	(19,579)	(26,105)	(19,579)
Proceeds from new borrowings		57,832	18,671	57,832	18,671
Repayment of borrowings		(85,805)	(40,529)	(79,356)	(40,462)
Net cash (used in)/generated from financing activities		(54,078)	(33,940)	(47,629)	(41,370)
Increase in cash and cash equivalents		(87,993)	58,934	57,911	8,407
Cash and cash equivalents at start of year	18	708,991	650,714	467,546	459,551
Effect of exchange rate fluctuations on cash held		(137)	(658)	(124)	(412)
Cash and cash equivalents at end of year	18	620,861	708,990	525,333	467,546

1 General information

These financial statements are the consolidated financial statements of First Bank Nigeria Limited (the Bank), and its subsidiaries (hereafter referred to as 'the Group').

The Regsitered office address of the Bank is at 35 Marina, Samuel Asabia House.

The principal activities of the Bank is mainly retail banking and corporate banking. Retail banking provides banking activities relating to individuals, such as savings account, investment savings products, loans and money transfers. Corporate banking includes activities relating to multinational and local corporations, as well as financial and governmental institutions, such as funds management, credit facilities and project finance.

During the year, there was a business restructuring within the First Bank Group, which resulted in the adoption of the holding company model. Thus, FBN Holdings Plc was set up as a non-operating legal entity domiciled in Nigeria, and regulated by the Central Bank of Nigeria as an “other financial institution". See note (29) for detailed disclosure on the impact of the Business restructuring.
As at year end, the Bank has five subsidiary companies namely:

FBN Bank (UK) Limited
FBN Pension Custodian Nigeria Limited,
FBN Mortgages Limited
FBN Bureau De Change Liimited
Banque Internationale De Credit, DRC.

The consolidated financial statements for the year ended 31 December 2012 were approved for issue by the Board of Directors on 28 February 2013.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The Group’s consolidated financial statements for the year 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. Additional information required by national regulations is included where appropriate.

These are the first annual financial statements of the Company and the Group prepared in accordance with IFRS and IFRS 1, First-time Adoption of IFRS (IFRS 1) has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cashflows of the Group and Bank is provided in note 53.

The financial statements comprise the income statement, statement of comprehensive income, statement of financial position, the statement of changes in equity, statement of cash flows and the related notes for the Group and the Bank.

The financial statements have been prepared in accordance with the going concern principle under the historical cost convention, as modified by available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires directors to exercise judgement in the process of applying the accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The Directors believe that the underlying assumptions are appropriate and that the Group’s financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

2.2 New standards, interpretations and amendments to existing standards that are not yet effective

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 January 2012.

(i) Amendment to IAS 19, 'Employee benefits' (effective for periods beginning on or after 1 January 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.

(ii) Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting' (effective for periods beginning on or after 1 January 2014).
This amendment clarifies some of the requirements for offsetting financial assets and liabilities on the reporting date. The Group is yet to assess the full effect of IAS 32 and intends to adopt IAS 32 no later than the accounting period beginning on or after 1 January 2014.

(iii) IFRS 10, 'Consolidated financial statements' (effective for periods beginning on or after 1 January 2013).
The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.
The Group is yet to assess the full effect of IFRS 10 and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

(iv) IFRS 11, 'Joint arrangements' effective for periods beginning on or after 1 January 2013)
IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures.

Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the joint venturer has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

The Group is yet to assess the full effect of IFRS 11 and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2013.

(v) IFRS 12, 'Disclosures of interests in other entities' (effective for periods beginning on or after 1 January 2013).
IFRS 12 includes the disclosure requirements for all forms of interests in other entities,including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

The Group is yet to assess the full effect of IFRS 12 and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

(vi) IFRS 13, 'Fair value measurement' (effective for periods beginning on or after 1 January 2013).
IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

(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 Banks operations.

(viii) IAS 28 (revised 2011), 'Associates and joint ventures' (effective for periods beginning on or after 1 January 2013)
IAS 28 (revised 2011) includes the requirements for associates and joint ventures that have to be equity accounted following the issue of IFRS 11.
The Group is yet to assess the full effect of IAS 28 and intends to adopt IAS 28 no later than the accounting period beginning on or after 1 January 2013.

(ix) IFRS 9, 'Financial Instruments' (effective for periods beginnning on or after 1 January 2015)
This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

The Group is yet to assess the full effect of IFRS 9 and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.The directors will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

2.3 Consolidation

The financial statements of the consolidated subsidiaries used to prepare the consolidated financial statements were prepared as of the parent company's reporting date. The consolidation principles are unchanged as against the previous year.

a. Business combinations

(i) *Acquisitions on or after 1 January 2011*

For acquisitions on or after 1 January 2011, the Group measures goodwill at the acqusition date as the fair value of the consideration transferred including the recognised amount of any non-controlling interests in the acquiree and fair value of any previously held interest, less the net recognised amount (generally fair value) of the identifiable assets acquired and the liabilities assumed, all measured as of the acquisition date.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of net assets on liquidation. at fair value, or at their proportionate share of the recognised amount of the identifiable net assets, at the acquisition date.Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) *Acquisitions prior to 1 January 2011*

As part of its transition to IFRSs,the Group did not elect to restate any business combinations that occurred on or before its transition date of 1 January 2011. In respect of acquisitions prior to 1 January 2011, goodwill represents the amount recognised under the Group's previous accounting framework (NGAAP).

b. *Acquisitions of non-controlling interests*

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders. Therefore, no goodwill is recognised as a result of such transactions.

c. Subsidiaries

The consolidated financial statements incorporates the financial statements of the Bank and all its subsidiaries where it is determined that there is a capacity to control.

Control means the power to govern, directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities. All the facts of a particular situation are considered when determining whether control exists.

Control is usually present when an entity has:

• power over more than one-half of the voting rights of the other entity;

• power to govern the financial and operating policies of the other entity;

• power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or

• power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date that control ceases. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (transactions with owners). Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the Group.

In its separate accounts, the Bank accounts for its investment in subsidiaries at cost.

Inter-company transactions, balances and unrealised gains on transactions between companies within the Group are eliminated on consolidation. Unrealised losses are eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment. Consistent accounting policies are used throughout the Group for consolidation.

d. Associates

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over these policies. Significant influence is generally demonstrated by the Group holding in excess of 20%, but less than 50%, of the voting rights.

The Group's share of results of the associate entity is included in the consolidated income statement. Investments in associates are carried in the statement of financial position at cost plus the Group's share of post-acquisition changes in the net assets of the associate. Investments in associates are reviewed for any indication of impairment at least at each reporting date.The carrying amount of the investment is tested for impairment, where there is an indication that the investment may be impaired. When the Group's share of losses or other reductions in equity in an associate equals or exceeds the recorded interest, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the entity. The excess of the cost of an acquisition over the Group's share of the fair value of the identifiable net assets acquired is recorded as goodwill. Goodwill is carrying amount of the investment and assessed for impairment as part of the investment. A gain on acquisition is recognised immediately in profit or loss if there is an excess of the Group's share of the fair value of the identifiable net assets acquired over the cost of the acquisition.

The Group's share of the results of associates is based on financial statements made up to a date not more than three months before the reporting date, adjusted to conform with the accounting policies of the Group. Unrealised gains and losses on transactions are eliminated to the extent of the Group's interest in the investee. Losses may provide evidence of impairment of the asset transferred in which case appropriate provision is made for impairment.

In the seperate financial statements of the Bank, investments in associates are stated at cost less accumulated impairment losses, if any.

Special purpose entities (SPEs)

SPEs are entities that are created to accomplish a narrow and well-defined objective . The financial statement of the SPE are included in the consolidated financial statement where on the substance of the relationship with the group and the SPE's risk and reward, the group concludes that it controls the SPE.

2.4 Common control transactions

A business combination involving entities or businesses under common control is excluded from the scope of IFRS 3: Business Combinations. The exemption is applicable where the combining entities or businesses are controlled by the same party both before and after the combination. Where such transactions occur, the Bank, in accordance with IAS 8, uses its judgement in developing and applying an accounting policy that is relevant and reliable. In making this judgement, directors considers the requirements of IFRS dealing with similar and related issues and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the framework. Directors also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, to the extent that these do not conflict with the IFRS Framework or any other IFRS or interpretation.

Accordingly the Bank applies the guidance as set out in IFRS 3R on common control transactions. The assets and liabilities of the business transferred are measured at their existing book value in the consolidated financial statements of the parent, as measured under IFRS.

The Bank incorporates the results of the acquired businesses only from the date on which the business combination occurs.

2.5 Foreign currency translation

a. *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The financial statements are presented in Naira millions.

b. *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured.

Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the end of the reporting period. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the profit or loss.

Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition;non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial instruments held at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments measured at available for sale are included in other comprehensive income and cumulated in the fair value reserve.Non-monetary items that are measured under the historical cost basis are not retranslated.

c. Foreign operations

The results and financial position of all the group entities which have functional currency different from the Group's presentation currency, are translated into the Group's presentation currency as follows:

• assets and liabilities of each foreign operation are translated at the rates of exchange ruling at the reporting date;
• income and expenses of each foreign operation are translated at the average exchange rate for the period, unless this average is not a reasonable approximation of the rate prevailing on transaction date, in which case income and expenses are translated at the exchange rate ruling at transaction date; and
• all resulting exchange differences are recognised in other comprehensive income and are classified as equity and recognised in the foreign currency translation reserve.

On transition to IFRS, the Group elected to apply the cummulative translation difference exemption and brought forward a nil opening balance on the foreign currency translation reserve arising from the retranslation of foreign operations, which is shown as a separate item in equity.

2.6 Income taxation

a. *Current income tax*
Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income or to equity (for example, current tax on equity instruments for which the entity has elected to present gains and losses in other comprehensive income).

b. *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of reporting period 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.
property constructed for the specific purpose of resale (work in progress under the scope of IAS 18, 'Revenue')

(ii) property transferred from investment property to inventories. This is permitted when the Group commences the property's development with a view to sale.
They are valued at the lower of cost and net realisable value. Cost comprises direct materials and, where appropriate, labour and production overheads which have been incurred in bringing the inventories and work in progress to their present location and condition.Cost is determined using weighted average cost. Net realisable value represents the estimated selling price less estimated costs to completion and costs to be incurred in marketing, selling and distribution.

2.8 Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the statement of financial position and measured in accordance with their assigned category

2.8.1 Financial assets

The Group allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Directors determine the classification of its financial instruments at initial recognition.

a. *Financial assets at fair value through profit or loss*

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.
A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial assets held for trading consist of debt instruments, including money-market paper, traded corporate and bank loans, and equity instruments, as well as financial assets with embedded derivatives.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in the income statement and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

b. *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(i) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

(ii) those that the Group upon initial recognition designates as available for sale; or

(iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method. Loans and receivables are reported in the statement of financial position as loans and advances to banks or customers or other assets and cash balances. Interest on loans is included in the profit or loss and is reported as 'Interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the profit or loss as 'impairment charge for credit losses'.
Receivables arising out of Insurance arrangements are also classified in this category and reviewed for impairment in line with IAS 39.

c. *Held-to-maturity financial assets*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than:

(i) those that the Group upon initial recognition designates as at fair value through profit or loss;

(ii) those that the Group designates as available for sale; and

(iii) those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.
Interest on held-to-maturity investments is included in the income statement and reported as 'Interest income'. In the case of an impairment, the impairment loss has been reported as a deduction from the carrying value of the investment and recognised in the income statement as 'Net gains/(losses) on investment securities'.

d. *Available-for-sale financial assets*

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables,held to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the profit or loss, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the income statement. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement in 'Other operating income' when the Group's right to receive payment is established.

e. *Recognition*

The Group uses settlement date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

2.8.2 Financial liabilities

The Group's holding in financial liabilities is in financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that are designated at fair value through profit or loss), financial liabilities at amortised cost . Financial liabilites are derecognised when extinguished.

a. *Financial liabilities at fair value through profit or loss*

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Group as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller.

Those financial instruments are recognised in the statement of financial position as 'Financial liabilites held for trading'.

Gains and losses arising from changes in fair value of financial liabilities classified held for trading are included in the income statement and are reported as 'Net gains/ (losses) on financial instruments classified as held for trading'. Interest expenses on financial liabilities held for trading are included in 'Net interest income'.

b. *Other liabilities measured at amortised cost*

Financial liabilities that are not classified at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts.

2.8.3 Derivative financial instruments

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset where there is a legal right of offset of the recognised amounts and the parties intend to settle the cash flows on a net basis, or realise the asset and settle the liability simultaneously

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

2.8.5 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations.
This includes listed equity securities and quoted debt instruments on major exchanges (for example, NSE) and broker quotes from Bloomberg and Reuters.
A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the dates of the statement of financial position.

The Group uses widely recognised valuation models for determining fair values of non standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value derivatives transacted in the over-the-counter market, unlisted securities (including those with embedded derivatives) and other instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.
The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in Note 3.6

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Group holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk.
Based on the established fair value model governance policies, and related controls and

these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the statement of financial position. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of the current market developments.

The estimated fair value of loans and advances represents an estimation of the value of the loans using average benchmarked lending rates which were adjusted for specific entity risks based on history of losses.

2.8.6 De-recognition of financial instruments

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

2.9 Reclassification of financial assets

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

The group may reclassify a financial instrument when its intentions and the characteristics of the financial instrument changes.

2. 10 Classes of financial instrument

The Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

Category	Class		Subclasses	
Financial assets	Financial assets at fair value through profit or loss	Financial assets held for trading	Debt securities	
			Equity securities	
			Derivatives – non-hedging	
		Financial assets designated at fair value through profit and loss	Debt securities	
			Equity securities	
			Loans and advances to banks	
			Loans and advances to customers	
	Loans and receivables	Loans and advances to banks		
		Loans and advances to customers	Loans to individuals (retail)	Overdrafts
				Credit cards
				Term loans
				Mortgages
			Loans to corporate entities	Large corporate customers
				SMEs
				Others
		Investment securities – debt instruments		Listed
				Unlisted
	Held-to-maturity investments	Investment securities – debt securities		Listed
				Unlisted
	Available-for-sale financial assets	Investment securities – debt securities		Listed
		Investment securities – equity securities		Listed
				Unlisted
Financial liabilities	Financial liabilities at fair value through profit or loss	Financial liabilities held for trading (Derivatives – Non Hedging only)		
		Designated at fair value through profit and loss – Debt securities in issue		
	Financial liabilities at amortised cost	Deposits from banks		
		Deposits from customers	Retail customers	
			Large corporate customers	
			SMEs	
		Debt securities in issue		
		Convertible bonds		
		Subordinated debt		
Off-balance sheet financial instruments	Loan commitments			
	Guarantees, acceptances and other financial facilities			

2. 11 Offsetting financial instruments

Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.
Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2. 12 Revenue recognition

a. Interest income and expense
Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period,to the net carrying amount of the instrument. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating effective interest, the Group estimates cash flows considering all contractual terms of the financial instrument but

Fees, including those for early redemption, are included in the calculation to the extent that they can be measured and are considered to be an integral part of the effective interest rate. Cash flows arising from the direct and incremental costs of issuing financial instruments are also taken into account in the calculation. Where it is not possible to otherwise estimate reliably the cash flows or the expected life of a financial instrument, effective interest is calculated by reference to the payments or receipts specified in the contract, and the full contractual term.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

b. Fees and commission income

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis as the service is provided. Fees and commissions not integral to effective interest arising from negotiating, or participating in the negotiation of a transaction from a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts.
The same principle is applied to the recognition of income from wealth management, financial planning and custody services that are continuously provided over an extended period of time.

2.13 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:
· significant financial difficulty of the issuer or obligor;
· a breach of contract, such as a default or delinquency in interest or principal payments;
· the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
· it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
· the disappearance of an active market for that financial asset because of financial difficulties;
· observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
(i) adverse changes in the payment status of borrowers in the portfolio;
(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and recognised in the Income Statement.

Where appropriate, the calculation of the present value of the estimated future cash flows of a collateralised financial asset reflect the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.
For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

These characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognised using the effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss.

When a loan is uncollectable, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the Income Statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Income Statement.
Equity securities acquired in exchange for loans in order to achieve an orderly realisation are accounted for as a disposal of the loan and an acquisition of equity securities. Where control is obtained over an entity as a result of the transaction, the entity is consolidated. Any further impairment of the assets or business acquired is treated as an impairment of the relevant asset or business and not as an impairment of the original instrument.

In the case of available for sale equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. Where such evidence exists, the cumulative gain or loss that has been previously recognised directly in equity is removed from equity and recognised in the Income Statement. Reversals of impairment of equity shares are not recognised in the Income Statement, increases in the fair value of equity shares after impairment are recognised directly in equity. In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as all other financial assets above. Reversals of impairment of debt instruments are recognised in the Income Statement.

2. 14 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Additionally, assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

2. 15 Collateral

The Group obtains collateral where appropriate, from customers to manage their credit risk exposure to the customer. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer in the event that the customer defaults.

The Group may also use other credit instruments, such as stock borrowing contracts, and derivative contracts in order to reduce their credit risk.

Collateral received in the form of securities is not recorded on the statement of financial position. Collateral received in the form of cash is recorded on the statement of financial position with a corresponding liability. These items are assigned to deposits received from bank or other counterparties. Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

2. 16 Discontinued operations

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative year.

2.17 Leases

Leases are divided into finance leases and operating leases.

a. *The group is the lessee*

(i) *Operating lease*
Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) *Finance lease*

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases.

Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

b *The group is the lessor*

(i) *Operating lease*
When assets are subject to an operating lease, the assets continure 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 1/3%
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 associates , and represents the excess of the cost of acquisition, over the fair value of the Group's share of the assets acquired, and the liabilities and contingent liabilities assumed on the date of the acquisition. For the purpose of calculating goodwill, fair values of acquired assets, liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value. This discounting is either performed using market rates or by using risk-free rates and risk-adjusted expected future cash flows. Goodwill is initially recognised as an asset at cost and subsequently measured at cost less accumulated impairment losses, if any. Goodwill which is recognised as an asset is reviewed at least annually for impairment. Any impairment loss is immediately recognised in profit or loss.

For the purpose of impairment testing, goodwill is allocated to each cash-generating unit that is expected to derive benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill on acquisitions of associates is included in the amount of the investment.

Gains and losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold.

b. Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group, are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis over 3 years and are carried at cost less any accumulated amortisation and any accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when the carrying amount exceeds its recoverable amount.

c. Impairment of tangible and intangible assets excluding goodwill

At each reporting date, or more frequently where events or changes in circumstances dictate, tangible and intangible assets, are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount: the higher of the asset's or the cash-generating unit's net selling price and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the asset's continued use, including those resulting from its ultimate disposal, at a market-based discount rate on a pre-tax basis.

The carrying values of tangible and intangible assets are written down by the amount of any impairment and this loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to a tangible or intangible asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the tangible or intangible asset's recoverable amount. The carrying amount of the tangible or intangible asset will only be increased up to the amount that it would have been had the original impairment not been recognised. For the purpose of conducting impairment reviews, cash-generating units are the lowest level at which management monitors the return on investment on assets.

2. 20 Employee benefits

The Group has both defined 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. 21 Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation, and it can be reliably estimated.

When a leasehold property ceases to be used in the business or a demonstrable commitment has been made to cease to use a property where the costs exceed the benefits of the property, provision is made, where the unavoidable costs of the future obligations relating to the lease are expected to exceed anticipated rental income and other benefits.

The net costs are discounted using market rates of interest to reflect the long-term nature of the cash flows.

Provision is made for the anticipated cost of restructuring, including redundancy costs when an obligation exists. An obligation exists when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features. The provision raised is normally utilised within nine months.

Provision is made for undrawn loan commitments and similar facilities if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

2. 22 Fiduciary activities

The Group acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

2. 23 Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the consolidated group, are classified as investment properties. Investment properties comprise residential buildings constructed with the aim of leasing out to tenants or for selling. Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost was incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at depreciated cost. Investment properties are normally depreciated using the straight-line method.The fair values of investment properties are disclosed in the Notes to the financial statements.

The fair value reflects market conditions at the date of the statement of financial position and is obtained from professional third party valuators contracted to perform valuations on behalf of the Group. The fair value does not reflect future capital expenditure that will improve or enhance the property.

Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in other operating income in the income statement.

2.24 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents include cash and non-restricted balances with central banks.

2.25 Share capital

a. *Share issue costs*

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

b. *Dividends on ordinary shares*

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the shareholders.

Dividends for the year that are declared after the reporting date are dealt with in the subsequent events note.

Dividends proposed by the Directors but not yet approved by members are disclosed in the financial statements in accordance with the requirements of the Company and Allied Matters Act.

c. *Treasury shares*

Where the Bank or other members of the Group purchase the Bank's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

d. *Statutory credit reserve*

In compliance with the Prudential Guidelines for licensed Banks, the Group assesses qualifying financial assets using the guidance under the Prudential Guidelines. The guidelines apply apply objective and subjective criteria towards providing for losses in risk assets. Assets are classed as performing or non-performing. Non-performing assets are further classed as Substandard, Doubtful or Lost with attendants provision as per the table below based on objective criteria.

Classification	Percentage	Basis
Substandard	10%	Interest and/or principal overdue by 90 days but less than 180 days
Doubtful	50%	Interest and/or principal overdue by 180 days but less than 365 days
Lost	100%	Interest and/or principal overdue by more than 365 days

A more accelerated provision may be done using the subjective criteria. A 1%provision is taken on all risk assets are not specifically provisioned.

2.25 Share capital continued
Statutory credit reserve continued

The results of the application of Prudential Guidelines and the impairment determined for these assets under IAS 39 are compared. The IAS 39 determined impairment charge is always included in the income statement.

Where the Prudential Guidelines provision is greater, the difference is appropriated from Retained Earnings and included in a non-distributable reserve "Statutory credit reserve". Where the IAS 39 impairment is greater, no appropriation is made and the amount of the IAS 39 impairment is recognised in Statement of Comprehensive Income.

Following an examination, the regulator may also require more amounts be set aside on risk and other assets. Such additional amounts are recognised as a appropriation from retained earnings to statutory risk reserve.

2. 26 Issued debt and equity securities

Issued financial instruments or their components are classified as liabilities where the contractual arrangement results in the Group having a present obligation to either deliver cash or another financial asset to the holder, to exchange financial instruments on terms that are potentially unfavourable or to satisfy the obligation otherwise than by the exchange of a fixed amount of cash or another financial asset for a fixed number of equity shares. Issued financial instruments, or their components, are classified as equity where they meet the definition of equity and confer on the holder a residual interest in the assets of the Bank. The components of issued financial instruments that contain both liability and\ equity elements are accounted for separately with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component.

2. 27 Insurance contracts and investment contracts

The Group offers wealth management, term assurance, annuity, property and payment protection insurance products to customers that take the form of long-term insurance contracts. The Group classifies its wealth management and other products as insurance contracts where these transfer significant insurance risk, generally where the benefits payable on the occurrence of an insured event are more significant than the benefits that would be payable if the insured event does not occur. Contracts that do not contain significant insurance risk or discretionary participation features are classified as investment contracts. Financial assets and liabilities relating to investment contracts are classified and measured as appropriate under IAS 39 ‘Financial Instruments; Recognition and Measurement’.

2. 28 Life insurance contracts

These contracts insure events associated with human life (for example, death or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Claims and surrenders are accounted for when notified.
Maturities on the policy maturity date and regular withdrawals are accounted for when due. A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised, based on the expected discounted value of the benefit payments and directly related administration costs, less the expected discounted value of the benefit payments and directly related administration costs, less the expected discounted value of the future premiums that would be required to meet the benefits and other expenses. The calculation of the liability contains assumptions regarding mortality, maintenance expenses and investment income. Liabilities under unit-linked life insurance contracts (such as endowment policies) in addition reflect the value of assets held within unitised investment pools

3. Financial risk management

3.1 Introduction and overview

The Group defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Bank's risk management directorate (the Directorate) under policies approved by the Board of Directors. The Bank's Risk Management Directorate provides central oversight of risk management across the Bank and its subsidiaries to ensure that the full spectrum of risks facing the Bank and the Group are properly identified, measured, monitored and controlled to minimise adverse outcomes. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal control is responsible for the independent review of risk management and the control environment, while internal audit has the responsibility of auditing the risk management function to ensure that all units charged with risk management perform their roles effectively on a continuous basis. Internal audit also tests the adequacy of the internal controls and make appropriate recommendations where weaknesses are identified with the view of strengthening the Group's risk management framework.

The risks arising from financial instruments to which the Group is exposed are financial risks, which includes credit risk, liquidity risk and market risk (discussed in subsequent sections)

The key elements of the risk management philosophy are the following:
• The Bank considers sound risk management to be the foundation of a long-lasting financial institution.
• The Bank continues to adopt a holistic and integrated approach to risk management and, therefore, brings all risks together under one or a limited number of oversight functions.
• Risk officers are empowered to perform their duties professionally and independently without undue interference.
• Risk management is governed by well-defined policies that are clearly communicated across the Bank.
• Risk management is a shared responsibility. Therefore, the Bank aims to build a shared perspective on risks that is grounded in consensus.
• The Bank's risk management governance structure is clearly defined.
• There is a clear segregation of duties between market-facing business units and risk management functions.
• Risk-related issues are taken into consideration in all business decisions. The Bank shall continue to strive to maintain a conservative balance between risk and revenue considerations.
*Risk officers work as allies and thought partners to other stakeholders within and outside the Bank and are guided in the exercise of their powers by a deep sense of responsibility, professionalism and respect for other parties; and
• Risks are reported openly and fully to the appropriate levels once they are identified.
• Risk officers work as allies and thought partners to other stakeholders within and outside the Bank, and are guided in the exercise of their powers by a deep sense of responsibility, professionalism and respect for other parties.
• All subsidiaries are guided by the principles enshrined in the risk management policies of the Bank.

3.2 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from commercial and consumer loans and advances and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Bank's Chief Risk Officer (CRO) regularly.

3.2.1 Credit risk measurement

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Group reflects the following components:

• The character and capacity to pay of the client or counterparty on its contractual obligations;
• Current exposures to the counterparty and its likely future development;
• Credit history of the counterparty; and
• The likely recovery ratio in case of default obligations – value of collateral and other ways out. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are reviewed and upgraded when necessary. The Group regularly validates the performance of the rating and their predictive power with regard to default events.

Obligor Risk Rating (ORR system)

The obligor risk rating grids have a minimum of ten risk buckets to provide a pre-set, objective basis for making credit decisions, with one additional bucket specifically included to categorise 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 Bank does not lend to non investment grade obligors, on an unsecured basis, except as specified under a product programme. The Facility Risk Rating (FRR) is different from the Obligor Risk Rating (ORR) to the extent of the perceived value of collateral/enhancement provided.

• The Collateral Risk Rating grid indicates the acceptable collateral types rated 1–8 from best to worst in order of liquidity.

Collateral risk rating	Collateral type
1	Cash/Treasury bills
2	Marketable securities, guarantee/receivables of investment grade banks and corporates
3	Enforceable Lien on fast moving inventory in bonded warehouses
4	Legal mortgage on residential business real estate in prime locations A and B
5	Legal mortgage or debeture on business premise, factory assets or commercial real estates in locations A and B
6	Equitable mortgages on real estate in any location
7	Letters of comfort or awareness, guarantee of non-investment grade banks and corporates
8	Hypothecation, negative pledge, personal guarantee, clean

3.2.2 Risk limit control and mitigation policies

The Group manages, limits and controls concentrations of credit risk wherever they are identified − in particular, to individual counterparties and groups, and to industries and countries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and counterparty are set by the Board of Directors on the recommendation of the Executive Director/Chief Risk Officer.

Portfolio limits

The process of setting the limits is as follows:

• The Group engages in a detailed portfolio plan annually. In drawing up the plan, the Group reviews the macro-economic factors, identifies the growth sectors of the economy and conducts a risk rating of the sectors to determine its acceptable target market industries and exception. The target loan portfolio is then distributed across acceptable target market industries, strategic business units and approved product programmes.
• Aggregate large exposure limit of not more than 400% of Bank's shareholders' funds.
• Public sector exposure limit of not more than 10% (including contingent liability) of the Bank's loan portfolio.

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Portfolio limits continued

• Industry/economic sector limits are imposed on the Bank's lending portfolio, in line with the following policies:
– The target market is companies operating in industries rated 'BB' or better unless on an exception basis.
– The Group would not have more than 25% of its portfolio in any group of positively correlated industries in terms of risk (e.g., oil exploration and oil service, tyre manufacturing and tyre distribution, etc.).
– The Group would strive to limit its exposure to any single industry to not more than 20% of its loan portfolio and such industry must be rated 'BBB' or better.
– No more than 15% of the Group's portfolio would be in any industry rated 'BB' or worse.
-No more than 10% of the Group's portfolio in any single industry rated 'B' or worse

Geographical limits

Presently, the Group's exposures outide Nigeria are taken by its subsidiaries in the United Kingdom and Congo, which operate within country limits defined by their Boards of Directors. However, the Group has a fully developed country risk rating system that could be employed, should the need arise. In such eventuality, limits will be graduated on country risk rating.

Single obligor limits

• Limits are imposed on loans to individual borrowers. The Group as a matter of policy does not lend above its regulatory lending limit, which is 20% of its shareholders' funds unimpaired by losses. The internal guidance limit is, however, set at 18% of SHF to create a prudent buffer.
• Also, the Group will not ordinarily advance beyond 50% of customers' shareholders' fund/net worth in cases of loans offered under individual assessment.
• Product programmes contain guidelines on single obligor limits.
• Except with the approval of the Board of Directors, the Group shall not lend more than:
– 20% of the shareholders' funds to any company. Only companies rated 'A' or better may qualify for this level of exposure.
– No single retail loan should amount to more than 0.2% of total retail portfolio.
– 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 (N'000)	Non - nvestment grade (N'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.
• 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 continued

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 promt 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 minimized. 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 reporting date based on objective evidence of impairment.

The impairment allowance shown in the consolidated statement of financial position at year end is derived from the group's rating system (The Obligor Risk Rating).

3.2.4 Maximum exposure to credit risk before collateral held or credit enhancements

Credit risk exposures relating to on balance sheet assets are as follows:

	GROUP		
	31 Dec 2012	**31 Dec 2011**	**1 Jan 2011**
	N'millions	**N'millions**	**N'millions**
Balances with central banks	244,941	153,935	42,362
Loans and advances to banks	393,125	462,856	575,467
Loans and advances to customers			
- Overdraft	266,555	173,591	151,178
- Term loans	1,102,513	871,863	779,534
- Commercial Paper	125,883	183,973	112,328
- Advances under finance leases	3,694	4,611	7,323
- Others	64,360	18,424	109,930
Financial assets held for trading	2,565	2,682	11,485
Investment securities - Debt			
-Available-for-sale investments	303,876	304,840	139,946
-Held to maturity investments	330,860	337,336	31,886
Asset pledged as collateral	50,109	72,129	122,009
Assets classified as held for sale	7,341	-	-
Other assets	25,274	52,996	30,699
	2,921,096	2,639,236	2,114,148
Credit risk exposures relating to off balance sheet assets are as follows:			
Loan commitments	27,111	13,481	3,752
Letter of credit and other credit related obligations	220,388	231,834	155,888
	247,499	245,315	159,640
TOTAL MAXIMUM EXPOSURE	3,168,595	2,884,551	2,273,788

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3.2.4 Maximum exposure to credit risk before collateral held or credit enhancements (continued)

Credit risk exposures relating to on balance sheet assets are as follows:

	BANK		
	31 Dec 2012	**31 Dec 2011**	**1 Jan 2011**
	N'millions	**N'millions**	**N'millions**
Balances with central banks	240,887	153,904	42,361
Loans and advances to banks	329,120	222,347	383,880
Loans and advances to customers			
- Overdraft	259,065	199,050	125,192
- Term loans	863,926	738,869	692,151
- Commercial Paper	125,883	183,973	112,328
- Advances under finance leases	3,694	4,611	7,323
- Others	63,838	17,958	109,930
Financial assets held for trading	1,942	2,552	11,485
Investment securities			
-Available-for-sale investments	252,911	298,623	128,111
-Held to maturity investments	330,860	329,857	44,331
Asset pledged as collateral	50,109	72,129	122,009
Other assets	25,108	36,152	27,406
	2,547,344	2,260,025	1,806,508
Letter of credit and other credit related obligations	196,267	153,695	151,337
	196,267	153,695	151,337
TOTAL MAXIMUM EXPOSURE	**2,743,611**	**2,413,720**	**1,957,845**

3.2.5 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Group's credit exposure at 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 held for trading analysed below excludes investments in equty instruments.

GROUP

	Lagos	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe & America	**Total**
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Balances with central bank	235,046	-	-	-	9,857	38	244,941
Loans and advances to banks	61,949	-	-	-	11,059	320,117	393,125
Loans and advances to customers	883,300	204,101	124,324	106,893	18,738	225,649	1,563,005
Financial assets held for trading	1,888	-	-	-	-	677	2,565
Investment securities	564,527	13,611	3,943	1,632	-	51,023	634,736
Asset pledged as collateral	50,109	-	-	-	-	-	50,109
Assets classfied as held for sale	5,139	1,101	-	1,101	-	-	7,341
Other assets	15,014	4,017	3,013	1,506	1,490	233	25,274
31 December 2012	1,816,972	222,830	131,280	111,132	41,144	597,738	2,921,096

Credit risk exposure relating to off balance sheet items are as follows

	Lagos	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe & America	**Total**
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
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	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe & America	**Total**
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Balances with central bank	153,935	-	-	-	-	-	153,935
Loans and advances to banks	33,627	-	-	-	3,434	425,795	462,856
Loans and advances to customers	781,515	168,783	78,974	82,901		140,289	1,252,462
Financial assets held for trading	1,672	-	-	-	-	1,010	2,682
Investment securities	596,384	12,889	1,009	2,366	-	29,528	642,176
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	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe & America	**Total**
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
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

3.2.5 Concentration of risks of financial assets with credit risk exposure continued

GROUP

	Lagos	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe & America	Total
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Balances with central bank	42,362	-	-	-	-	-	42,362
Loans and advances to banks	285,828	-	-	-	646	288,993	575,467
Loans and advances to customers	762,164	160,747	32,525	71,617		133,240	1,160,293
Financial assets held for trading	9,554	-	-	-	-	1,931	11,485
Investment securities	146,484	11,428	-	261	-	13,659	171,832
Asset 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	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe & America	Total
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
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

BANK

	Lagos	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe & America	Total
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Balances with central bank	240,887	-	-	-	-	-	240,887
Loans and advances to banks	42,858	-	-	-	563	285,699	329,120
Loans and advances to customers	881,089	204,101	124,324	106,893	-	-	1,316,407
Financial assets held for trading	1,887					55	1,942
Investment securities	564,585	13,611	3,943	1,632	-	-	583,771
Asset pledged as collateral	50,109	-	-	-	-	-	50,109
Other assets	16,571	4,017	3,013	1,506	-	-	25,108
31 December 2012	1,797,986	221,729	131,280	110,031	563	285,754	2,547,344

Credit risk exposure relating to off balance sheet items are as follows

	Lagos	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe & America	Total
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Letters of credit and other credit related obligations	186,037	5,960	50	4,220	-	-	196,267
31 December 2012							

	Lagos	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe & America	Total
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Balances with central bank	153,904	-	-	-	-	-	153,904
Loans and advances to banks	21,951	-	-	-	3,434	196,962	222,347
Loans and advances to customers	797,216	185,370	78,974	82,901	-	-	1,144,461
Financial assets held for trading	1,672	-	-	-	-	880	2,552
Investment securities	610,872	14,944	1,009	1,655	-	-	628,480
Asset pledged as collateral	72,128	-	-	-	-	-	72,128
Other assets	24,098	5,607	4,159	2,288	-	-	36,152
31 December 2011	1,681,841	205,921	84,142	86,844	3,434	197,842	2,260,024

3.2.5

Credit risk exposure relating to off balance sheet items are as follows

BANK

	Lagos	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe & America	**Total**
	N 'millions	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**
Letters of credit and other credit related obligations	138,694	4,422	312	10,267	-	-	153,695
31 December 2011	138,694	4,422	312	10,267	-	-	153,695

	Lagos	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe & America	**Total**
	N 'millions	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**
Balances with central bank	42,361	-	-	-	-	-	42,361
Loans and advances to banks	275,210	-	-	-	646	108,024	383,880
Loans and advances to customers	782,035	160,747	32,525	71,618	-	-	1,046,925
Financial assets held for trading	9,558	-	-	-	-	1,927	11,485
Investment securities	158,303	13,878		261		-	172,442
Asset pledged as collateral	122,009	-	-	-	-	-	122,009
Other assets	18,215	4,275	3,171	1,745	-	-	27,406
1 January 2011	1,407,691	178,900	35,696	73,624	646	109,951	1,806,508

Credit risk exposure relating to off balance sheet items are as follows

	Lagos	Southern Nigeria	Western Nigeria	Northern Nigeria	Africa	Europe & America	**Total**
	N 'millions	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**
Letters of credit and other credit related obligations	139,143	8,295	14	3,885	-	-	151,337
1 January 2011	139,143	8,295	14	3,885	-	-	151,337

b) Industry sectors

The following table breaks down the Group's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the Group's counterparties. Investment securities and financial assets held for trading analysed below excludes investments in equty instruments.

GROUP

	Loans and advances to banks	Loans and advances to customers	Financial assets held for trading	Investment securities	Asset pledged as collateral	Other assets	**Total**
	N 'millions	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**
Agriculture	-	54,006	-	-	-	-	54,006
Oil and gas	-	555,583	1,205	-	-	-	556,788
Consumer credit	-	148,808	-	2,000	-	-	150,808
Manufacturing	-	233,445	-	-	-	-	233,445
Real estate	-	129,498	-	-	-	-	129,498
Construction	-	35,131	-	500	-	-	35,631
Finance and insurance	393,125	18,169	678	8,555	-	25,274	445,801
Transportation	-	11,506	-	-	-	-	11,506
Communication	-	80,609	-	-	-	-	80,609
General commerce	-	80,691	2	-	-	-	80,693
Utilities	-	6,369	-	-	-	-	6,370
Retail services	-	90,683	-	-	-	-	90,683
Public sector	-	118,507	680	623,681	50,109	-	792,977
Total at 31 December 2012	393,125	1,563,005	2,565	634,736	50,109	25,274	2,668,815

The industrial sector for the credit exposure in the Assets held for sale balance is general commerce.

3.2.5 Concentration of risks of financial assets with credit risk exposure continued

b) Industry sectors - Group continued

	Loans and advances to banks	Loans and advances to customers	Financial assets held for trading	Investment securities	Asset pledged as collateral	Other assets	Total
	N 'millions	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**
Agriculture	-	21,057	-		-	-	21,057
Oil and gas	-	356,516	79		-	-	356,595
Consumer credit	-	224,245	-	-	-	-	224,245
Manufacturing	-	135,453	-	2,015	-	-	137,468
Real estate	-	49,622	-	-	-	-	49,622
Construction	-	8,566	-	513	-	-	9,079
Finance and insurance	462,856	51,018	1,010	11,260	-	52,996	579,140
Transportation	-	5,288	-	-	-	-	5,288
Communication	-	67,711	-	-	-	-	67,711
General commerce	-	92,204	35	-	-	-	92,239
Utilities	-	-	-	-	-	-	-
Retail services	-	129,074	-	-	-	-	129,074
Public sector	-	111,708	1,558	628,388	72,129	-	813,783
Total at 31 December 2011	462,856	1,252,462	2,682	642,176	72,129	52,996	2,485,301

	Loans and advances to banks	Loans and advances to customers	Financial assets held for trading	Investment securities	Asset pledged as collateral	Other assets	Total
	N 'millions	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**
Agriculture	-	12,546	-	-	-	-	12,546
Oil and gas	-	214,820	-	-	-	-	214,820
Consumer credit	-	70,970	-	-	-	-	70,970
Manufacturing	-	88,832	-	-	-	-	88,832
Real estate	-	111,443	-	-	-	-	111,443
Construction	-	8,674	-	-	-	-	8,674
Finance and insurance	575,467	211,181	1,931	3,687	-	30,699	822,965
Transportation	-	1,804	-	-	-	-	1,804
Communication	-	71,783	-	-	-	-	71,783
General commerce	-	188,023	31	-	-	-	188,054
Utilities	-	1,274	-	-	-	-	1,274
Retail services	-	114,176	-	-	-	-	114,176
Public sector	-	64,767	9,523	168,145	122,009	-	364,444
Total at 1 January 2011	575,467	1,160,293	11,485	171,832	122,009	30,699	2,071,785

BANK

	Loans and advances to banks	Loans and advances to customers	Financial assets held for trading	Investment securities	Asset pledged as collateral	Other assets	Total
	N 'millions	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**
Agriculture	-	27,196	-	-	-	-	27,196
Oil and gas	-	492,019	1,205	-	-	-	493,224
Consumer credit	-	141,637	-	2,000	-	-	143,637
Manufacturing	-	158,175	-	-	-	-	158,175
Real estate	-	83,689	-	-	-	-	83,689
Construction	-	34,512	-	500	-	-	35,012
Finance and insurance	329,120	18,091	55	8,555	-	25,108	380,929
Transportation	-	4,924	-	-	-	-	4,924
Communication	-	78,970	-	-	-	-	78,970
General commerce	-	62,603	2	-	-	-	62,605
Utilities	-	5,308	-	-	-	-	5,308
Retail services	-	89,842	-	-	-	-	89,842
Public sector	-	119,440	680	572,716	50,109	-	742,945
Total at 31 December 2012	329,120	1,316,407	1,942	583,771	50,109	25,108	2,306,457

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3.2.5 Concentration of risks of financial assets with credit risk exposure continued

b) Industry sectors - Bank continued

	Loans and advances to banks	Loans and advances to customers	Financial assets held for trading	Investment securities	Asset pledged as collateral	Other assets	Total
	N 'millions	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**
Agriculture	-	21,057	-	-	-	-	21,057
Oil and gas	-	349,673	79	-	-	-	349,752
Consumer credit	-	89,961	-	-	-	-	89,961
Manufacturing	-	132,014	-	2,015	-	-	134,029
Real estate	-	83,035	-	-	-	-	83,035
Construction	-	8,162	-	2,963	-	-	11,125
Finance and insurance	222,347	68,036	880	28,378	-	36,152	355,793
Transportation	-	5,288	-	-	-	-	5,288
Communication	-	67,711	-	-	-	-	67,711
General commerce	-	92,869	35	-	-	-	92,904
Utilities	-	4,123	-	-	-	-	4,123
Retail services	-	120,329	-	-	-	-	120,329
Public sector	-	102,203	1,558	595,124	72,129	-	771,014
Total at 31 December 2011	222,347	1,144,461	2,552	628,480	72,129	36,152	2,106,121

	Loans and advances to banks	Loans and advances to customers	Financial assets held for trading	Investment securities	Asset pledged as collateral	Other assets	Total
	N 'millions	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**
Agriculture	-	12,546	-	-	-	-	12,546
Oil and gas	-	216,307	-	-	-	-	216,307
Consumer credit	-	67,812	-	-	-	-	67,812
Manufacturing	-	88,832	-	-	-	-	88,832
Real estate	-	109,792	-	-	-	-	109,792
Construction	-	7,996	-	2,450	-	-	10,446
Finance and insurance	383,880	229,840	1,931	18,604	-	27,406	661,661
Transportation	-	6,178	-	-	-	-	6,178
Communication	-	72,348	-	-	-	-	72,348
General commerce	-	86,437	31	-	-	-	86,468
Utilities	-	1,274	-	-	-	-	1,274
Retail services	-	83,133	-	-	-	-	83,133
Public sector	-	64,431	9,523	151,388	122,009	-	347,351
Total at 1 January 2011	383,880	1,046,925	11,485	172,442	122,009	27,406	**1,764,147**

Credit risk exposure relating to off balance sheet items are as follows

	GROUP			**BANK**		
	1 Jan 2011	31 Dec 2011	31 Dec 2012	1 Jan 2011	31 Dec 2011	31 Dec 2012
	N 'millions	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**	**N 'millions**
Agriculture	6,953	32,751	2,630	6,953	32,751	2,630
Oil and gas	66,892	53,342	111,947	66,892	53,342	111,947
Consumer credit	-	-		-	-	
Manufacturing	38,447	56,369	29,862	38,447	56,369	29,862
Real estate	-	-		-	-	
Construction	-	1,490	1,853	-	1,490	1,853
Finance and insurance	3,752	13,481	73,796	-	-	22,564
Transportation	-	-	138	-	-	138
Communication	9,562	6,116	249	9,562	6,116	249
General commerce	33,230	78,082	25,730	28,679	2,897	25,730
Utilities	-	505	33	-	505	33
Retail services	804	225	1,261	804	225	1,261
Public sector	-	-		-	-	
TOTAL	159,640	242,361	247,499	151,337	153,695	196,267

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3.2.6 Loans and advances

Credit quality of Loans and advances is summarised as follows:

GROUP

	31 December 2012		31 December 2011		1 January 2011	
	Loans to customers	Loans to banks	Loans to customers	Loans to banks	Loans to customers	Loans to banks
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Neither past due nor impaired	1,386,391	393,125	1,057,878	462,856	918,961	575,467
Past due but not impaired	174,497	-	193,881	-	201,678	-
Individually impaired	21,811	-	14,669	-	65,338	-
Collectively impaired	19,632	-	18,976	-	26,118	-
Gross	1,602,331	393,125	1,285,404	462,856	1,212,095	575,467
Less: allowance for impairment	(39,326)	-	(32,942)	-	(51,802)	-
Net	1,563,005	393,125	1,252,462	462,856	1,160,293	575,467
Individually impaired	17,133	-	12,934	-	26,031	-
Portfolio allowance	22,193	-	20,008	-	25,772	-
Total	39,326	-	32,942	-	51,803	-

BANK

	31 December 2012		31 December 2011		1 January 2011	
	Loans to customers	Loans to banks	Loans to customers	Loans to banks	Loans to customers	Loans to banks
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Neither past due nor impaired	1,142,365	329,120	950,380	222,347	804,457	383,880
Past due but not impaired	173,723	-	193,848	-	201,667	-
Individually impaired	21,637	-	12,137	-	64,837	-
Collectively impaired	15,660	-	15,978	-	26,524	-
Gross	1,353,385	329,120	1,172,343	222,347	1,097,485	383,880
Less: allowance for impairment	36,978		27,882	-	50,560	-
Net	1,316,407	329,120	1,144,461	222,347	1,046,925	383,880
Individually impaired	14,807	-	7,804	-	26,031	-
Portfolio allowance	22,171	-	20,078	-	24,530	-
Total	36,978	-	27,882	-	50,560	-

(a) Loans and advances to customers - neither past due nor impaired

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group (See section 3.2.1 for an explanation of the internal rating system).

	GROUP			BANK		
	31 Dec 12	31 Dec 11	1 Jan 11	31 Dec 12	31 Dec 11	1 Jan 11
Grades:	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
AAA	-	24,377	-	-	-	-
AA	46,703	101,823	62,000	46,703	90,000	62,000
A	16,135	16,000	17,000	16,135	16,000	17,000
BBB	158,044	179,518	353,000	158,044	171,000	353,000
BB	650,175	379,343	119,000	418,171	373,343	119,000
B	504,570	327,413	367,961	492,548	271,037	253,457
CCC	10,587	12,000	-	10,587	12,000	-
CC	-	3,000	-	-	3,000	-
C	177	14,404	-	177	14,000	-
	1,386,391	1,057,878	918,961	1,142,365	950,380	804,457

3.2.6 Loans and advances continued

(b) Loans and advances past due but not impaired

	GROUP			BANK		
	1 Jan 2011	31 Dec 2011	31 Dec 2012	1 Jan 2011	31 Dec 2011	31 Dec 2012
	Loans to customers N 'millions	Loans to customers N 'millions	Loans to customers N 'millions	Loans to customers N 'millions	Loans to customers N 'millions	Loans to customers N 'millions
Past due up to 30 days	79,257	151,348	96,890	79,257	151,326	96,249
Past due by 30 - 60 days	13,479	28,641	12,930	13,476	28,637	12,813
Past due 60-90 days	108,942	13,892	64,677	108,934	13,885	64,661
Gross amount	201,678	193,881	174,497	201,667	193,848	173,723

(c) Collectively impaired loans

These represent insignificant impaired loans which are assessed on a collective basis.

(d) Loans and advances individually impaired

	GROUP			BANK		
	1 Jan 2011	31 Dec 2011	31 Dec 2012	1 Jan 2011	31 Dec 2011	31 Dec 2012
	Loans to customers N 'millions	Loans to customers N 'millions	Loans to customers N 'millions	Loans to customers N 'millions	Loans to customers N 'millions	Loans to customers N 'millions
Gross amount	65,338	14,669	21,811	64,837	12,137	21,637
Specific impairment	26,031	12,934	17,133	26,031	7,804	14,807
Net amount	39,307	1,735	4,678	38,806	4,333	6,830

(e) Sensitivity analysis on impairment

The loan portfolio of First Bank 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 realizing collaterals

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(e) Sensitivity analysis on impairment continued
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	Scenario 1	Scenario 2
	N'millions	N'millions	N'millions
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

f) 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

	Treasury bills	Bonds	Other assets
	N'millions	N'millions	N'millions
31 December 2012			
A+ to A-	139,458	356,967	-
Unrated	-	189,206	31,512
	139,458	546,173	31,512
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

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f) Credit quality of investment in debt securities and other assets continued

Bank

	Treasury bills N'millions	Bonds N'millions	Other assets N'millions
31 December 2012			
A+ to A-	126,338	319,016	-
Unrated	-	189,206	31,332
	126,338	508,222	31,332
31 December 2011			
A+ to A-	172,169	354,686	-
Unrated	-	175,312	42,376
	172,169	529,998	42,376
31 December 2010			
A+ to A-	23,600	255,980	-
Unrated	-	24,394	30,853
	23,600	280,374	30,853

3.2.7 Statement of Prudential Adjustment

In compliance with the CBN circular dated March 19, 2013 reference BSD/DIR/CEN/LAB/06/014, the impairment provision under IFRS and the provisions under the Nigerian Prudential Guidelines as determined by the Central Bank of Nigeria (CBN) were compared and shown below:

	31 Dec 2012 N'millions	31 Dec 2011 N'millions	1 Jan 2011 N'millions
Total IFRS impairment losses	43,202	34,129	54,062
Prudential provisions	59,303	43,895	82,282
Transfer to statutory credit reserve	**(16,101)**	**(9,766)**	**(28,220)**
Analysis of the IFRS impairment losses			
Loans : Specific impairment (note 20)	14,807	7,804	26,031
Loans: Collective impairment (note 20)	22,171	20,078	24,561
Other assets (note 33)	6,224	6,224	3,447
Investments in subsidiaries (note 24)	-	23	23
Total IFRS impairment losses	**43,202**	**34,129**	**54,062**

3.3 Liquidity risk

3.3.1 Liquidity risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligation as they fall due or will have to meet the obligations at excessive costs.This risk could arise from mismatches in the timing of cash flows.

Funding risk is a form of liquidity risk that arises when the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms and when required.

The objective of the Group's liquidity risk management is to ensure that all anticipated funding commitments can be met when due and that access to funding sources is coordinated and cost effective.

Management of liquidity risk
The Group's liquidity management process includes:

• Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
• Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers.
• Active monotoring of the timing of cashflows and maturity profiles of assets and liabilities to ensure mismatches are within stipulated limits;
• Monitoring the liquidity ratios against internal and regulatory requirements; and
• Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets

Particular attention is also paid to the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

Funding approach
The Group is funded primarily by a well diversified mix of retail, corporate and public sector deposits. This funding base ensures stability and low funding cost with minimal reliance on more expensive tenured deposit and interbank takings as significant sources of funding. The Bank places considerable importance on the demand and savings deposits which account for over 85% of its funding base. Although these accounts are repayable on demand, in reality, they are stable and have formed a core component of the bank's liabilities.

Non-derivative financial liabilities and assets held for managing liquidity risk
The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the consolidated statement of financial position. The amounts disclosed in table A below, are the contractual undiscounted cash flow, whereas the Group manages the liquidity risk on a bahavioural basis which is shown in table B below.

GROUP
(a) TABLE A - LIQUIDITY ANALYSIS ON A CONTRACTUAL BASIS

	0 - 30 days N 'millions	31 - 90 days N 'millions	91 - 180 days N 'millions	181 - 365 days N 'millions	Over 1 year but less than 5 yrs N 'millions	Over 5 years N 'millions	Total N 'millions
31 December 2012							
Financial liabilities							
Deposits from banks	-	90,134	-	-	-	-	90,134
Deposits from customers	2,205,868	187,604	35,682	40,592	4	-	2,469,750
Financial liabilities held for trading	-	579	616	40	561	-	1,796
Borrowings		45,442	2,210	3,478	25,187		76,317
Other liabilities	21,052	16,991	71,713	8,310	-	-	118,066
Loan commitments	27,111	-	-	-	-	-	27,111
Letters of credit and other credit related obligations	2,838	23,200	48,952	141,678	3,719		220,388
	2,256,869	363,950	159,173	194,098	29,471	-	3,003,562
Assets held for managing liquidity risk	764,666	76,914	31,604	60,678	126,781	317,918	1,378,561

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3.3.1 Liquidity risk

Non-derivative financial liabilities and assets held for managing liquidity risk continued

31 December 2011							
Financial liabilities							
Deposits from banks	-	188,913	-	-	-	-	188,913
Deposits from customers	179,629	296,410	252,678	288,109	943,489	-	1,960,315
Financial liabilities held for trading	14	1,995	84	50	714	-	2,857
Borrowings		10,047	6,002	5,494	84,394		105,937
Other liabilities	19,228	72,691	46,146	4,795	12,219	3,683	158,762
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
Total financial liabilities	224,107	642,340	339,933	407,429	1,041,653	3,683	2,659,145
Assets held for managing liquidity risk	435,498	270,111	96,778	119,315	165,798	291,571	1,379,071
1 January 2011							
Financial liabilities							
Deposits from banks	-	152,728	-	-	-	-	152,728
Deposits from customers	511,663	360,991	212,051	224,495	146,844	-	1,456,044
Financial liabilities held for trading	13	-	-	-	1,187	439	1,639
Borrowings	-	-	1,478	20,362	80,078	26,359	128,277
Other liabilities	58,763	4,792	41,728	900	14,287	-	120,470
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
Total financial liabilities	592,234	541,029	267,560	348,230	242,947	26,798	2,018,798
Assets held for managing liquidity risk	636,439	32,425	24,974	31,221	161,053	70,198	956,310

BANK	**0 - 30 days N 'millions**	**31 - 90 days N 'millions**	**91 - 180 days N 'millions**	**181 - 365 days N 'millions**	**Over 1 year but less than 5 yrs N 'millions**	**Over 5 years N 'millions**	**Total N 'millions**
31 December 2012							
Financial liabilities							
Deposits from banks		19,008	-	-	-	-	19,008
Deposits from customers	2,018,962	133,875	29,068	27,362	4	-	2,209,270
Financial liabilities held for trading	-	61	616	40	561	-	1,278
Borrowings		51,607	2,210	3,478	25,187		82,481
Other liabilities	2,990	6,868	62,648	-	14,533	-	87,039
Letters of credit and other credit related obligations	2,838	8,862	43,891	140,676	-	-	196,267
Total financial liabilities	2,024,790	220,281	138,432	171,555	40,285	-	2,595,344
Assets held for managing liquidity risk	657,109	96,902	31,604	60,678	94,432	312,452	1,253,177

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3.3.1 Liquidity risk

Non-derivative financial liabilities and assets held for managing liquidity risk continued

31 December 2011							
Financial liabilities							
Deposits from banks	-	52,820	-	-	-	-	52,820
Deposits from customers	147,832	243,761	213,830	271,223	913,201	-	1,789,847
Financial liabilities held for trading	14	281	84	50	714	-	1,143
Borrowings	-	10,047	5,999	5,312	84,394	-	105,752
Other liabilities	14,653	72,691	19,309	4,795	1,806	3,683	116,938
Letters of credit and other credit related obligations	11,755	15,356	17,975	108,609	-	-	153,695
Total financial liabilities	174,254	394,956	257,197	389,989	1,000,115	3,683	2,220,195
Assets held for managing liquidity risk	432,985	45,456	82,817	118,664	165,798	257,529	1,103,249
1 January 2011							
Financial liabilities							
Deposits from banks	-	56,860	-	-	-	-	56,860
Deposits from customers	478,559	306,171	198,467	223,228	127,702	-	1,334,127
Financial liabilities held for trading	13	-	-	-	1,187	439	1,639
Borrowings	-	-	1,478	20,362	80,078	26,359	128,277
Other liabilities	21,806	4,792	43,350	900	13,385	-	84,233
Letters of credit and other credit related obligations	18,043	21,018	10,803	101,473	-	-	151,337
Total financial liabilities	518,421	388,841	254,098	345,963	222,352	26,798	1,756,473
Assets held for managing liquidity risk	444,229	32,255	20,139	25,061	161,053	64,523	747,260

(b) TABLE B - LIQUIDITY ANALYSIS ON A BEHAVIOURAL BASIS
GROUP

	0 - 30 days N 'millions	31 - 90 days N 'millions	91 - 180 days N 'millions	181 - 365 days N 'millions	Over 1 year but less than 5 yrs N 'millions	Over 5 years N 'millions	Total N 'millions
31 December 2012							
Financial liabilities							
Deposits from banks	-	90,134	-	-	-	-	90,134
Deposits from customers	357,990	353,715	201,068	333,603	1,223,374	-	2,469,750
Financial liabilities held for trading	-	579	616	40	561	-	1,796
Borrowings	-	45,442	2,210	3,478	25,187	-	76,316
Other liabilities	21,052	16,991	71,713	8,310	-	-	118,066
Total financial liabilities	379,042	506,861	275,606	345,431	1,249,122	-	2,756,063
Assets held for managing liquidity risk	764,666	76,914	31,604	60,678	126,781	317,918	1,378,561
31 December 2011							
Financial liabilities							
Deposits from banks	-	188,913	-	-	-	-	188,913
Deposits from customers	175,279	296,396	252,096	285,778	950,766	-	1,960,315
Financial liabilities held for trading	14	1,995	84	50	714	-	2,857
Borrowings	-	10,047	6,002	5,494	84,394	-	105,937
Other liabilities	19,239	72,691	46,146	4,795	12,219	3,683	158,773
Total financial liabilities	194,532	570,043	304,327	296,117	1,048,093	3,683	2,416,795
Assets held for managing liquidity risk	435,498	270,111	96,778	119,315	165,798	291,571	1,379,071

3.3.1 Liquidity risk

Non-derivative financial liabilities and assets held for managing liquidity risk continued

(b) TABLE B - LIQUIDITY ANALYSIS ON A BEHAVIOURAL BASIS
GROUP

	0 - 30 days N 'millions	31 - 90 days N 'millions	91 - 180 days N 'millions	181 - 365 days N 'millions	but less than 5 yrs N 'millions	Over 5 years N 'millions	Total N 'millions
1 January 2011 (N' million)							
Financial liabilities							
Deposits from banks	-	152,728	-	-	-	-	152,728
Deposits from customers	129,250	144,856	120,426	149,535	911,977	-	1,456,044
Financial liabilities held for trading	13	-	-	-	1,187	439	1,639
Borrowings	-	-	1,478	20,362	80,078	26,359	128,277
Other liabilities	58,763	4,792	41,728	900	14,287	-	120,470
Total financial liabilities	188,026	302,376	163,632	170,798	1,007,529	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

Assets held for managing liquidity risk

The Group holds a diversified portfolio of liquid assets - largely cash and government securities to support payment an funding obligations in normal and stressed market conditions across foreign and local currencies. The Group's liquid assets comprise

- Cash and balances with the central bank comprising reverse repos and Overnight deposits
- Short term and overnight placements in the interbank market
- Government bonds and T-bills that are readily accepted in repurchase agreements with the Central bank and other market participants
- Secondary sources of liquidity in the form of highly liquid instruments in the Group's trading portfolios.
- The ability to access incremental short term funding by interbank borrowing from the interbank market

The bank is largely deposit funded and thus, as is typical amongst Nigerian banks, has significant funding mismatches on a contractual basis, given that the deposits are largely demand and short tenured, whilst lending is longer term. This is not unusual in the Nigerian market, as the yield curve, especially on the liability side, is still very short term with true liquidity stretching only to 90days. On an actuarial basis, our demand deposits exhibit much longer duration, with 69.52% of our current account balances and 84.65% of savings account balances being deemed core. To manage liquidity shocks in either foreign or local currency, largely as a result of episodic movements, the bank typically holds significant short term liquidity in currency placements or taps the repo markets to raise short term funding as is required. To grow local currency liquidity we have also systematically worked towards reducing the duration of our securities portfolio in the last year, shifting the emphasis to holding more liquid shorter dated treasury bills over longer term bonds, to allow more flexibility in managing liquidity. Whilst on the foreign currency side, we have built up placement balances with our offshore correspondents

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3.3.1 Liquidity risk
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.

GROUP	Up to 1 month N 'millions	1-3 months N 'millions	3-6 months N 'millions	6 - 12 months N 'millions	1-5 years N 'millions	Over 5 years N 'millions	Total N 'millions
At 31 December 2012							
Derivative liabilities							
Interest rate swap		(61)	-	-	-	-	(61)
Accumulator-Forward FX contract		-	-	-	(260)	-	(260)
	-	(61)	-	-	(260)	-	(321)
Derivative assets							
Interest rate swap	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	(61)	-	-	(260)	-	(321)
At 31 December 2011 (N' million)							
Derivative liabilities							
Interest rate swap	-	(282)	-	-	(158)	-	(439)
Accumulator-Forward FX contract	-	-	-	-	(556)	-	(556)
	-	(282)	-	-	(714)	-	(995)
Derivative assets							
Interest rate swap	-	665	-	-	-	-	665
Accumulator-Forward FX contract	138	-	-	-	-	-	138
	138	665	-	-	-	-	802
	138	383	-	-	(714)	-	(193)
At 1 January 2011 (N' million)							
Derivative liabilities							
Interest rate swap		-	-	-	(834)		(834)
Accumulator-Forward FX contract		-	-	(354)	(439)		(792)
		-	-	(354)	(1,273)	-	(1,626)
Derivative assets							
Interest rate swap		-	-	-	1,927	-	1,927
Accumulator-Forward FX contract		-	-	-	-	-	-
	-	-	-	-	1,927	-	1,927
		-	-	(354)	654	-	300

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

3.3.1 Liquidity risk
Derivative liabilities continued

Derivatives settled on a net basis
BANK

	Up to 1 month N 'millions	1-3 months N 'millions	3-6 months N 'millions	6 - 12 months N 'millions	1-5 years N 'millions	Over 5 years N 'millions	Total N 'millions
At 31 December 2012							
Derivative liabilities							
Interest rate swap		(61)	-	-	-	-	(61)
Accumulator-Forward FX contract		-	-	-	(260)	-	(260)
	-	(61)	-	-	(260)	-	(321)
	-	(61)	-	-	(260)	-	(321)
At 31 December 2011							
Derivative liabilities							
Interest rate swap	-	(282)	-	-	(158)	-	(440)
Accumulator-Forward FX contract	-	-	-	-	(556)	-	(556)
	-	(282)	-	-	(714)	-	(996)
Derivative assets							
Interest rate swap	-	665	-	-	-	-	665
Accumulator-Forward FX contract	138	-	-	-	-	-	138
	138	665	-	-	-	-	803
	138	383	-	-	(714)		(193)
At 1 January 2011							
Derivative liabilities							
Interest rate swap	-	-	-	-	(834)	-	(834)
Accumulator-Forward FX contract	-	-	-	(354)	(439)	-	(793)
	-	-	-	(354)	(1,273)	-	(1,627)
Derivative assets							
Interest rate swap	-	-	-	-	1,927	-	1,927
	-	-	-	-	1,927	-	1,927
	-	-	-	(354)	654		300

Derivatives settled on a gross basis.

The Group's derivatives that will be settled on a gross basis are foreign exchange derivatives. The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the date of the consolidated statement of financial position to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cashflows 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	1-3 months	3-6 months	6 - 12 months	1-5 years	Over 5 years	Total
GROUP							
At 31 December 2012 (N' million)							
Derivatives held for trading							
Foreign exchange derivatives:	4	105	(41)	13	-	-	81
Put options	-	-	-	-	329	-	329
	4	105	(41)	13	329	-	410

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

3.3.1 Liquidity risk
Derivatives settled on a gross basis continued

	Up to 1 month	1-3 months	3-6 months	6 - 12 months	1-5 years	Over 5 years	Total
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
GROUP							
At 31 December 2011							
Derivatives held for trading							
Foreign exchange derivatives:	11	(1,574)	(84)	(50)	-	-	(1,697)
Put options	-	-	-	-	-	157	157
	11	(1,574)	(84)	(50)	-	157	(1,540)
At 1 January 2011							
Derivatives held for trading							
Foreign exchange derivatives:	31	(9)	-	-	-	-	22
	31	(9)	-	-	-	-	22
BANK							
At 31 December 2012							
Derivatives held for trading							
Foreign exchange derivatives:	4	-	(41)	13	-	-	(24)
Put options	-	-	-	-	329	-	329
	4	-	(41)	13	329	-	305
At 31 December 2011							
Derivatives held for trading							
Foreign exchange derivatives:	11	10	(84)	(50)	-	-	(113)
Put options	-	-	-	-	157	-	157
	11	10	(84)	- 50	157	-	44
At 1 January 2011							
Derivatives held for trading							
Foreign exchange derivatives:	31	(9)	-	-	-	-	22
	31	(9)	-	-	-	-	22

3.4 Market risk

Market risk is the potential for adverse changes in the value of a trading or an investment portfolio due to changes in market risk variables such as equity and commodity prices, interest rates, and foreign exchange rates.

Market risk arises from positions in currencies, interest rate and securities held in our trading portfolio and from our retail banking business, investment portfolio, and other non-trading activities. The movement in market risk variables may have a negative impact on the balance sheet and or income statement.
Through the financial year, the Bank was exposed to market risk in its trading, and non-trading activities mainly as a result of:
• interest rate movements in reaction to monetary policy changes by the Central Bank of Nigeria, fiscal policies changes, and market forces;
• foreign exchange fluctuations arising from demand and supply as well as government policies; and
• equity price movements in response to market forces and changing market dynamics, such as market making on the Nigerian Stock Exchange.

3.4.1 Management of market risk

FirstBank Group market risk management process applies disciplined risk-taking within a framework of well-defined risk appetite that enables the group to boost shareholders value while maintaining competitive advantage through effective utilisation of risk capital. Thus, FirstBank's Group market risk management policy ensures:

• formal definition of market risk management governance – recognised individual roles and committees, segregation of duties, avoidance of conflicts, etc;
• management is responsible for the establishment of appropriate procedures and processes in implementing the Board-approved market risk policy and strategy. The procedures are documented in a periodically reviewed market risk procedural manual that spells out the procedures for executing relevant market risk controls.;
• an independent market risk management function reporting directly to the Bank's Chief Risk Officer;
• a Group-wide market risk management process to which all risk-taking units are subjected;
• alignment of market risk management standards with international best practice. Risk measurements are progressively based on modern techniques such as sensitivity, value-at-risk methodology (VaR), stress testing and scenario analysis;
• a robust market risk management infrastructure reinforced by a strong management information system (MIS) for controlling, monitoring and reporting market risk, including transactions between the Bank and the subsidiaries;
• continual evaluation of risk appetite, communicated through risk limits and overall effectiveness of the market risk management process;
• the Group does not undertake any risk that cannot be managed, or risks that are not fully understood especially in new products and;
• where the Group takes on any risk, full consideration is given to product maturity, financial market sophistication and regulatory pronouncement, guidelines or policies. The risk taken must be adequately compensated by the anticipated reward.

3.4.2 Market risk measurement techniques

As part of the management of market risk, the Group enters into interest rate swaps to match the interest rate risk associated with the fixed-rate long-term debt securities and loans to which the fair value option has been applied. The major measurement techniques used to measure and control market risk are outlined below.

(a) Value at risk (VAR)

VaR measures potential loss in fair value of financial instruments due to adverse market movements over a defined time horizon at a specified confidence level.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 99% and a 10-day holding period. The confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced three times per year in every 250 days. Only the bank is subject to the VaR methodology. The interest rate exposure of the other subsidiaires is considered insignificant to the Group. Thus, the VAR of the bank is deemed to be fairly representative of the Group.

The Bank continues to use VaR to estimate the potential losses that could occur on its positions as a result of movements in market factors.

The Bank uses the parametric method as its VaR methodology with an observation period of two years obtained from published data from pre-approved sources. VaR is calculated on the Bank's positions at close of business daily.

The table and graph 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 the average; while the naira depreciated by about 5% in the interbank market.

3.4.2 Market risk measurement techniques continued

VAR summary

	BANK		
	12 months to 31 December 2012		
	Average	**High**	**Low**
Foreign exchange risk	176	1,267	2
Interest rate risk	264	1,303	5
Total VAR	**440**	**2,570**	**7**

VAR summary

	BANK		
	12 months to 31 December 2011		
	Average	**High**	**Low**
Foreign exchange risk	76	276	1
Interest rate risk	57	214	0
Total VAR	**133**	**490**	**1**

VAR summary

	BANK		
	1 January 2011		
	Average	**High**	**Low**
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 Bank augments other risk measures with stress testing to evaluate the potential impact of possible extreme movements in financial variables on portfolio values.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress-testing methodology is applied to trading and non-trading books. Stress scenarios are regularly updated to reflect changes in risk profile and economic events.

The ALCO is responsible for reviewing stress exposures and where necessary, enforcing reductions in overall market risk exposure. The stress-testing methodology assumes that scope for management action would be limited during a stress event, reflecting the decrease in market liquidity that often occurs. Regular stress-test scenarios are applied to interest rates, exchange rates and equity prices. This covers all asset classes in the financial markets banking and trading books. Ad hoc scenarios are also prepared reflecting specific market conditions and for particular concentrations of risk that arise within the businesses.

Non-trading portfolio
The principal objective of market risk management of non-trading portfolios is to optimise net interest income. Due to the size of the Bank's holdings in rate-sensitive assets and liabilities the Bank is exposed to interest rate risk.

Non-trading interest rate risk results mainly from differences in the mismatches or re-pricing dates of assets and liabilities, both on- and off-balance sheet as interest rate changes.

The Bank uses a variety of tools to measure non-tradable interest rate risk such as:
• interest rate gap analysis (which allows the Bank to maintain a positive or negative gap depending on the perceived interest rate direction). The size of the gap is then adjusted to either hedge net interest income against changing interest rates or to speculatively increase net interest income;
• forecasting and simulating interest rate margins;
• market value sensitivity;
• calculating earnings at risk (EaR) using various interest rate forecasts; and
• re-pricing risk in various portfolios and yield curve analysis.

Hedged non-trading market risk exposures

The Bank's books have some key market risk exposures, which have been identified and are being managed using swaps and options.

3.4.3 Foreign exchange risk

The Group is exposed to foreign exchange risks due to fluctuations in foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2012, 31 December 2011 and 1 January 2011. Included in the table are the Group's financial instruments at carrying amounts, categorised by currency.

GROUP

	Naira N 'millions	USD N 'millions	GBP N 'millions	Euro N 'millions	Others N 'millions	Total N 'millions
31 December 2012						
Financial assets						
Cash and balances with Central Banks	277,976	8,291	1,110	786	9,861	298,024
Loans and advances to banks	36,213	265,384	71,602	9,325	10,601	393,125
Loans and advances	945,656	364,671	225,694	8,245	18,739	1,563,005
Investment securities	632,271	-	50,389	-	574	683,234
Asset pledged as collateral	50,109	-	-	-	-	50,109
Financial assets held for trading	680	1,262	623	-	-	2,565
Other assets	13,894	17,714	198	37	1,890	33,733
	1,956,799	657,322	349,616	18,393	41,665	3,023,795
Financial liabilities						
Customer deposits	1,721,106	531,591	113,633	3,436	36,092	2,405,858
Deposits from banks	17,799	654	69,088	10	-	87,551
Financial liabilities held for trading	-	1,278	518	-	-	1,796
Borrowings	19,401	52,772	12	3,352	4	75,541
Other liabilities	17,681	63,661	26,818	5,500	4,405	118,065
	1,775,987	649,956	210,069	12,298	40,501	2,688,811
31 December 2011						
Financial assets						
Cash and balances with Central Banks	182,417	14,289	1,593	925	4	199,228
Loans and advances to banks	250,255	180,409	13,538	16,413	2,241	462,856
Loans and advances	891,118	250,685	110,659	-	-	1,252,462
Investment securities	670,624	-	23,645	-	-	694,269
Asset pledged as collateral	72,129	-	-	-	-	72,129
Financial assets held for trading	3,903	1,931	130	-	-	5,964
Other assets	19,686	42,201	204	171	10	62,272
	2,090,132	489,515	149,769	17,509	2,255	2,749,180
Financial liabilities						
Customer deposits	1,368,657	397,838	172,278	12,456	2	1,951,231
Deposits from banks	50,124	1,161	132,194	18	3	183,500
Financial liabilities held for trading	-	1,143	1,714	-	-	2,857
Borrowings	35,381	65,033	186	3,873	-	104,473
Other liabilities	32,122	78,673	41,597	3,245	3,135	158,772
	1,486,284	543,848	347,969	19,592	3,140	2,400,833
1 January 2011						
Financial assets						
Cash and balances with Central Banks	65,223	7,164	2,058	1,068	4	75,517
Loans and advances to banks	280,162	96,495	180,463	17,949	398	575,467
Loans and advances	824,288	222,523	113,469	11	2	1,160,293
Investment securities	245,584	-	9,124	-	-	254,708
Asset pledged as collateral	122,009	-	-	-	-	122,009
Financial assets held for trading	14,674	1,962	-	-	-	16,636
Other assets	8,040	30,902	249	82	9	39,282
	1,559,980	359,046	305,363	19,110	413	2,243,912
Financial liabilities						
Customer deposits	1,151,322	288,573	4,126	3,577	2	1,447,600
Deposits from banks	148,336	-	-	13	3	148,352
Financial liabilities held for trading	-	1,639	-	-	-	1,639
Borrowings	41,111	79,511	254	5,474	-	126,350
Other liabilities	47,458	58,336	1,578	12,636	462	120,470
	1,388,227	428,059	5,958	21,700	467	1,844,411

3.4.3 Foreign exchange risk continued
BANK

	Naira N 'millions	USD N 'millions	GBP N 'millions	Euro N 'millions	Others N 'millions	Total N 'millions
31 December 2012						
Financial assets						
Cash and balances with Central Banks	277,942	8,291	1,102	786	4	288,125
Loans and advances to banks	31,040	264,608	23,267	9,325	880	329,120
Loans and advances	943,446	364,671	45	8,245	-	1,316,407
Investment securities	631,211	-	-	-	-	631,211
Asset pledged as collateral	50,109	-	-	-	-	50,109
Financial assets held for trading	680	1,262	-	-	-	1,942
Other assets	10,960	19,592	198	37	12	30,799
	1,945,388	658,424	24,612	18,393	896	2,647,713
Financial liabilities						
Customer deposits	1,629,748	531,591	7,030	3,436	2	2,171,807
Deposits from banks	17,799	654	-	10	-	18,463
Financial liabilities held for trading	-	1,278	-	-	-	1,278
Borrowings	25,847	52,772	12	3,352	4	81,987
Other liabilities	17,098	63,661	369	5,500	411	87,039
	1,690,492	649,956	7,411	12,298	417	2,360,574
31 December 2011						
Financial assets						
Cash and balances with CBN	182,416	14,289	1,457	925	4	199,091
Loans and advances to banks	9,746	180,409	13,538	16,413	2,241	222,347
Loans and advances	893,650	250,685	126	-	-	1,144,461
Investment securities	670,624	-	-	-	-	670,624
Asset pledged as collateral	72,129	-	-	-	-	72,129
Financial assets held for trading	621	1,931	-	-	-	2,552
Other assets	1,148	42,201	204	171	10	43,734
	1,830,334	489,515	15,325	17,509	2,255	2,354,938
Financial liabilities						
Customer deposits	1,368,657	397,838	5,537	12,456	2	1,784,490
Deposits from banks	50,124	1,161	-	18	3	51,306
Financial liabilities held for trading	-	1,143	-	-	-	1,143
Borrowings	35,381	65,033	-	3,873	-	104,287
Other liabilities	31,211	78,673	674	3,245	3,135	116,938
	1,485,373	543,848	6,211	19,592	3,140	2,058,164
1 January 2011						
Financial assets						
Cash and balances with Central Bank	65,223	7,164	1,435	1,068	4	74,894
Loans and advances to banks	257,560	96,495	11,478	17,949	398	383,880
Loans and advances	824,288	222,523	101	11	2	1,046,925
Investment securities	245,494	-	-	-	-	245,494
Asset pledged as collateral	122,009	-	-	-	-	122,009
Financial assets held for trading	9,523	1,962	-	-	-	11,485
Other assets	2,102	30,902	249	82	9	33,344
	1,526,199	359,046	13,263	19,110	413	1,918,031
Financial liabilities						
Customer deposits	1,151,322	169,191	4,126	3,577	2	1,328,218
Deposits from banks	55,205	-	-	13	3	55,221
Financial liabilities held for trading	-	1,639	-	-	-	1,639
Borrowings	41,111	79,511	-	5,474	-	126,096
Other liabilities	11,221	58,336	1,578	12,636	462	84,233
	1,258,859	308,677	5,704	21,700	467	1,595,407

The Group believes that for each foreign currency net exposure it is reasonable to assume a 5% appreciation/depreciation against the Group's functional currency. If all other variables are held constant, the tables below present the impacts on the Group profit or loss if these currency movements had occurred.

3.4.3 Foreign exchange risk continued

GROUP **As at 31 December 2012**	**US Dollar** **N millions**	**GBP** **N millions**	**EUR** **N millions**	**Other currencies** **N millions**
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% strenthening in the FC	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% increase and decrease in Naira against the US dollar and EURO. Management believe that a 5% movement in either direction is reasonably possible at the balance sheet date. The sensitivity analyses below include outstanding US dollar and EURO denominated financial assets and liabilities. A positive number indicates an increase in profit where Naira strengthens by 10% against the US dollar and EURO. For a 5% weakening of Naira against the US dollar and EURO, there would be an equal and opposite impact on profit.

		BANK	
	31 Dec 2012	**31 Dec 2011**	**1Jan 2011**
Naira strengthens by 5% against the US dollar Profit/(loss)	(368)	2,717	3,451
Naira weakens by 5% against the US dollar Profit/(loss)	368	(2,717)	(3,451)
Naira strengthens by 5% against the EURO Profit/(loss)	(305)	104	130
Naira weakens by 5% against the EURO Profit/(loss)	305	(104)	(130)

3.4.4 Interest rate risk

Interest rate risk is the risk of loss in income or portfolio value as a result of changes in market interest rates. The Group is exposed to interest rate risk in its fixed income securities portfolio, as well as on the interest sensitive assets and liabilities in the course of banking and or trading. The Board sets limits on the level of mismatch of interest rate repricing and value at risk that may be undertaken, which is monitored daily by the Asset and Liability Committee.

The table below summarises the Group's interest rate gap position showing its exposure to interest rate risks. Value at risk exposure is disclosed in Note 3.4.2.

	Carrying amount **N millions**	**Variable interest** **N millions**	**Fixed interest** **N millions**	**Non interest-bearing** **N millions**
GROUP				
31 December 2012				
Financial assets				
Cash and balances with Central Banks	298,024	-	-	298,024
Loans and advances to banks	393,125	-	53,967	338,452
Loans and advances	1,563,005	1,563,005	-	-
Investment securities	682,234	-	634,736	47,498
Assets pledged as collateral	50,109	-	50,109	-
Financial assets held for trading	2,565	-	680	1,885
Other assets	25,274	-	-	25,274
	3,014,336	**1,563,005**	**739,492**	**711,133**
Financial liabilities				
Customer deposits	2,405,858	1,894,823	501,371	9,664
Deposits from banks	87,551	-	87,551	
Financial liabilities held for trading	1,796	-	61	1,735
Borrowings	75,541	2,560	72,981	-
Other liabilities	118,066	-	-	118,066
	2,688,812	**1,897,383**	**661,964**	**129,465**
Interest rate mismatch		**(334,377)**	**77,528**	**581,669**

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3.4.4 Interest rate risk continued

GROUP

	Carrying amount N millions	Variable interest N millions	Fixed interest N millions	Non interest-bearing N millions
31 December 2011				
Financial assets				
Cash and balances with Central Banks	199,228	-	-	199,228
Loans and advances to banks	462,856	-	237,947	224,909
Loans and advances	1,252,462	1,252,462	-	-
Investment securities	694,269	-	642,176	52,093
Assets pledged as collateral	72,129	-	72,129	-
Financial assets held for trading	5,964	-	1,558	4,406
Other assets	52,996	-	-	52,996
	2,739,904	**1,252,462**	**953,810**	**533,632**
Financial liabilities				
Customer deposits	1,951,321	1,659,610	289,064	2,647
Deposits from banks	183,500	-	183,500	-
Financial liabilities held for trading	2,857	-	439	2,418
Liability on investment contracts	49,440	-	49,440	-
Borrowings	104,473	36,855	67,618	-
Other liabilities	158,773	-	-	158,773
	2,450,364	**1,696,465**	**590,061**	**163,838**
Interest rate mismatch		**(444,003)**	**363,749**	**369,794**

	Carrying amount N millions	Variable interest N millions	Fixed interest N millions	Non interest-bearing N millions
1 January 2011				
Financial assets				
Cash and balances with Central Bank of Nigeria	75,517	-	-	75,517
Loans and advances to banks	575,467	-	379,609	195,858
Loans and advances	1,160,293	1,160,293		-
Investment securities	254,708	-	171,832	82,876
Assets pledged as collateral	122,009	-	122,009	-
Financial assets held for trading	16,636	1,927	9,523	5,186
Other assets	30,699	-	-	30,699
	2,235,329	**1,162,220**	**682,973**	**390,136**
Financial liabilities				
Customer deposits	1,447,600	1,172,557	273,755	1,288
Deposits from banks	148,352	-	148,352	-
Financial liabilities held for trading	1,639	1,187	-	452
Liability on investment contracts	76,446	-	76,446	-
Borrowings	126,350	60,482	65,868	-
Other liabilities	120,470	-	-	120,470
	1,920,857	1,234,226	564,421	122,210
Interest rate mismatch		**(72,006)**	**118,552**	**267,926**

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3.4.4 Interest rate risk continued

The table below summarises the Bank's interest rate gap position

BANK

	Carrying amount N millions	Variable interest N millions	Fixed interest N millions	Non interest-bearing N millions
31 December 2012				
Financial assets				
Cash and balances with Central Bank of Nigeria	288,125	-	-	288,125
Loans and advances to banks	329,120	-	41,425	287,695
Loans and advances	1,316,407	1,316,407	-	-
Investment securities	631,211	-	408,547	1,131
Assets pledged as collateral	50,109	-	50,109	-
Financial assets held for trading	1,942	-	680	1,262
Other assets	25,108	-	-	25,108
	2,642,022	1,316,407	500,761	603,321
Financial liabilities				
Customer deposits	2,171,807	1,841,245	320,898	9,664
Deposits from banks	18,463	-	18,463	-
Financial liabilities held for trading	1,278	61	-	1,218
Borrowings	81,987	2,560	79,427	-
Other liabilities	87,039	-	-	87,039
	2,360,574	1,843,866	418,788	97,921
Interest rate mismatch		**(527,459)**	**81,973**	**505,400**
31 December 2011				
Financial assets				
Cash and balances with Central Bank of Nigeria	199,091	-	-	199,091
Loans and advances to banks	222,347	-	13,544	208,803
Loans and advances	1,144,461	1,144,461	-	-
Investment securities	670,624	-	606,530	42,144
Assets pledged as collateral	72,129	-	72,129	-
Financial assets held for trading	2,552	-	2,223	329
Other assets	36,152	-	-	36,152
	2,347,356	1,144,461	694,426	486,519
Financial liabilities				
Customer deposits	1,784,490	1,615,637	166,206	2,647
Deposits from banks	51,306	-	51,306	-
Financial liabilities held for trading	1,143	-	439	704
Borrowings	104,287	36,855	67,432	-
Other liabilities	116,938	-	-	116,938
	2,058,164	1,652,492	285,383	120,289
Interest rate mismatch		**(508,031)**	**409,043**	**366,230**
1 January 2011				
Financial assets				
Cash and balances with Central Bank of Nigeria	74,894	-	-	74,894
Loans and advances to banks	383,880	-	256,337	127,543
Loans and advances	1,046,925	1,046,925	-	-
Investment securities	245,494	-	172,442	73,052
Assets pledged as collateral	122,009	-	122,009	-
Financial assets held for trading	11,485	1,927	9,523	35
Other assets	27,406	-	-	27,406
	1,912,093	1,048,852	560,311	302,930
Financial liabilities				
Customer deposits	1,328,218	1,138,825	188,105	1,288
Deposits from banks	55,221	-	55,221	-
Financial liabilities held for trading	1,639	1,187	-	452
Borrowings	126,096	60,482	65,614	-
Other liabilities	84,233	-	-	84,233
	1,595,407	1,200,494	308,940	85,973
Interest rate mismatch		**(151,642)**	**251,371**	**216,957**

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Interest rate sensitivity gap analysis

The table below summarises the repricing profile of FirstBank Nigeria Ltd's non-trading book as at 31st 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 subsidiaires is considered insignificant to the Group. Thus, the repricing profile of the bank is deemed to be fairly representative of the Group.

Figures in N'bn	<=30 DAYS	31 - 90 DAYS	91 - 180 DAYS	181 - 365 DAYS	1 - 2 YEARS	2 YEAR & ABOVE	Rate Sensitive
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.

The sensitivity analyses below for FirstBank Nigeria Limited has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 7% increase or decrease is used when reporting interest rate risk for Nibor and 3% is used when reporting interest rate risk for USD Libor or EURIBOR.The interest rate exposure of the other subsidiaires is considered insignificant to the Group. Thus, the repricing profile of the bank is deemed to be fairly representative of the Group.

Management believe that the following movements in either direction (per currency) are reasonably prossible at the balance sheet date

Reasonable possible movement		**BANK**	
	31 Dec 2012	**31 Dec 2011**	**1Jan 2011**
Nibor Increase by 7%			
Profit/(loss)	13,875	19,142	22,586
Nibor decrease by 7%			
Profit/(loss)	(17,926)	(18,865)	(19,221)
USD Libor increases by 3%			
Profit/(loss)	7,040	8,767	6,353
USD Libor decreases by 3%			
Profit/(loss)	(8,573)	(9,964)	(6,876)
EURUBOR increases by 3%			
Profit/(loss)	68	347	336
EURIBOR decreases by 3%			
Profit/(loss)	(68)	(385)	(347)

3.4.5 Equity risk

The Group is exposed to equity price risk by holding investments quoted on the Nigerian Stock Exchange (NSE) and other non-quoted investments. Equity securities quoted on the NSE is 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 N1.13 billion (2011: N4.4 billion). If the all share index of the NSE moves by 100 basis points from the 28,078.81 position at 31 December 2012, the effect on the fair value of these quoted securities and the other comprehensive income statement would have been N11.25 million.

The Group holds a number of investments in unquoted securities with a market value of N46.3billion (2011: N47.7billion) 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 N25.97 billion (cost N2.9 billion); N16.55 billion (cost N12.7 billion) and N1.56 billion (cost N31 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 N 'millions	**Unfavourable changes N 'millions**
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.

3.5 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's consolidated statement of financial position at their fair value:

GROUP

	31 December 2012		31 December 2011		1 January 2011	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Financial assets						
Cash and balances with Central banks	298,024	298,024	199,228	199,228	75,517	75,517
Loans and advances to banks	393,125	393,125	462,856	462,856	575,467	575,467
Loans and advances to customers						
- Overdrafts	266,555	266,555	173,591	173,591	151,178	151,178
- Term loans	1,102,513	1,199,086	871,863	984,915	779,534	885,012
- Staff loans	5,346	5,848	6,343	7,226	6,307	7,223
- Commercial papers	125,883	143,045	183,973	220,605	112,328	135,445
- Project finance	59,014	64,109	12,081	13,877	103,623	131,153
- Advances under finance lease	3,694	3,393	4,611	4,216	7,323	7,925
Investment securities (held to maturity)	330,860	338,377	337,336	304,606	31,886	32,250
Asset pledged as collateral	31,063	26,275	39,743	30,084	12,909	12,839
Other assets	33,733	33,733	62,272	62,272	39,282	39,282
TOTAL	**2,649,810**	**2,771,570**	**2,353,897**	**2,463,476**	**1,895,354**	**2,053,291**
Financial liabilities						
Deposits from banks	87,551	87,551	183,500	183,500	148,352	148,352
Deposits from customers	2,405,858	2,405,858	1,951,321	1,951,321	1,447,600	1,447,600
Other liabilities	118,066	118,066	158,773	158,773	120,470	120,470
Borrowings	75,541	75,541	104,473	104,473	126,350	126,350
TOTAL	**2,687,016**	**2,687,016**	**2,398,067**	**2,398,067**	**1,842,772**	**1,842,772**

BANK

	31 December 2012		31 December 2011		1 January 2011	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Financial assets						
Cash and balances with Central banks	288,125	288,125	199,091	199,091	74,894	74,894
Loans and advances to banks	329,120	329,120	222,347	222,347	383,880	383,880
Loans and advances to customers			-			
- Overdrafts	259,065	259,065	199,050	199,050	125,192	125,192
- Term loans	863,926	939,601	738,869	834,676	692,145	785,798
- Staff loans	5,144	5,627	5,751	6,551	6,307	7,223
- Commercial papers	125,883	143,044	183,973	220,053	112,328	135,445
- Project finance	58,695	63,763	12,207	14,022	103,624	131,154
- Advances under finance lease	3,694	3,393	4,611	5,253	7,323	7,925
Investment securities (held to maturity)	330,860	338,377	307,397	276,366	31,886	25,309
Asset pledged as collateral	31,063	26,275	39,743	30,084	12,909	12,839
Other assets	33,733	33,733	43,734	43,734	33,344	33,344
TOTAL	**2,329,308**	**2,430,123**	**1,956,773**	**2,051,227**	**1,583,832**	**1,723,003**
Financial liabilities						
Deposits from banks	18,463	18,463	51,306	51,306	55,221	55,221
Deposits from customers	2,171,807	2,171,807	1,783,274	1,783,274	1,328,218	1,328,218
Other liabilities	87,039	87,039	116,938	116,938	84,233	84,233
Borrowings	81,987	81,987	104,287	104,287	126,096	126,096
TOTAL	**2,359,296**	**2,359,296**	**2,055,805**	**2,055,805**	**1,593,768**	**1,593,768**

(b) Fair valuation methods and assumptions

(i) Cash and balances with central banks
Cash and balances with central bank 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
Deposits from banks include interbank takings as well as deposits from customers are short termed in nature. The estimated fair value of deposits from banks and customers is the amount repayable on demand.

(vi) Other assets, liabilities and borrowings
Other assets represent monetary assets which usually has a short recycle period and as such the fair values of these balances approximate their carrying amount. Amount outstanding as other liabilities and borrowings are assumed to approximate their respective fair values

(c) Financial instruments measured at fair value

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable input reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- 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.

(c) Financial instruments measured at fair value continued

The following table presents the group's assets and liabilities that are measured at fair value at reporting date.

GROUP

	Level 1 N 'millions	Level 2 N 'millions	Level 3 N 'millions	Total N 'millions
31 December 2012				
Financial assets				
Financial assets held for trading				
Debt Securities	679	-	-	679
Derivatives	623	1,262	-	1,885
Available-for-sale financial assets				
Investment securities - debt	208,531	95,342	-	303,873
Investment securities - unlisted equity	-	46,311	59	46,370
Investment securities - listed equity	1,131	-	-	1,131
Assets pledged as collateral	19,046	-	-	19,046
Financial liabilities held for trading				
Derivatives	518	1,278	-	1,796
31 December 2011				
Financial assets held for trading				
Debt Securities	1,558	-	-	1,558
Listed Equity Securities	3,284	-	-	3,284
Derivatives	-	1,123	-	1,123
Available-for-sale financial assets				
Investment securities - debt	223,138	81,702	-	304,840
Investment securities - unlisted equity	-	16,966	31,122	48,088
Investment securities - listed equity	4,007	-	-	4,007
Assets pledged as collateral	32,386	-	-	32,386
Financial liabilities held for trading				
Derivatives	-	2,857	-	2,857
1 January 2011				
Financial assets held for trading				
Listed Debt Securities	9,523	-	-	9,523
Listed Equity Securities	5,151	-	-	5,151
Derivatives	-	1,962	-	1,962
Available-for-sale financial assets				
Investment securities - debt	120,262	19,954	-	140,216
Investment securities - unlisted equity	-	52,447	23,963	76,410
Investment securities - listed equity	6,196	-	-	6,196
Assets pledged as collateral	109,100	-	-	109,100
Financial liabilities held for trading				
Derivatives	-	1,639	-	1,639

Reconciliation of level 3 items

At 1 January 2011	23,963
Total Gains/(losses) recognised through OCI	7,159
At 31 December 2011	31,122
Transfer out of Level 3 due to change in observability of market data	(31,063)
At 31 December 2012	59

Total gains or losses for the period included in profit or loss are presented in 'Net gains/(losses) from investment securities.

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(c) Financial instruments measured at fair value continued

The following table presents the group's assets and liabilities that are measured at fair value at reporting date.

BANK

	Level 1 N 'millions	Level 2 N 'millions	Level 3 N 'millions	Total N 'millions
31 December 2012				
Financial assets				
Financial assets held for trading				
Listed Debt Securities	680	-	-	680
Derivatives	-	1,262	-	1,262
Available-for-sale financial assets				
Investment securities - debt	157,568	95,342	-	252,910
Investment securities - unlisted equity	-	46,311	-	46,311
Investment securities - listed equity	1,131	-	-	1,131
Assets pledged as collateral	19,046	-	-	19,046
Financial liabilities held for trading				
Derivatives	-	1,278	-	1,278
31 December 2011				
Financial assets				
Financial assets held for trading				
Listed Debt Securities	1,558	-	-	1,558
Derivatives	-	994	-	994
Available-for-sale financial assets				
Investment securities - debt	221,862	76,761	-	298,623
Investment securities - unlisted equity	-	16,961	22,698	39,659
Investment securities - listed equity	2,486	-	-	2,486
Assets pledged as collateral	32,385			32,385
Financial liabilities held for trading				
Derivatives	-	1,143	-	1,143
1 January 2011				
Financial assets				
Financial assets held for trading				
Listed Debt Securities	9,523	-	-	9,523
Derivatives	-	1,962	-	1,962
Available-for-sale financial assets				
Investment securities - debt	106,603	21,504	-	128,107
Investment securities - unlisted equity	-	47,674	21,251	68,925
Investment securities - listed equity	4,132	-	-	4,132
Assets pledged as collateral	109,100	-	-	109,100
Financial liabilities held for trading				
Derivatives	-	1,639	-	1,639

Reconciliation of level 3 items

At 1 January 2011	21,251
Total Gains/(losses) recognised through OCI	1,447
Impairment allowance	-
At 31 December 2011	22,698
Transfer out of Level 3 due to change in observability of market data	(22,698)
At 31 December 2012	-

Total gains or losses for the period included in profit or loss are presented in 'Net gains/(losses) from investment securities.

(b) Financial instruments measured at fair value continued

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 N 'millions	Unfavourable changes N 'millions	Favourable changes N 'millions	Unfavourable changes N 'millions	Favourable changes N 'millions	Unfavourable changes N 'millions
Financial assets						
Unquoted investment security - Arican 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. The outcome of the sensitivity will impact on Other Comprehensive income.

3.6. Measurement basis of financial assets and liabilities.

GROUP

	Fair Value through P/L Held for trading *N'million*	Fair Value through OCI Available for sale *N'million*	Amortised Cost *N'million*	Total *N'million*
31 December 2012				
Financial assets				
Cash and balances with Central Banks	-	-	298,024	298,024
Loans and advances to banks	-	-	393,125	393,125
Loans and advances to customers	-	-	1,563,005	1,563,005
Investment securities		351,374	330,860	682,234
Asset pledged as collateral		19,046	31,063	50,109
Financial assets held for trading	2,565	-	-	2,565
Other assets	-	-	33,733	33,733
Total Financial Assets	2,565	370,420	2,649,810	3,022,795
Financial liabilities				
Customer deposits	-	-	2,405,858	2,405,858
Deposits from banks	-	-	87,551	87,551
Financial liabilities held for trading	1,796	-	-	1,796
Borrowings	-	-	75,541	75,541
Other liabilities	-	-	101,018	101,018
Total Financial Liabilities	1,796	-	2,669,968	2,671,764
31 December 2011				
Financial assets				
Cash and balances with Central Banks	-	-	199,228	199,228
Loans and advances to banks	-	-	462,856	462,856
Loans and advances to customers	-	-	1,252,462	1,252,462
Investment securities		356,933	337,336	694,269
Asset pledged as collateral		32,386	39,743	72,129
Financial assets held for trading	5,964	-	-	5,964
Other assets	-	-	62,272	62,272
Total Financial Assets	5,964	389,319	2,353,897	2,749,180
Financial liabilities				
Customer deposits	-	-	1,951,321	1,951,321
Deposits from banks	-	-	183,500	183,500
Financial liabilities held for trading	2,857	-	-	2,857
Borrowings	-	-	104,473	104,473
Other liabilities			147,284	147,284
Total Financial Liabilities	2,857	-	2,386,578	2,389,435

3.6. Measurement basis of financial assets and liabilities continued

	Fair Value through P/L	Fair Value through OCI		
	Held for trading	Available for sale	Amortised Cost	Total
	N'million	*N'million*	*N'million*	*N'million*
1 January 2011				
Financial assets				
Cash and balances with Central Banks		-	75,517	75,517
Loans and advances to banks		-	575,467	575,467
Loans and advances to customers		-	1,160,293	1,160,293
Investment securities		222,822	31,886	254,708
Asset pledged as collateral		109,100	12,909	122,009
Financial assets held for trading	16,636	-	-	16,636
Other assets		-	39,282	39,282
Total Financial Assets	16,636	331,922	1,895,354	2,243,912
Financial liabilities				
Customer deposits	-	-	1,447,600	1,447,600
Deposits from banks	-	-	148,352	148,352
Financial liabilities held for trading	1,639	-	-	1,639
Borrowings	-	-	126,350	126,350
Other liabilities			114,457	114,457
Total Financial Liabilities	1,639	-	1,836,759	1,838,398
BANK				
31 December 2012				
Financial assets				
Cash and balances with Central Banks	-	-	288,125	288,125
Loans and advances to banks	-	-	329,120	329,120
Loans and advances to customers	-	-	1,316,408	1,316,408
Investment securities	-	300,351	330,860	631,211
Asset pledged as collateral	-	19,046	31,063	50,109
Financial assets held for trading	1,942	-	-	1,942
Other assets	-	-	30,799	30,799
Total Financial Assets	1,942	319,397	2,326,375	2,647,714
Financial liabilities				
Customer deposits	-	-	2,171,807	2,171,807
Deposits from banks	-	-	18,463	18,463
Financial liabilities held for trading	1,278	-	-	1,278
Borrowings	-	-	81,987	81,987
Other liabilities	-	-	70,521	70,521
Total Financial Liabilities	1,278	-	2,342,778	2,344,056
31 December 2011				
Financial assets				
Cash and balances with Central Banks	-	-	199,091	199,091
Loans and advances to banks	-	-	222,347	222,347
Loans and advances to customers	-	-	1,144,461	1,144,461
Investment securities		340,767	329,857	670,624
Asset pledged as collateral		32,386	39,743	72,129
Financial assets held for trading	2,552	-	-	2,552
Other assets	-	-	43,734	43,734
Total Financial Assets	2,552	373,153	1,979,233	2,354,938
Financial liabilities				
Customer deposits	-	-	1,784,490	1,784,490
Deposits from banks	-	-	51,306	51,306
Financial liabilities held for trading	1,143	-	-	1,143
Borrowings	-	-	104,287	104,287
Other liabilities	-	-	107,125	107,125
Total Financial Assets	1,143	-	2,047,208	2,048,351

3.6. Measurement basis of financial assets and liabilities continued

	Fair Value through P/L	Fair Value through OCI		
	Held for trading	Available for sale	Amortised Cost	Total
1 January 2011				
Financial assets				
Cash and balances with Central Banks	-	-	74,894	74,894
Loans and advances to banks	-	-	383,880	383,880
Loans and advances to customers	-	-	1,046,925	1,046,925
Investment securities	-	201,163	44,331	245,494
Asset pledged as collateral	-	109,100	12,909	122,009
Financial assets held for trading	11,485	-	-	11,485
Other assets		-	33,344	33,344
Total Financial Assets	11,485	310,263	1,596,283	1,918,031
Financial liabilities				
Customer deposits	-	-	1,328,218	1,328,218
Deposits from banks	-	-	55,221	55,221
Financial liabilities held for trading	-	-	1,639	1,639
Borrowings	-	-	126,096	126,096
Other liabilities	-	-	80,219	80,219
Total Financial Liabilities	-	-	1,591,393	1,591,393

4. Capital management

The Group’s capital management approach is driven by its strategy and organisational requirements, taking into account the regulatory and commercial environment in which it operates. It is the Group’s policy to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times.

Through its corporate governance processes, the Group maintains discipline over its investment decisions and where it allocates its capital, seeking to ensure that returns on investment are appropriate after taking account of capital costs.

The Group’s strategy is to allocate capital to businesses based on their economic profit generation and, within this process, regulatory and economic capital requirements and the cost of capital are key factors.

The Group's capital is divided into two tiers:

• Tier 1 capital: core equity tier one capital including ordinary shares, statutory reserve, share premium and general reserve. non-controlling interests arising on consolidation from interests in permanent shareholders’ equity. The book value of goodwill,intangible assets, unpublished losses and under provisions are deducted in arriving at Tier 1 capital; and

• Tier 2 capital: qualifying subordinated loan capital, preference shares, collective impairment allowances, debenture stock, non controlling interest and unrealised gains arsing 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 21.53% at the end of the year, compared to 25.50% and 30.20% recorded for the period ended December 2011 and December 2010 respectively. This is attributable to the intra-group capital movement on accounts of the emergence of FBN Holdings Plc, a significant growth in risk weighted assets during the year and 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 and Liabilities Management Committee.

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4. Capital management continued

The table below summarises the composition of regulatory capital and the ratios of the Bank only for the years presented below. During those three years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

	Bank '31 Dec 2012	Bank '31 Dec 2011	Bank '1 Jan 2011
	N 'millions	N 'millions	N 'millions
Tier 1 capital			
Share capital	16,316	16,316	16,316
Share premium	189,241	254,524	254,524
Statutory reserve	42,422	31,753	28,294
SMEEIS reserves	6,076	6,076	6,309
Retained earnings	77,342	49,649	33,310
Less: Intagible assets	(1,302)	(734)	(265)
Total qualifying for tier 1 capital	330,095	357,584	338,488
Tier 2 capital			
Fair value reserve	24,678	9,160	48,636
Statutory credit reserve	16,101	9,766	28,220
Other borrowings	2,560	4,677	7,036
Total qualifying for tier 2 capital	43,339	23,603	83,892
Total regulatory capital	373,434	381,187	422,380
Risk-weighted assets			
On balance sheet	1,534,858	1,349,749	1,276,360
Off balance sheet	199,581	144,918	122,363
Total risk-weighted assets	1,734,439	1,494,667	1,398,723
Risk-weighted Capital Adequacy Ratio (CAR)	21.53%	25.50%	30.20%

5 Significant accounting judgments, estimates and assumptions

The Group's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgements for certain items are especially critical for the Group's results and financial situation due to their materiality

a Impairment charges on financial assets

The Group reviews its loan portfolios for impairment on an ongoing basis. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognised for losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The use of historical loss experience is supplemented with significant management judgment to assess whether current economic and credit conditions are such that the actual level of inherent losses is likely to differ from that suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess inherent loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the inherent loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances, by adjusting the impairment loss derived solely from historical loss experience.

The detailed methodologies, areas of estimation and judgement applied in the calculation of the Group's impairment charge on financial assets are set out in the Financial risk management section.

The estimation of impairment losses is subject to uncertainty, which has increased in the current economic environment, and is highly sensitive to factors such as the level of economic activity, unemployment rates,property price trends, and interest rates. The assumptions underlying this judgement are highly subjective. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. See note 3 for more information.

b Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions.

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

Changes in assumptions about these factors could affect the reported fair value of financial instruments. Refer to Note 3.5 for additional sensitivity information for financial instruments

c Held-to-maturity investments
In accordance with IAS 39 guidance, the Group classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – the Group is required to reclassify the entire category as available for sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

d Retirement benefit obligation
For defined benefit pension plans, the measurement of the group's benefit obligation and net periodic pension cost/(income) requires the use of certain assumptions, including, among others, estimates of discount rates and expected return on plan assets. See note 40, "Retirement benefits 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.

6. Interest income

	GROUP		BANK	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	N 'millions	N 'millions	N 'millions	N 'millions
Investment securities	74,866	35,455	73,126	39,846
Placements and short term funds	2,795	20,183	2,148	10,822
Loans and advances	199,134	151,381	182,051	147,161
	276,795	207,019	257,325	197,829

Interest income on loans and advances to customers includes interest income on impaired financial assets, recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. This is analysed as follows: Group N5.3 billion (2011:N2.6 billion) and Bank N5.3billion (2011:N2.5 billion)

7. Interest expense

	GROUP		BANK	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	N 'millions	N 'millions	N 'millions	N 'millions
Current accounts	16,606	7,665	16,237	10,604
Savings account	4,350	3,866	4,188	3,838
Time deposits	24,492	11,534	18,860	5,374
Domiciliary deposits	4,591	3,840	4,591	3,840
Interbank takings	6,451	5,514	6,445	3,996
Borrowed funds	2,021	2,308	1,457	2,954
	58,511	34,727	51,778	30,606

8. Impairment charge for credit losses

	GROUP		BANK	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	N 'millions	N 'millions	N 'millions	N 'millions
Loans and advances to customers (refer note 20)				
Increase/(Decrease) in collective impairment	3,199	(2,712)	2,093	(4,446)
Increase in specific impairment	13,530	41,037	11,571	37,010
Income received on loans previously written off	(3,817)	(3,812)	(3,817)	(3,125)
Discontinued operations	-	(198)	-	-
Other assets (refer note 33.)				
Increase in impairment	-	3,696	-	2,726
	12,912	38,011	9,847	32,165

The credit impairment charge for the Bank declined from N 32.1 billion (Group N38.1billion) in the financial year ended December 2011 to N 9.8 billion (Group N12.9 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

9. Fee and commission income

	GROUP		BANK	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	N 'millions	N 'millions	N 'millions	N 'millions
Credit related fees	2,532	4,406	1,588	1,253
Commission on turnover	28,935	18,477	20,937	18,477
Letters of credit commissions and fees	4,748	5,719	4,736	4,547
Other fees and commissions	18,647	14,989	20,310	17,637
	54,862	43,591	47,571	41,914

10. Foreign exchange income

	GROUP		BANK	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	N 'millions	N 'millions	N 'millions	N 'millions
Foreign exchange trading income	2,456	7,497	924	7,502

11. Net gains/(losses) on investment securities

	GROUP		BANK	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	N 'millions	N 'millions	N 'millions	N 'millions
Net results on disposal of Financial assets	(2,150)	1,046	(1,826)	439
Impairment of available for sale financial assets	981	(944)	560	(1,533)
Others	309	356	309	356
	(860)	458	(957)	(738)

12. Net gains / (losses) from financial assets classified as held for trading

	GROUP		BANK	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	N 'millions	N 'millions	N 'millions	N 'millions
Equity securities	-	4,586	-	762
Derivatives	1,717	(470)	133	(470)
Debt securities	35	(1,288)	35	(1,288)
	1,752	2,828	168	(996)

13. Loss on sale of loan to AMCON

During 2011, the Asset Management Company of Nigeria purchased Eligible bank assets (EBA) from First Bank of Nigeria and issued bonds at a discount in exchange for value. Of the EBA sold, N99 billion was in respect of performing loans of Seawolf Oilfield services with a discounted value of N88 billion, resulting in a loss of N11 billion.

	GROUP	BANK
	December 2011	
	N 'millions	N 'millions
Face value of AMCON bonds	189,469	189,469
Unearned income	(56,145)	(56,145)
Discounted value	133,324	133,324
Net value of loans sold	(148,825)	(148,825)
Total loss on loan sold	**(15,501)**	**(15,501)**

14. Other operating income

	GROUP		BANK	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	N 'millions	N 'millions	N 'millions	N 'millions
Other income	3,398	12	1,535	-
	3,398	12	1,535	-

Other income is largely made up of income made by the group from rental income and income from sale of properties.

15. Operating expenses

	GROUP		BANK	
	31 December 2012 N 'millions	31 December 2011 N 'millions	31 December 2012 N 'millions	31 December 2011 N 'millions
Personnel expenses	65,808	53,072	60,447	48,374
Depreciation	9,895	8,975	9,169	8,517
Amortisation	645	1,199	556	1,082
Auditors' remuneration	251	193	210	135
Directors' emoluments	2,910	3,294	2,910	3,294
(Profit)/Loss on sale of property, plant and equipment	(1,760)	107	(1,760)	120
Deposit insurance premium	9,159	6,504	9,159	6,504
Banking sector resolution cost	7,391	5,872	7,391	5,872
Maintenance, rent and insurance	25,338	21,853	24,951	21,560
Advert and Corporate Promotions	8,577	5,329	8,577	5,329
Legal and Professional fees	3,703	3,311	2,482	2,352
Other operating expenses	50,412	26,959	44,816	30,229
	182,329	136,668	168,908	133,368

a) Personnel expenses

Wages and salaries	45,572	44,919	40,541	40,602
Pension costs:				
- Defined contribution plans	2,404	3,737	2,404	3,356
- Defined benefit plans (Note 40)	17,832	4,416	17,502	4,416
	65,808	53,072	60,447	48,374

b) Operating lease rentals:

At 31 December 2012 the Group was committed to making the following future payments in respect of operating leases for land and buildings. The lease is expected to expire in June 2016.

Within one year	224	216	-	-
Between two and five years	552	729	-	-
	776	945	-	-

16. Taxation

	GROUP		BANK	
	31 December 2012 N 'millions	31 December 2011 N 'millions	31 December 2012 N 'millions	31 December 2011 N 'millions
Corporate tax	5,323	4,161	2,165	2,188
Contingent tax	9,577	5,644	9,577	5,644
Education tax	493	264	433	183
Technology tax	833	537	808	520
Capital gains tax	524	-	525	-
Under provision in prior years	(5)	221	-	221
Current income tax - current period	16,745	10,827	13,508	8,756
Origination and reversal of temporary deferred tax differences	(1,656)	1,637	(1,363)	-
Prior period adjustment on deferred tax	(171)	6,400	-	7,864
Income tax expense	**14,918**	**18,864**	**12,145**	**16,620**
Profit before income tax	86,177	39,166	83,289	39,672
Tax calculated using the domestic corporation tax rate of 30% (2011: 30%, 2010: 30%)	25,853	11,750	24,987	11,902
Effect of tax rates in foreign jurisdictions			-	-
Non-deductible expenses	7,357	10,328	5,358	7,323
Effect of education tax levy	493	236	433	183
Effect of Information technology	833	537	808	520
Effect of capital gains tax	524	-	524	-
Effect of minimum tax	-	2,188	-	2,188
Effect of contingenet tax	9,577	5,644	9,577	5,644
Tax exempt income	(27,890)	(20,899)	(27,214)	(18,759)
Effect of disposal of items of PPE	(544)	-	(544)	-
Effect of disposal of subsidiary	(1,047)	-	(1,047)	-
Effect of change in PBT due to IFRS adjustments	-	5,318	(498)	3,857
Tax incentives	(238)	(159)	(238)	(159)
Tax loss effect	1	3,921	-	3,921
Total income tax expense in income statement	14,918	18,864	12,145	16,620

16. Taxation continued

	GROUP		BANK	
	31 December 2012 N 'millions	31 December 2011 N 'millions	31 December 2012 N 'millions	31 December 2011 N 'millions
The movement in the current income tax liability is as follows:				
At start of the period	23,844	20,052	21,354	15,118
Tax paid	(21,448)	(6,614)	(17,637)	(2,517)
Witholding tax credit utilised	-	(10)	-	-
Prior period under provision	2,543	-	2,544	-
AFS Securities Revaluation Tax charge/(credit)	690	-	-	-
Income tax charge	16,745	10,826	13,507	8,753
At 31 December	22,374	24,254	19,768	21,354
Current	22,374	24,254	19,768	21,354

17. Cash and balances with central banks

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
GROUP			
Cash	53,083	45,293	33,155
Balances with central banks excluding mandatory reserve deposits	53,432	50,038	31,231
	106,515	95,331	64,386
Mandatory reserve deposits with the Central Bank of Nigeria	191,509	103,897	11,131
	298,024	199,228	75,517
BANK			
Cash	47,238	45,187	32,533
Balances with central banks other than mandatory reserve deposits	53,432	50,038	31,231
	100,670	95,225	63,764
Mandatory reserve deposits with the Central Bank of Nigeria	187,455	103,866	11,130
	288,125	199,091	74,894

18. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with other banks and other short-term highly liquid investments with original maturities less than three months.

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
GROUP			
Cash (Note 17)	53,083	45,293	33,155
Balances with central banks other than mandatory reserve deposits (Note 17)	53,432	50,038	31,231
Loans and advances to banks excluding long term placements (Note 19)	392,419	462,856	575,467
Treasury bills included in financial assets held for trading (Note 21)	680	1,316	496
Treasury bills and eligible bills excluding pledged treasury bills (Note 22.1 & 22.2)	121,247	149,488	10,365
	620,861	708,991	650,714
BANK			
Cash (Note 17)	47,238	45,187	32,533
Balances with central banks other than mandatory reserve deposits (Note 17)	53,432	50,038	31,231
Loans and advances to banks excluding long term placements (Note 19)	315,856	222,347	385,096
Treasury bills included in financial assets held for trading (Note 21)	680	1,316	496
Treasury bills and eligible bills excluding pledged treasury bills (Note 22.3 & 22.4)	108,127	148,658	10,195
	525,333	467,546	459,551

19. Loans and advances to banks

GROUP

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Current balances with banks within Nigeria	15,749	11,291	86,841
Currrent balances with banks outside Nigeria	322,703	213,618	109,017
Placements with banks and discount houses	53,967	237,947	379,609
	392,419	462,856	575,467
Long term placement	706	-	-
Carrying amount	393,125	462,856	575,467

BANK

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Current balances with banks within Nigeria	1,433	9,746	17,629
Placements and Currrent balances with banks outside Nigeria	272,998	199,057	109,914
Current balances and placements with banks and discount houses within Nigeria	41,425	13,544	256,337
	315,856	222,347	383,880
Long term placement	13,264	-	-
Carrying amount	329,120	222,347	383,880

Included in loans to banks are non current placements of N13.26 billion (2011 - Nil, 2010 - Ni) which does not qualify as cash and cash equivalent. All other loans to banks are due within 3 months.

20 Loans and advances to customers

GROUP

	Gross amount N 'millions	Specific impairment N 'millions	Collective impairment N 'millions	Total impairment N 'millions	Carrying amount N 'millions
31 December 2012					
Overdrafts	276,839	6,882	3,402	10,284	266,555
Term loans	1,129,103	10,251	16,339	26,590	1,102,513
Staff loans	5,947	-	600	600	5,346
Commercial papers ('CP')	126,916	-	1,033	1,033	125,883
Project finance	59,746	-	732	732	59,014
	1,598,551	17,133	22,106	39,239	1,559,311
Advances under finance lease	3,781	-	87	87	3,694
	1,602,332	17,133	22,193	39,326	1,563,005
31 December 2011					
Overdrafts	178,410	1,671	3,148	4,819	173,591
Term loans	896,997	11,263	13,871	25,134	871,863
Staff loans	6,575	-	232	232	6,343
Commercial papers ('CP')	186,170	-	2,197	2,197	183,973
Project finance	12,555	-	474	474	12,081
	1,280,707	12,934	19,922	32,856	1,247,851
Advances under finance lease	4,697	-	86	86	4,611
	1,285,404	12,934	20,008	32,942	1,252,462
1 January 2011					
Overdrafts	169,370	12,294	5,898	18,192	151,178
Term loans	807,990	12,680	15,776	28,456	779,534
Staff loans	6,887	-	580	580	6,307
Commercial papers ('CP')	114,522	-	2,194	2,194	112,328
Project finance	105,045	423	999	1,422	103,623
	1,203,814	25,397	25,447	50,844	1,152,970
Advances under finance lease	8,282	634	325	959	7,323
	1,212,096	26,031	25,772	51,803	1,160,293

BANK

	Gross amount N 'millions	Specific impairment N 'millions	Collective impairment N 'millions	Total impairment N 'millions	Carrying amount N 'millions
31 December 2012					
Overdrafts	269,252	6,585	3,602	10,187	259,065
Term loans	888,265	8,222	16,117	24,339	863,926
Staff loans	5,744		600	600	5,144
Commercial papers ('CP')	126,916	-	1,033	1,033	125,883
Project finance	59,427	-	732	732	58,695
	1,349,604	14,807	22,084	36,891	1,312,713
Advances under finance lease	3,781	-	87	87	3,694
	1,353,385	14,807	22,171	36,978	1,316,407
31 December 2011					
Overdrafts	203,869	1,671	3,148	4,819	199,050
Term loans	758,943	6,133	13,941	20,074	738,869
Staff loans	5,983	-	232	232	5,751
Commercial papers ('CP')	186,170	-	2,197	2,197	183,973
Project finance	12,681	-	474	474	12,207
	1,167,646	7,804	19,992	27,796	1,139,850
Advances under finance lease	4,697	-	86	86	4,611
	1,172,343	7,804	20,078	27,882	1,144,461

20. Loans and advances to customers continued

BANK

	Gross amount N 'millions	Specific impairment N 'millions	Collective impairment N 'millions	Total impairment N 'millions	Carrying amount N 'millions
1 January 2011					
Overdrafts	143,384	12,294	5,898	18,192	125,192
Term loans	719,365	12,680	14,534	27,214	692,151
Staff loans	6,887	-	580	580	6,307
Commercial papers ('CP')	114,522	-	2,194	2,194	112,328
Project finance	105,046	423	999	1,422	103,624
	1,089,204	25,397	24,205	49,602	1,039,602
Advances under finance lease	8,282	634	325	959	7,323
	1,097,486	26,031	24,530	50,561	1,046,925

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
GROUP			
Current	592,842	357,564	263,506
Non-current	970,163	897,430	896,787
	1,563,005	1,254,994	1,160,293
BANK			
Current	585,422	378,809	237,520
Non-current	730,985	765,652	809,405
	1,316,407	1,144,461	1,046,925

Reconciliation of impairment allowance on loans and advances to customers:

GROUP

	Overdrafts N 'millions	Term loans N 'millions	CP N 'millions	Finance lease N 'millions	Other N 'millions	Total N 'millions
At 1 January 2011						
Specific impairment	12,294	12,680	-	634	423	26,031
Collective impairment	5,898	15,776	2,194	325	1,579	25,772
	18,192	28,456	2,194	959	2,002	51,803
Additional provision						
Specific impairment	10,315	34,941	-	(496)	(423)	44,337
Collective impairment	(2,750)	(2,153)	3	(239)	(875)	(6,014)
Loans written off	(20,938)	(36,108)	-	(138)	-	(57,184)
Specific impairment	1,671	11,265	-	-	-	12,936
Collective impairment	3,148	13,871	2,197	86	704	20,006
At 31 December 2011	4,819	25,136	2,197	86	704	32,942
Additional provision						
Specific impairment	5,624	7,667	-	-	239	13,530
Collective impairment	454	3,282	(1,164)	1	626	3,199
Discontinued operations	-	(5,193)	-	-	-	(5,193)
Loans written off	(612)	(4,301)	-	-	(239)	(5,152)
						-
Specific impairment	6,882	10,251	-	-	-	17,133
Collective impairment	3,402	16,339	1,033	87	1,332	22,193
At 31 December 2012	10,284	26,590	1,033	87	1,332	39,326

20. Loans and advances to customers continued

BANK

	Overdrafts N 'millions	Term loans N 'millions	CP N 'millions	Finance lease N 'millions	Other N 'millions	Total N 'millions
At 1 January 2011						
Specific impairment	12,294	12,680	-	634	423	26,031
Collective impairment	5,898	14,534	2,194	325	1,579	24,530
	18,192	27,214	2,194	959	2,002	50,561
Additional provision						
Specific impairment	7,825	29,608	-	- -	423	37,010
Collective impairment	(260)	(2,582)	3	(735)	(873)	(4,446)
Loans written off	(20,938)	(34,166)	-	(138)	-	(55,242)
Specific impairment	1,671	6,133	-	-	-	7,804
Collective impairment	3,148	13,941	2,197	86	706	20,078
At 31 December 2011	4,819	20,074	2,197	86	706	27,882
Additional provision						
Specific impairment	5,197	6,374	-	-	-	11,571
Collective impairment	454	2,176	(1,164)	1	626	2,093
Loans written off	(283)	(4,285)	-	-	-	(4,568)
Specific impairment	6,585	8,222	-	-	-	14,807
Collective impairment	3,602	16,117	1,033	87	1,332	22,171
At 31 December 2012	10,187	24,339	1,033	87	1,332	36,978

Loans and advances to customers include finance lease receivables as follows:

GROUP	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Gross investment in finance lease, receivable			
- No later than 1 year	729	1,156	3,583
- Later than 1 year and no later than 5 years	3,282	4,390	6,679
- Later than 5 years	84	-	-
	4,095	5,546	10,262
Unearned future finance income on finance leases	(314)	(849)	(1,980)
Impairment allowance on leases	(87)	(86)	(959)
Net investment in finance lease, receivable	3,694	4,611	7,323
Net investment in finance lease, receivable is analysed as follows			
- No later than 1 year	416	979	2,892
- Later than 1 year and no later than 5 years	3,194	3,632	4,431
- Later than 5 years	84	-	-
	3,694	4,611	7,323

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
At 31 December 2012

20. Loans and advances to customers continued

BANK

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Gross investment in finance lease, receivable			
- No later than 1 year	729	1,156	3,583
- Later than 1 year and no later than 5 years	3,282	4,390	6,679
- Later than 5 years	84	-	-
	4,095	5,546	10,262
Unearned future finance income on finance leases	(314)	(849)	(1,980)
Impairment allowance on leases	(87)	(86)	(959)
Net investment in finance lease, receivable	3,694	4,611	7,323
Net investment in finance lease, receivable is analysed as follows			
- No later than 1 year	416	979	2,892
- Later than 1 year and no later than 5 years	3,194	3,632	4,431
- Later than 5 years	84	-	-
	3,694	4,611	7,323

20.1 Nature of security in respect of loans and advances:

GROUP

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Secured against real estate	457,582	252,347	130,101
Secured by shares of quoted companies	14,713	28,496	27,938
Otherwise secured	1,019,792	745,322	774,968
Unsecured	110,245	259,239	279,089
	1,602,332	1,285,404	1,212,096

BANK

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Secured against real estate	416,302	252,347	130,101
Secured by shares of quoted companies	14,653	28,496	27,938
Otherwise secured	825,370	632,261	660,352
Unsecured	97,243	259,239	279,089
	1,353,568	1,172,343	1,097,480

The Group is not permitted to sell or repledge the collateral in the absence of default by the owner of the collateral.
Otherwise secured loans includes loans which are secured with domiciliation of proceeds, guarantees, debentures on fixed and floating assets, lien on assets, trust deeds.

21. Financial assets held for trading

GROUP

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
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	-	3,282	5,151
Total equity securities	-	3,282	5,151
Derivative assets	1,885	1,124	1,962
Total assets held for trading	2,565	5,964	16,636

21. Financial assets held for trading continued
BANK

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Treasury bills included in cash equivalents	680	1,316	496
Government bonds	-	242	9,027
Total debt securities	680	1,558	9,523
Derivative assets	1,262	994	1,962
Total assets held for trading	1,942	2,552	11,485

The Group did not designate any financial assets as fair value through profit or loss on initial recognition.
The Group uses the following derivative strategies:

Economic hedges
The Group use of derivative 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 $175million 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:

	GROUP 31 Dec 2012			BANK 31 Dec 2012		
	Notional contract amount	Fair values		Notional contract amount	Fair values	
		Asset	Liability		Asset	Liability
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Interest rate derivatives						
Interest rate swaps	13,198	-	(61)	13,198	-	(61)
Foreign exchange derivatives						
Forward FX contract	5,302	626	(860)	4,733	3	(342)
Currency swap	10,750	54	-	10,750	54	-
Put options	41,581	1,205	(875)	41,581	1,205	(875)
	70,831	1,885	(1,796)	70,262	1,262	(1,278)
Current	5,302	680	(660)	4,733	57	(142)
Non Current	65,529	1,205	(1,136)	65,529	1,205	(1,136)

21. Financial assets held for trading continued

	GROUP 31 Dec 2011			BANK 31 Dec 2011		
	Notional contract amount	Fair values Asset	Fair values Liability	Notional contract amount	Fair values Asset	Fair values Liability
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Interest rate derivatives						
Interest rate swaps	68,728	665	439	68,728	665	439
Foreign exchange derivatives						
Forward FX contract	10,636	165	1,728	10,059	35	14
Currency swap	7,915	137	690	7,915	137	690
Put options	14,839	157	-	14,839	157	-
	102,118	1,124	2,857	101,541	994	1,143
Current	10,636	165	1,728	10,059	35	14
Non Current	91,482	959	1,129	91,482	959	1,129
	102,118	1,124	2,857	101,541	994	1,143

	GROUP 1 Jan 2011			BANK 1 Jan 2011		
	Notional contract amount	Fair values Asset	Fair values Liability	Notional contract amount	Fair values Asset	Fair values Liability
	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions	N 'millions
Interest rate derivatives						
Interest rate swaps	69,875	1,927	(1,187)	69,875	1,927	(1,187)
Foreign exchange derivatives						
Forward FX contract	1,516	35	(13)	1,516	35	(13)
Currency swap	5,992	-	(439)	5,992	-	(439)
	77,383	1,962	(1,639)	77,383	1,962	(1,639)
Current	1,516	35	(13)	1,516	35	(13)
Non Current	75,867	1,927	(1,626)	75,867	1,927	(1,626)
	77,383	1,962	(1,639)	77,383	1,962	(1,639)

22. Investment Securities
GROUP

	31 December 2012	31 December 2011	1 January 2011
	N 'millions	N 'millions	N 'millions
22.1 Securities available for sale			
Debt securities – at fair value:			
– Treasury bills	121,247	149,489	3,368
– Government bonds	182,629	155,351	136,578
Equity securities – at fair value:			
– Listed	1,131	4,417	6,196
Equity securities – at fair value:			
– Unlisted	46,367	47,676	76,680
	351,374	356,933	222,822

22. Investment Securities continued

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
GROUP			
Assets pledged as collateral			
Debt securities - at fair value			
– Treasury bills	17,531	22,195	-
– Government bonds	1,515	10,191	109,100
	19,046	32,386	109,100
Total securities classified as available for sale	370,420	389,319	331,922
22.2 Securities held to maturity			
Debt securities – at amortised cost:			
– Treasury bills	-	-	6,997
– Listed debt	155,636	337,336	-
– Unlisted debt	175,224	-	24,889
	330,860	337,336	31,886
Assets pledged as collateral			
Debt securities - at amortised cost			
– Treasury bills	-	-	12,909
– Government bonds	31,063	39,743	-
	31,063	39,743	12,909
Total securities classified as held-to-maturity	361,923	377,079	44,795
Total investment securities	732,343	766,398	376,717
BANK			
22.3 Securities available for sale			
Debt securities – at fair value:			
– Treasury bills	108,127	148,658	3,368
– Government bonds	144,784	149,965	124,743
Equity securities – at fair value:			
– Listed	1,131	2,486	4,132
Equity securities – at fair value:			
– Unlisted	46,309	39,658	68,920
	300,351	340,767	201,163
Assets pledged as collateral			
Debt securities – at fair value:			
– Treasury bills	17,531	22,195	-
– Government bonds	1,515	10,191	109,100
	19,046	32,386	109,100
Total securities classified as available for sale	319,397	373,153	310,263
22.4 Securities held to maturity			
Debt securities – at amortised cost:			
– Treasury bills	-	-	6,827
– Listed	155,636	307,907	-
– Unlisted	175,224	21,950	37,504
	330,860	329,857	44,331
Assets pledged as collateral			
Debt securities – at amortised cost:			
– Treasury bills	-	-	12,909
– Government bonds	31,063	39,743	-
	31,063	39,743	12,909
Total securities classified as held-to-maturity	361,923	369,600	57,240
Total investment securities	681,320	742,753	367,503

23. Asset pledged as collateral

The assets pledged by the group are strictly for the purpose of providing collateral to the counterparty. To the extent that the counterparty is not permitted to sell and/or repledge the assets in the absence of default, they are classified in the statement of financial position as pledged assets. These transactions are conducted under terms that are usual and customary to standard securities borrowing and lending activities.

The nature and carrying amounts of the assets pledged as collaterals are as follows:

GROUP

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Available for sale debt securities (note 22.1)	19,046	32,386	109,100
Held to maturity debt securities (note 22.2)	31,063	39,743	12,909
	50,109	72,129	122,009
Current	19,046	32,386	109,100
Non current	31,063	39,743	12,909
	50,109	72,129	122,009

BANK

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Available for sale debt securities (note 22.3)	19,046	32,386	109,100
Held to maturity debt securities (note 22.4)	31,063	39,743	12,909
	50,109	72,129	122,009
Current	19,046	32,386	109,100
Non current	31,063	39,743	12,909
	50,109	72,129	122,009

24. Investment in subsidiaries

24.1 Principal subsidiary undertakings
Following the restructuring which occurred during the year ended 31 December 2012, the Group transferred its entire interest in some subsidiaries to FBN Holdings Plc.- see Note 26 for listing of the affected entities

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
FBN Bank (UK) Limited (Note 24 (i))	30,695	18,441	18,441
FBN Capital Limited (Note 26)	-	4,300	4,300
First Pension Custodian Limited (Note 24 (ii))	2,000	2,000	2,000
First Trustees Nigeria Limited (Note 26)	-	23	23
FBN Mortgages Limited (Note 24 (iii))	2,100	2,100	2,100
FBN Insurance Brokers Limited (Note 26)	-	15	15
First Registrars Nigeria Limited (Note 26)	-	10	10
FBN Bureau de Change Limited (Note 24 (iv))	50	500	500
FBN Microfinance Bank Limited (Note 26)	-	1,000	1,000
First Funds Limited (Note 26)	-	2,050	2,050
FBN Life Assurance (Note 26)	-	2,000	-
Banque Internationale de Crédit (Note 24 (v))	5,503	-	-
	40,348	32,439	30,439
Impairment of investments in subsidiaries	-	(23)	(23)
	40,348	32,416	30,416

All shares in subsidiary undertakings are ordinary shares. For all periods shown, the company owned the total issued shares in all its subsidiary undertakings except FBN Life Assurance in which it owned 65% and Banque Internationale de Crédit in which it owned 75%.

24. Investment in subsidiaries continued

24.1 Principal subsidiary undertakings

Subsidiary	Principal activity	Country of incorporation	Statutory year end
FBN Bank (UK) Limited (Note 24 (i))	Banking	United Kingdom	31 December
FBN Capital Limited (Note 26)	Investment banking	Nigeria	31 December
First Pension Custodian Limited (Note 24 (ii))	Pension fund Assets custodian	Nigeria	31 December
First Trustees Nigeria Limited (Note 26)	Trusteeship	Nigeria	31 December
FBN Mortgages Limited (Note 24 (iii))	Mortgage banking	Nigeria	31 December
FBN Insurance Brokers Limited (Note 26)	Insurance brokerage	Nigeria	31 December
First Registrars Nigeria Limited (Note 26)	Share register administration	Nigeria	31 December
FBN Bureau de Change Limited (Note 24 (iv))	Bureau De Change	Nigeria	31 December
FBN Microfinance Bank Limited (Note 26)	Microfinance banking	Nigeria	31 December
First Funds Limited (Note 26)	Venture Capital	Nigeria	31 December
FBN Life Assurance (Note 26)	Life Insurance	Nigeria	31 December
Banque Internationale de Crédit (DRC) (Note 24 (v))	Banking	Democratic republic of Congo	31 December

i FBN Bank (UK) Limited
FBN Bank (UK) Ltd ('FBNUK') 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.
FBNUK 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,

ii First Pension Custodian Limited
First Pension Custodian Limited was incorporated on 12 August 2005 and granted an approval in principle by the National Pension Commission on 1 August 2005 while the operating licence was obtained on the 7 December 2005. The principal activity of the company is to act as a Custodian of Pension Fund Assets in accordance with the Pension Reform Act, 2004.

iii FBN Mortgages Limited
The Company was incorporated on 17 March 2003 and commenced operations on 1 May 2004. Its principal activities include acceptance of deposits, provision of mortgage finance for customers and investment in properties.

iv FBN Bureau de Change Limited
This represents the Bank's 100% holding in FBN Bureau de Change Limited. The Bank obtained approval from the Central Bank of Nigeria to operate a bureau de change on 8 August 2006. In 2010, the Central Bank of Nigeria (CBN) withdrew the license of all class 'A' Bureau De Change and advised them to apply for class 'B' in order to continue in business. The Class B license was issued in the current year and the Bank obtained a refund of N450 million for the excess capital requirement.

v Banque Internationale de Crédit (DRC)
Banque Internationale de Crédit (BIC), is a company incorporated in the Democratic Republic of Congo (DRC) on 6th April 1994, following the approval granted by the Central Bank of Congo on September 24, 1993.
First Bank Nigeria Limited has a holding of 75% in the equity of BIC.

24.2 Condensed results of consolidated entities from continuing operations

31 December 2012	BANK N'million	FBN UK N'million	BIC N'million	MORTGAGES N'million	PENSION N'million	BDC N'million	TOTAL N'million	ADJUSTMENTS N'million	BANKING GROUP N'million
Condensed Income Statement									
Operating income	260,384	11,752	7,866	1,789	2,559	202	284,552	(4,142)	280,410
Operating expenses	(168,908)	(5,089)	(5,866)	(678)	(1,243)	(137)	(181,921)	(408)	(182,329)
Provision expense	(9,847)	(109)	(1,106)	(37)			(11,099)	(1,813)	(12,912)
Operating profit	81,629	6,554	894	1,074	1,316	65	91,532	(6,363)	85,169
Associate	-	-	-	-	-	-	-	1,008	1,008
Profit before tax									86,177
Tax	(12,145)	(1,624)	(591)		(532)	(25)	(14,918)	-	(14,918)
(Loss)/Profit for the year	69,484	4,930	303	1,074	784	40	76,614	(5,355)	**71,259**
Condensed Financial Position									
Assets									
Cash and balances with Central Bank	288,125	38	9,857	1	-	4	298,024	-	298,024
Due from other banks	329,120	229,426	10,496	720	4,208	246	574,216	(181,091)	393,125
Loans and advances	1,316,407	232,104	18,738	2,182	30	4	1,569,465	(6,460)	1,563,005
Financial Assets held for Trading (HFT)	1,942	623					2,565		2,565
Investment securities	723,892	50,390	574	59			774,915	(36,963)	737,952
Other assets	32,459	784	1,878	13,170	446	31	48,768	(15,035)	33,733
Deferred tax	6,703	10	1,242				7,955		7,955
Intangible Assets	1,302	449			20		1,771	1,646	3,417
Property and equipment	70,724	204	3,299	67	137	22	74,453		74,453
Assets held for sale								12,978	12,978
	2,770,674	514,027	46,085	16,199	4,841	307	3,352,133	(224,925)	**3,127,207**
Financed by									
Customer deposits	2,171,807	274,367	36,090	9,527			2,491,791	(85,934)	2,405,857
Due to other banks	18,463	151,697					170,160	(82,609)	87,551
Financial liabilities held for trading	1,278	518					1,796		1,796
Borrowed funds	81,987	12,559					94,546	(19,004)	75,542
Tax payable	19,768	1,192	605	72	708	29	22,374		22,374
Other liabilities	87,039	26,449	3,994	3,093	296	83	120,954	(2,889)	118,065
Retirement benefit obligatons	18,156	-	-	-	366		18,522	127	18,649
Deferred income tax liabilities				4	-	2	6		6
Liabilities held for sale								2,836	2,836
	2,398,498	466,782	40,689	12,696	1,370	114	2,920,149	(187,473)	**2,732,676**
Equity and reserves	372,176	47,245	5,396	3,503	3,471	193	431,985	(35,794)	**394,531**
Condensed cash flows									
Net cash from operating activities	190,556	2,297	2,703	(5,278)	1,240	527	192,045	(176,123)	15,922
Net cash from financing activities	(87,584)	12,555	(341)		-	(487)	(75,857)	(11,727)	(87,584)
Net cash from investing activities	(32,504)	(422)	(454)	(12)	(42)	(16)	(33,451)	27,647	(5,804)
At year start	467,546	4,407	7,949	5,451	3,010	226	488,589	210,065	698,655
Movement in cash and cash equivalent	70,345	14,430	1,908	(5,290)	1,198	24	82,615	(160,408)	(77,793)
At year end	537,891	18,837	9,857	160	4,208	250	571,204	49,657	620,861

25. Acquisition of Subsidiary

In October 2011, First Bank of Nigeria 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 N5.5 billion.

The acquired company contributed interest income of N2,123 million and fee commision of N2,251 to the group for the period 1 April 2012 to 31 December 2012 as well as profit of N671million . If the acquisition had occurred on 1 January 2012, the group interest income would show N277,705 million, group fee and commission would be N54,123 and group profit before tax would have been N86,400.

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.

	March 31 2012
Consideration	
	N'm
Cash	5,503
Contingent Consideration	-
	5,503
Recognised amounts of identifiable assets acquired and liabilities assumed	
	Provisional Fair value
Cash and balances with central banks	10,081
Treasury bills	44
Loans and advances to banks	6,841
Loans and advances to customers	16,046
Inventory	145
Deferred tax asset	1,045
Other assets	1,975
Property, plant and equipment	2,669
Deposits	(27,521)
Other liabilities	(6,182)
Total identifiable net assets	5,143
Non controlling interest	1,286
Goodwill	1,646
Cash and cash equivalents acquired from the subsidiary is 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
Net cash on acquisition of subsidiary	**11,463**

The goodwill of N 1.6 billion arises from a number of factors such as expected synergy’s 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 consideration. So the fair value of the contingent consideration arrangement was deemed nil.

The treasury bills were not marked to market as at 31 March 2012.The treasury bills are highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than three months. The maturity of the treasury bills ranges between 7 days and 28 days. The amount represents its fair value.

The carrying amount of cash and balances with central bank and loans and advances to banks represents their respective fair value.

The contractual amount for loans and advances to customers is N 6.6 billion which is net of a loan loss provision of N2.2 billion.

The value of the other assets is N1.975 billion, this include an account receivable of N0.987 billion. This full amount is deemed recoverable. No provision has been made on the other asset

The value of the acquired property plant and equipment of N2.7 billion is provisional pending, receipt of the final valuations for the assets.

The non-controlling interest has been recognised as a proportion of net assets acquired.

26. Discontinued operations

(i) Transfer of subsidiaries resulting from Business restructuring

Following the directive of the Central Bank of Nigeria on the new banking model in Nigeria issued on 4 October, 2010, the Group opted for the Holding company structure. The Holding company structure led to the reorganisation of the group reporting and business structure. On 1 December 2012, FBN Holdings Plc became the Parent company of the FBN group. As a result of the reorganisation, FBN Nigeria Limited is the parent company of the commercial banking subsidiaries and transferred its interest in the underlisted subsidiaries to its ultimate parent company - FBN Holdings Plc or FBN Capital Limited as detailed below. In line with the accounting policy on common control transactions, predecessor accounting was applied and the assets and liabilities of these entities were transferred at the existing book value. Thus, no gain or loss was recorded on the transfer of these subsidiaries to the Holding company.

FBN Holdings Plc
FBN Capital Limited
FBN Insurance Brokers Limited
FBN Microfinance Bank Limited
FBN Life Assurance

FBN Capital Limited
First Trustees Nigeria Limited
First Funds Limited

(ii) Disposal of First Registrars Limited

On 28th December 2012, FBN Limited disposed of 100% of the share capital of its subsidiary - First Registrars. The company contributed profit of N1.5 billion to the Group from 1 Januay 2012 to 28 December 2012 (N986m for prior year in First Registrars Nigeria Limited.

A) Discontinued operations contributed profit of N3.5 billion to the Group (2011: (N1.7b).
The results of the discontinued operations up till point of disposal is included within "Discontinued operations" in the current year and their full year result for prior year is also shown. The results of discontinued operations as shown below, includes the following:

Results of the subsidiaries transferred to FBN Holdings Plc for the 11 months to November 2012
Results of First Registrars Nigeria Limited up to date of sale - 28th December 2012
Results of the property development portfolio of FBN mortgages which was classified as Held for Sale during the year.
Gain recognised from the sale of First Registrars Nigeria Limited:

	Group	
	12 months to Dec 2012 N'millions	12 months to Dec 2011 N'millions
Interest income	9,987	5,956
Interest expense	(3,742)	(2,057)
Net interest income	6,245	3,899
Impairment charge/write back on credit losses	(253)	(198)
Net interest income after impairment charge for credit losses	5,992	3,701
Insurance premium revenue	1,524	1,295
Insurance premium revenue ceded to reinsurers	(110)	(31)
Net insurance premium revenue	1,414	1,264
Net fee and commission income	4,706	3,993
Net gains/(losses) on investment securities	-	212
Net gains/(losses) from financial assets classified as held for trading	-	(3,824)
Dividend	-	225
Other operating income	2,072	406
Net insurance benefits and claims	(456)	(81)
Operating expenses	(8,257)	(9,199)
Operating profit	5,471	(3,303)
Profit before tax	5,471	(3,303)
Income tax expense	(1,921)	1,637
Profit/(Loss) from discontinued operations	3,550	(1,666)
Pre tax gain from disposal of operations	288	-
Tax	-	-
After tax gain from disposal of operations	288	-
Total Profit on discontinued operations	3,838	(1,666)
Profit attributable to:		
Owners of the parent	3,849	(1,490)
Non-controlling interests	(11)	(176)

B) Asset, Liabilities and Reserves of the discontinued operations at the point of transfer/disposal are shown below:

	Entities transferred to Holdco	First registrars Limited
	30 November	**28 December**
	N'million	N'million
Assets		
Cash and balances with central banks	1,261	-
Loans and advances to banks	28,611	30,619
Loans and advances to customers	1,706	148
Financial assets held for trading	18,396	-
Insurance receivables	517	-
Investment securities		
-Available-for-sale investments	5,213	-
-Held to maturity investments	27,610	3,001
Assets pledged as collateral	3,135	-
Other assets	5,825	233
Inventory	25,366	
Investment properties	4,055	-
Intangible assets	63	-
Property, plant and equipment	967	565
Deferred tax	149	81
Total assets	**122,873**	**34,647**
Liabilities		
Deposits from banks	3,146	-
Deposits from customers	1,340	-
Liability on investment contracts	44,388	-
Liability on insurance contracts	2,250	-
Borrowings	57,731	-
Retirement benefit obligations	329	-
Current income tax liability	180	-
Deferred tax	260	-
Other liabilities	10,808	31,435
Total liabilities	**120,432**	**31,435**
Equity and reserves		
Share capital	6,162	500
Share premium	18,436	-
Retained earnings	(22,252)	2,712
Other reserves		
Statutory reserve	56	-
AFS Fair value reserve	-	-
Contingency Reserve	40	-
Total equity and reserves	**2,441**	**3,212**

C) Asset classified as Held for Sale

The assets and liabilities held for sale relate to the property development portfolio of First Mortages Limited which is being presented as held for sale following the commitment to its sale by the Group's management in compliance with the Central Bank of Nigeria's (CBN) Regulation on the scope of Banking Activities and Ancillary Matters No 3, 2010, which require banks in Nigeria to concentrate on banking businesses. In August 2012, as part of the capital restructuring scheme of the FirstBank Group, shareholders approved the full divestment by FirstBank , of all the property development business of FBN Mortages, prior to the Central Bank of Nigeria cut off date of June 2013. The sale is expected to be completed by May 2013.

The carrying amount of the assets and liabilities of the disposed group classified as held for sale are as listed below.

	31 Dec 2012
	N'million
Assets classified as held for sale	
Inventory	5,637
Accounts receivable	7,341
	12,978
Liabilities classified as held for sale	
Accounts payable - Deposit for property	**2,836**
Net Asset	**10,142**

D) Cash flows attributable to discontinued operations.

i) Transferred subsidiaries

	2012	2011
Net cash flow from Operating activities	(9,998)	(9,393)
Net cash flow from investing activities	(28)	(27,187)
Net cash flow from financing activities	3,149	(13,336)
Net cash outflow/inflow	(6,877)	(49,916)

27. Investment in associates (equity method)

First Bank of Nigeria Plc has 40% shareholding in Kakawa Discount House (KDH).

KDH is a company incorporated in Nigeria and is involved in trading in, holding and provision of discount and re-discount facilities for treasury bills, commercial bills and other eligible financial instruments normally purchased by banks, corporate bodies and the investing public. KDH is not publicly traded and there is no published price information

As part of the Business restructuring which occurred during the period, the Bank transferred its 42% shareholding interest in Seawolf to FBN Holdings Plc. The transfer was made at Book value. During the period, FBN Registrar's interest in Kakawa Discount House was also transferred to FBN capital Limited at book value.

Seawolf is a company incorporated in Nigeria and is involved in the Oil and Gas sector. The Company is not publicly traded and there is no publised price information

First Bank Nigeria Limited has 34.17% in FBN Heritage Funds. The principal activity of the Fund is the subscription of funds from the members of' the public and the investment of' such funds in quoted equities. government securities, and other financial instruments as determined by the Fund Manager in accordance with the Trust Deed. The Fund is listed on the Nigerian Stock Exchange. The Bank transferred its holdings in the Fund to FBN Holdings Plc as part of the business restructuring during the period.

	GROUP		BANK	
	2012	2011	2012	2011
	N 'millions	N 'millions	N 'millions	N 'millions
Balance at beginning of period	7,489	8,996	14,099	14,099
Transferred to FBN Holdings Plc	(1,652)	-	(11,875)	-
Transferred to FBN Capital	(660)	-	-	-
Dividend received	(576)	(504)		
Share of profit / (loss)	1,008	(1,003)	-	-
At end of period	5,609	7,489	2,224	14,099

27. Investment in associates (equity method)

Summarised financial information of the Group's principal associates are as follows:

	Total Assets N 'millions	Total Liabilities N 'millions	Net assets /liabilities N 'millions	Gross earnings N 'millions	Profit or loss before tax N 'millions
31 December 2012					
KDH	119,437	106,028	13,409	17,112	2,424
Heritage Fund	4,292	154	4,138	227	172
31 December 2011					
KDH	121,995	108,338	13,657	10,976	2,618
Seawolf	185,847	207,464	(21,617)	11,454	(4,639)
Heritage Fund	4,131	107	4,024	93	14
1 January 2011					
KDH	161,347	148,293	13,054	10,244	3,147
Seawolf	221,060	237,219	(16,519)	10,323	(1,227)
Heritage Fund	4,681	146	4,535	155	78

KDH and FBN Heritage Fund do not have any commitment or contingent liabilities as at 31st December 2012 (2011 : Nil, 2010 : Nil).

28. Investment properties

	GROUP 2012 N 'millions	2011 N 'millions
Cost		
At 1 January	4,055	2,440
Additions resulting from acquisitions		52
Additions resulting from subsequent expenditure	30	1,563
Discontinued operations	(4,085)	-
At 31 December	-	4,055

This represents the Group's investment in land held for the purpose of capital appreciation. It is the company's policy not to depreciate land . The Bank has no investment property.

Investment properties did not generate any income or direct operating expenses during the period. Following the group restructure, the investment properties have been transferred to the new Holding Company.

The fair value of investment properties is N4,339 million in 2011 and was determined based on valuations performed by inhouse consultants.The fair value of the properties have been determined using on transactions observable in the market.

29. Inventory

	GROUP 2012 N 'millions	Dec 2011 N 'millions	Jan 2011 N 'millions
Work in progress	8,366	11,807	14,881
Interest capitalised	7,711	5,459	5,165
Stock of properties	9,646	8,343	3,035
Discontinued operations	(25,723)	-	-
At 31 December	-	25,609	23,081
Current	-	8,343	3,035
Non current	-	17,266	20,046
	-	25,609	23,081

Inventory relates to properties under development by FBN Mortgages Limited as well the real estate development of Rainbow Town Development Limited. This FBN Mortgages property development portfolio was classified as Asset Held for Sale during the period. see note 29 for a detailed note. The Bank has no inventory balance.

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30. Property, plant and equipment

GROUP	Improvement &buildings N million	Land N million	Motor vehicles N million	Office equipment N million	Computer equipment N million	Furniture, fittings & equipment N million	Plant & machinery N million	Work in progress N million	Total N million
Cost									
At 1 January 2011	28,742	10,702	9,189	27,600	12,222	5,333	22	5,552	99,362
Additions	1,270	2,908	1,937	2,249	1,987	719	2	457	11,529
Reclassifications	(35)		-	(2)	3	37	-	(3)	-
Disposals			(1,100)	(974)	(93)	(459)	-	-	(2,626)
At 31 December 2011	29,977	13,610	10,026	28,873	14,119	5,630	24	6,006	108,265
Accumulated depreciation									
At 1 January 2011	2,745	-	6,024	13,884	9,716	3,342	17	-	35,728
Charge for the year	596	-	1,521	4,547	1,618	689	2	-	8,973
Reclassifications	(27)	-	-	-	-	27	-	-	-
Disposals	-	-	(789)	(971)	(92)	(458)	-	-	(2,310)
At 31 December 2011	3,314	-	6,756	17,460	11,242	3,600	19	-	42,391
Net book amount at 31 December 2011	**26,663**	**13,610**	**3,270**	**11,413**	**2,877**	**2,030**	**5**	**6,006**	**65,874**
Cost									
At 1 January 2012	29,977	13,610	10,026	28,873	14,119	5,630	24	6,006	108,265
Additions	2,421	2,658	3,181	6,296	2,025	1,459	-	595	18,635
Acquisition of subsidiary	1,546		297	576	983	616		420	4,438
Write offs	(101)	-	-	-	(85)	(49)	-	-	(235)
Disposals	(292)		(1,916)	(1,386)	(369)	(181)		(8)	(4,152)
Discontinued operations	(199)	(368)	(879)	(266)	(668)	(339)	(24)		(2,743)
At 31 December 2012	33,352	15,900	10,709	34,093	16,005	7,136	-	7,013	124,208
Accumulated depreciation									
At 1 January 2012	3,314	-	6,756	17,460	11,242	3,600	19	-	42,391
Acquisition of subsidiary	79		242	445	640	363		-	1,769
Discontinued operations	(14)	-	(355)	(171)	(483)	(245)	(21)		(1,289)
Charge for the year	674		1,760	4,860	2,017	855	2	-	10,168
Write offs	(101)	-	-	-	(85)	(49)	-	-	(235)
Disposals	(96)		(1,509)	(943)	(354)	(148)	-	-	(3,050)
At 31 December 2012	3,856	-	6,894	21,651	12,977	4,376	-	-	49,754
Net book amount at 31 December 2012	**29,496**	**15,900**	**3,815**	**12,442**	**3,028**	**2,760**	**-**	**7,013**	**74,454**
Net book amount at 31 December 2011	**26,663**	**13,610**	**3,270**	**11,413**	**2,877**	**2,030**	**5**	**6,006**	**65,874**
Net book amount at 1 January 2011	**25,997**	**10,702**	**3,165**	**13,716**	**2,506**	**1,991**	**5**	**5,552**	**63,634**

Capital Work in progress represents construction cost and improvements in respect of offices.

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30. Property, plant and equipment

BANK	Improvement &buildings N million	Land N million	Motor vehicles N million	Office equipment N million	Computer equipment N million	Furniture, fittings & equipment N million	Work in progress N million	Total N million
Cost								
At 1 January 2011	28,012	10,702	8,378	27,364	11,495	4,861	5,541	96,353
Additions	5,784	2,946	1,529	3,444	1,755	675	(5,541)	10,592
Reclassifications		(35)	-	-	-	35	-	-
Disposals		(3)	(875)	(969)	(80)	(455)	-	(2,382)
At 31 December 2011	33,796	13,610	9,032	29,839	13,170	5,116	-	104,563
Accumulated depreciation								
At 1 January 2011	2,586	-	5,595	13,742	9,135	3,043	-	34,101
Charge for the year	561	-	1,325	4,497	1,506	628	-	8,517
Reclassifications	(27)	-	-	-	-	27	-	-
Disposals	-	-	(609)	(967)	(80)	(455)	-	(2,111)
At 31 December 2011	3,120	-	6,311	17,272	10,561	3,243	-	40,507
Net book amount at 31 December 2011	**30,676**	**13,610**	**2,721**	**12,567**	**2,609**	**1,873**	**-**	**64,056**
Cost								
At 1 January 2012	33,796	13,610	9,032	29,839	13,170	5,116	-	104,563
Additions	2,273	2,658	2,704	6,188	1,761	1,297	-	16,881
Disposals	(292)	-	(1,746)	(1,385)	(353)	(176)	-	(3,952)
At 31 December 2012	35,777	16,268	9,990	34,642	14,578	6,237	-	117,492
Accumulated depreciation								
At 1 January 2012	3,120	-	6,311	17,272	10,561	3,243	-	40,507
Charge for the year	607		1,442	4,741	1,664	711		9,165
Disposals	(96)		(1,356)	(942)	(353)	(157)		(2,904)
At 31 December 2012	3,631	-	6,397	21,071	11,872	3,797	-	46,768
Net book amount at 31 December 2012	**32,146**	**16,268**	**3,593**	**13,571**	**2,706**	**2,440**	**-**	**70,724**
Net book amount at 31 December 2011	**30,676**	**13,610**	**2,721**	**12,567**	**2,609**	**1,873**	**-**	**64,056**
Net book amount at 1 January 2011	**25,426**	**10,702**	**2,783**	**13,622**	**2,360**	**1,818**	**5,541**	**62,252**

Capital Work in progress represents construction cost and improvements in respect of offices.

31. Intangible assets

GROUP	Goodwill	Computer software	**Total**
Cost			
At 1 January 2011	-	1,925	1,925
Additions	-	1,711	1,711
At 31 December 2011	-	3,636	3,636
Additions	-	1,494	1,494
Disposals	-	(191)	(191)
Write off		(237)	(237)
Acquisition of subsidiary	1,646	-	1,646
Exchange difference		20	20
At 31 December 2012	1,646	4,722	6,368
Amortisation and impairment			
At 1 January 2011	-	1,431	1,431
Ammortisation	-	1,197	1,197
At 31 December 2011	-	2,628	2,628
Amortisation charge	-	645	645
Write off		(237)	(237)
Disposals	-	(99)	(99)
Exchange difference	-	14	14
At 31 December 2012	-	2,951	2,951
Net book value			
At 31 December 2012	1,646	1,771	3,417
At 31 December 2011	-	1,008	1,008
At 1 January 2011	-	494	494

BANK	**Computer software**	**Total**
Cost		
At 1 January 2011	1,229	1,229
Additions	1,551	1,551
At 31 December 2011	2,780	2,780
Additions	1,124	1,124
At 31 December 2012	3,904	3,904
Ammortisation and impairment		
At 1 January 2011	964	964
Ammortisation	1,082	1,082
At 31 December 2011	2,046	2,046
Ammortisation	556	556
At 31 December 2012	2,602	2,602
Net book value		
At 31 December 2012	1,302	1,302
At 31 December 2011	734	734
At 1 January 2011	265	265

The amortisation charge for the period is included in Other operating expenses in the Statement of comprehensive income.

31. Intangible assets continued

Impairment tests for goodwill

Goodwill is allocated to cash generating units at a level which represents the smallest identifiable group of assets that generate largely independent cash flows.
Goodwill of N200 million (31 December 2011: Nil) relates to the acqusition 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 risk 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.

32. Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 30% (2009: 30%, 2008: 30%).

	GROUP		
	31 December 2012 N 'millions	**31 December 2011 N 'millions**	**1 January 2011 N 'millions**
Deferred income tax assets and liabilities are attributable to the following items:			
Deferred tax assets			
Property and equipment	9,253	9,178	5,187
Allowance for loan losses	3,159	1,741	128
Tax losses carried forward	-	927	3,687
Other assets	527	1,126	-
Other liabilities	(10,286)	(10,420)	-
Defined benefit obligation	5,301	4,402	3,272
	7,955	6,954	12,274
Deferred tax liabilities			
Other liabilities	6	1,067	901
	6	1,067	901
Deferred tax assets			
- Deferred tax asset to be recovered after more than 12 months	7,428	5,828	12,274
- Deferred tax asset to be recovered within 12 months	527	1,126	-
	7,955	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	6	1,067	-
	6	1,067	-

	BANK		
	31 December 2012 N 'millions	**31 December 2011 N 'millions**	**1 January 2011 N 'millions**
Deferred income tax assets and liabilities are attributable to the following items:			
Deferred tax assets			
Property and equipment	9,254	9,178	5,187
Allowance for loan losses	1,762	-	-
Tax losses carried forward	-	927	3,687
Other assets	526	1,108	-
Other liabilities	(10,286)	(10,420)	
Defined benefit obligation	5,447	4,402	3,272
	6,703	5,195	12,146
Deferred tax assets			
- Deferred tax asset to be recovered after more than 12 months	6,177	4,087	12,146
- Deferred tax asset to be recovered within 12 months	526	1,108	-
	6,703	5,195	12,146

32. Deferred tax continued

Group

	1 Jan 2012 N 'millions	Recognised in P&L N 'millions	Recognised OCI N 'millions	31 Dec 2012 N 'millions
Movements in Deferred tax assets during the year:				
Property and equipment	9,178	75	-	9,253
Allowance for loan losses	1,741	1,418	-	3,159
Tax losses carried forward	927	(927)	-	-
Other assets	1,126	(599)	-	527
Other liabilities	(10,420)	134	-	(10,286)
Defined benefit obligation	4,402	753	146	5,301
	6,954	855	146	7,955

	1 Jan 2011 N 'millions	Recognised in P&L N 'millions	Recognised OCI N 'millions	31 Dec 2011 N 'millions
Movements in Deferred tax assets during the year:				
Property and equipment	5,187	3,991	-	9,178
Allowances for loan losses	128	1,613	-	1,741
Tax losses carried forward	3,688	(2,761)	-	927
Other assets	-	1,126	-	1,126
Other liabilities	-	(10,420)	-	(10,420)
Defined benefit obligation	3,272	218	913	4,402
	12,274	(6,233)	913	6,954

	1 Jan 2012 N 'millions	Discontinued Operations N 'millions	Recognised in P&L N 'millions	31 Dec 2012 N 'millions
Movements in Deferred tax liabilities during the year:				
Other liabilities	1,067	(260)	(801)	6

	1 Jan 2011 N 'millions	Recognised in P&L N 'millions	Recognised OCI N 'millions	31 Dec 2011 N 'millions
Movements in Deferred tax liabilities during the year:				
Other liabilities	901	166	-	1,067

Bank

	1 Jan 2012 N 'millions	Recognised in P&L N 'millions	Recognised OCI N 'millions	31 Dec 2012 N 'millions
Movements in temporary differences during the year:				
Property and equipment	9,178	76	-	9,254
Allowance for loan losses	-	1,762	-	1,762
Tax losses carried forward	927	(927)	-	-
Other assets	1,108	(581)	-	527
Other liabilities	(10,420)	134	-	(10,287)
Defined benefit obligation	4,402	899	146	5,447
	5,195	1,363	146	6,703

	1 Jan 2011 N 'millions	Recognised in P&L N 'millions	Recognised OCI N 'millions	31 Dec 2011 N 'millions
Movements in temporary differences during the year:				
Property and equipment	5,187	3,992	-	9,178
Tax losses carried forward	3,688	(2,761)	-	927
Other assets	-	1,108	-	1,108
Other liabilities	-	(10,420)	-	(10,420)
Defined benefit obligation	3,271	218	913	4,402
	12,146	(7,864)	913	5,195

Deferred income tax assets are recognised for tax loss carry-forwards only to the extend that the realisation of the related tax benefit is probable.

33. Other assets

GROUP

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Prepayments	8,459	9,276	8,583
Accounts receivable	17,330	32,802	22,790
Insurance receivables	-	111	-
Other receivables	14,182	27,118	11,890
	39,971	69,307	43,263
Less specific allowances for impairment	(6,238)	(7,035)	(3,981)
	33,733	62,272	39,282

BANK

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Prepayments	7,351	7,582	5,938
Accounts receivable	18,721	21,705	18,540
Other receivables	12,611	20,671	12,313
	38,683	49,958	36,791
Less specific allowances for impairment	(6,224)	(6,224)	(3,447)
	32,459	43,734	33,344

Reconciliation of impairment account	GROUP		BANK	
	2012 N 'millions	2011 N 'millions	2012 N 'millions	2011 N 'millions
At start of period	7,035	3,981	6,224	3,447
Increase in impairment	-	3,696	-	2,726
Amounts written off	-	(693)	-	
Reclassification	-	51	-	51
Discontinued operations	(797)	-	-	-
At end of period	6,238	7,035	6,224	6,224

All other assets on the statement of financial position of the Group and Bank had a remaining period to contractual maturity of less than 12 months.

34. Deposits from banks

GROUP

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Interbank takings	66,344	97,661	148,115
Due to bank	21,207	85,839	237
	87,551	183,500	148,352

34. Deposits from banks continued

BANK

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Interbank takings	6,074	50,588	54,984
Due to bank	12,389	718	237
	18,463	51,306	55,221

Deposits from banks only include financial instruments classified as liabilities at amortised cost and has a remaining period to contractual maturity of less than 12 months

35. Deposits from customers

GROUP	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Current	805,222	746,118	607,252
Savings	548,391	495,777	387,808
Term	501,371	289,064	273,755
Domiciliary	541,210	417,715	177,497
Electronic purse	9,664	2,647	1,288
	2,405,858	1,951,321	1,447,600
Current	2,405,854	1,950,991	1,379,978
Non-current	4	330	67,622
	2,405,858	1,951,321	1,447,600

BANK	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Current	755,738	702,847	574,415
Savings	544,807	495,075	386,913
Term	320,898	166,206	188,105
Domiciliary	540,700	417,715	177,497
Electronic purse	9,664	2,647	1,288
	2,171,807	1,784,490	1,328,218
Current	2,171,803	1,784,313	1,206,425
Non-current	4	177	121,793
	2,171,807	1,784,490	1,328,218

Deposits from customers only include financial instruments classified as liabilities at amortised cost.

36. Financial liabilities held for trading

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
GROUP			
Fair value of derivatives held for trading	1,796	2,857	1,639
BANK			
Fair value of derivatives held for trading	1,278	1,143	1,639

Financial liabilities held for trading amounting to N1,136 million (2011: N1,129 million) are due after more than 12 months for both the group and bank

37. Borrowings

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
GROUP			
Long term borrowing 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)**	47,135	10,112	20,019
	75,541	104,473	126,350
Current	54,004	55,329	21,491
Non-current	21,537	49,144	104,859
	75,541	104,473	126,350
BANK			
Long term borrowing 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	53,446
On-lending facilities from financial institutions **(iv)**	25,846	29,496	18,807
Borrowing from correspondence banks **(v)**	53,581	9,927	19,764
	81,987	104,287	126,096
Current	54,004	55,143	21,491
Non-current	27,983	49,144	104,605
	81,987	104,287	126,096

The Group has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2011: nil).

(i) Facility represents dollar notes issued by FBN Capital Finance Company, Cayman Islands on 30 March 2007 for a period of 10 years. Interest on the notes is payable at 9.75% per annum. The loan is repayable at six monthly intervals over a period of five years commencing from 29 March 2012. The loan is subordianted debt and was non-callable in the first five years.The loan was repaid in March 2012

(ii) Facility represents a medium-term loan (callable notes) secured from European Investment Bank. The loan is divided into tranche A of euro 35 million for a tenure of five year and tranche B of euro 15 million for a tenure of eight years, which qualifies it as tier II capital. Interest is payable half-yearly at 2% and 3% above LIBOR rate for tranche A and tranche B respectively.

(iii) Facility represents a medium-term loan (dollar notes) secured from Standard Chartered Bank in February 2010 for a period of three years with a moratorium of 18 months. The interest on the loan is payable half yearly at 4.25% above the LIBOR rate. The loan was repaid on August 2012

(iv) Included in on-lending facilities from financial institutions are disbursements from banks which are guaranteed by FBN for specific customers. These facilities include the BOI funds and CACS intervention funds.

37. Borrowings continued

a. CBN/BOI facilities

The Central Bank of Nigeria (CBN), in a bid to unlock the credit market, approved the investment of N 200 billion debenture stock to be issued by the Bank of Industry (BOI), which would be applied to the re-financing/restructuring of bank's loans to the manufacturing sector. During the year, the Bank of Industry (BOI) disbursed an additional N 1.8 billion (2011: N 1.13 billion) to First Bank of Nigeria Limited.
The fund disbursed is for a period of 15 years effective from the disbursement date and subject to 1% p.a. management fee.

b. CBN/CACS Intervention funds

The Central Bank of Nigeria (CBN) in collaboration with the Federal Government of Nigeria (FGN) represented by the Federal Ministry of Agriculture and Water Resources (FMA & WR) established the Commercial Agricultural Credit Scheme (CACS). During the year, First Bank Nigeria Limited received N 5.9 billion (2011: N 7.64 billion) for on-lending to customers as specified by the guidelines. Loans granted under the scheme are for a seven year period at an interest rate of 9% p.a.

(v) Borrowings from correspondence banks include loans from foreign banks utilised in funding letters of credits for international trade.

38. Liability on investment contracts

GROUP

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Long term clients	-	38,304	20,804
Short term clients	-	11,132	23,693
Guaranteed fixed income	-	4	31,949
	-	**49,440**	**76,446**
Current	-	11,132	23,693
Non-current	-	38,308	52,753
	-	49,440	76,446

39. Retirement benefit obligations

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
GROUP			
Post employment benefit	132	-	-
Defined contribution scheme	-	391	225
Defined Benefits Plan			
Gratuity Scheme (1)	14,158	7,685	6,298
Defined benefits - Pension (ii)	4,358	7,005	4,903
	18,648	15,081	11,426
BANK			
Defined contribution scheme	-	1	171
Defined Benefits Plan			
Gratuity Scheme (1)	13,792	7,669	6,001
Defined benefits - Pension (ii)	4,364	7,006	4,903
	18,156	14,676	**11,075**

Defined contribution scheme

The group and its employees make a joint contribution of 15% basic salary, housing and transport allowance to each employee's retirement savings account maintained with their nominated pension fund administrators.

Total contributions to the scheme for the period were as follows:

Gratuity scheme (1)

The Group has a non-contributory defined gratuity scheme whereby on separation, staff who have spent a minimum number of 5 years are paid a sum based on their qualifying emoluments and the number of periods spent in service of the Bank. Amounts recognised in the statement of financial position are as follows:

	GROUP N 'millions	BANK N 'millions
Defined benefit obligations at 1 January 2011	6,298	6,001
Service cost	3,882	3,146
Interest cost	789	789
Actuarial losses/gains (Net)	221	221
Benefits paid (in the year)	(3,505)	(2,488)
Defined benefit obligations at 31 December 2011	7,685	7,669
Service cost	1,345	1,033
Interest cost	1,055	1,037
Actuarial losses/gains (Net)	2,956	2,936
Benefits paid (in the year)	(13,496)	(13,495)
Curtailment (Gains)/losses	9,031	9,031
Plan amendments	5,582	5,582
Defined benefit obligations at 31 December 2012	**14,158**	**13,793**

Included in the benefits paid of N 13.5 billion is N 12.5 billion paid to staff that were disengaged during the year.

39. Retirement benefit obligations continued

	GROUP		BANK	
	31 December 2012 N 'millions	31 December 2011 N 'millions	31 December 2012 N 'millions	31 December 2011 N 'millions
Amounts recognised in the income statement are as follows:				
Current service cost	(1,345)	(3,146)	(1,033)	(3,146)
Interest on obligation	(1,055)	(789)	(1,037)	(789)
Curtailment (Gains)/losses	(9,031)	-	(9,031)	-
Plan amendments	(5,582)	-	(5,582)	-
Total employee benefits expense	(17,013)	(3,935)	(16,683)	(3,935)
Amount recognised in other comprehensive income are as follows:				
Actuarial losses/(gains)	(2,956)	(221)	(2,936)	(221)

3 Year record from first application of IAS 19

	2012 N 'millions	GROUP 2011 N 'millions	2010 N 'millions
Present value of defined benefit obligation	14,158	7,685	6,298
Fair value of plan assets	-	-	-
Deficit/(surplus) in the plan	14,158	7,685	6,298
Experience adjustments on plan liabilities	(3,007)	(649)	(213)
Experience adjustments on plan assets	-	-	-
		BANK	
Present value of defined benefit obligation	13,792	7,669	6,001
Fair value of plan assets	-	-	-
Deficit/(surplus) in the plan	13,792	7,669	6,001
Experience adjustments on plan liabilities	(3,007)	(649)	(213)
Experience adjustments on plan assets	-	-	

Defined benefit - Pension (ii)
The Bank has an old Defined Benefit scheme, discontinued in March 2001. The funds are placed with fund managers and the Bank is under obligation to fund the deficit, and has elected to do this over the next five years commencing January 2010 with an annual contribution of N1.2 billion.

The movement in the defined benefit obligation over the year is as follows:

	GROUP N 'millions	BANK N 'millions
Defined benefit pension obligations at 1 January 2011	13,550	13,550
Interest cost	1,285	1,285
Actuarial losses/gains (Net)	868	868
Benefits paid (in the year)	(1,410)	(1,410)
Defined benefit pension obligations at 31 December 2011	14,293	14,293
Interest cost	1,479	1,479
Actuarial losses/gains (Net)	(536)	(536)
Benefits paid (in the year)	(1,640)	(1,640)
Defined benefit pension obligations at 31 December 2012	13,596	13,596

The movement in the fair value of plan assets of the year is as follows:
Plan Assets

	GROUP	BANK
Fair value of plan assets at 1 January 2011	8,647	8,647
Expected return on plan assets	804	804
Actuarial gains/losses	(1,953)	(1,953)
Employer contributions	1,200	1,200
Benefits paid	(1,410)	(1,410)
Closing fair value of plan assets at 31 December 2011	7,288	7,288
Expected return on plan assets	660	660
Actuarial gains/losses	1,915	1,915
Employer contributions	1,010	1,010
Benefits paid	(1,640)	(1,640)
Closing fair value of plan assets at 31 December 2012	**9,233**	**9,233**
Net obligations at 1 January 2011	4,903	4,903
Net obligations at 31 December 2011	7,005	7,005
Net obligations at 31 December 2012	**4,363**	**4,363**

39. Retirement benefit obligations continued

Amounts recognised in the income statement are as follows:

	GROUP		BANK	
	31 December 2012 N 'millions	31 December 2011 N 'millions	31 December 2012 N 'millions	31 December 2011 N 'millions
Interest on obligation	(1479)	(1285)	(1479)	(1285)
Expected return on plan assets	660	804	660	804
Total, included in staff costs (Note 15a)	(819)	(481)	(819)	(481)

The actual return on plan assets was N2,575 million (2011: N789 million).

Amount recognised in other comprehensive income are as follows:

	GROUP		BANK	
	2012 N 'millions	2011 N 'millions	2012 N 'millions	2011 N 'millions
Actuarial gains/losses (Obligations)	536	(868)	536	(868)
Actuarial gains/losses (Plan assets)	1,915	(1,953)	1,915	(1,953)
Total actuarial gains/losses	2,451	(2,821)	2,451	(2,821)

	GROUP/BANK		
Composition of Plan assets	2012 N 'millions	2011 N 'millions	2010 N 'millions
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
3 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	(9,233)	(7,288)	(8,647)
Deficit/(surplus) in the plan	4,363	7,005	4,903
Experience adjustments on plan liabilities	536	1,835	538
Experience adjustments on plan assets	-	-	

The principal actuarial assumptions were as follows:	GROUP/BANK		
	31 Dec 2012	31 Dec 2011	At 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 N'millions	Impact on Liability
	13%	13,793	0.0%
	12.5%	14,333	3.9%
Discount rate	13.5%	13,285	-3.7%
	10%	13,793	0.0%
	9.5%	13,793	0.0%
Inflation rate	10.5%	13,793	0.0%
	12%	13,793	0.0%
	11.5%	13,249	-3.9%
Salary growth rate	12.5%	14,378	4.2%
	Base	13,793	0.0%
	Improved by 1 year	13,932	1.0%
Life expectancy	Decreased by 1 year	13,643	-1.1%

40. Other liabilities

GROUP

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Customer deposits for letters of credit	47,401	61,102	41,885
Accounts payable	11,116	26,481	18,920
Provisions and accruals	17,048	11,489	6,013
Bank cheques	14,004	13,112	14,268
Collection on behalf of third parties	7,131	4,375	4,193
Other payables	21,366	42,214	35,191
	118,066	158,773	120,470

BANK

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
Customer deposits for letters of credit	25,028	44,552	41,885
Accounts payable	11,563	15,323	13,552
Provisions and accruals	16,518	9,813	4,014
Bank cheques	14,004	13,112	14,267
Collection on behalf of third parties	5,704	4,375	4,193
Other payables	14,222	29,763	6,322
	87,039	116,938	84,233

Other liabilities are expected to be settled within no more than 12 months after the date of the consolidated statement of financial position.

41. Share capital

Authorised	31 December 2012	31 December 2011	1 January 2011
50 billion ordinary shares of 50k each (2009: 30 billion)	25,000	25,000	25,000

Issued and fully paid

Movements during the period:	Number of shares In millions	Ordinary shares N 'millions
At 1 January 2011	32,632	16,316
At 31 December 2011	32,632	16,316
At 31 December 2012	32,632	16,316

42. Share premium and reserves

The nature and purpose of the reserves in equity are as follows:

Share premium: Premiums from the issue of shares are reported in share premium. A share capital reserve reduction scheme was approved by Shareholders and regulators during the period. This led to a reduction in share premium by N65 billion.

Retained earnings: Retained earnings comprise the undistributed profits from previous years, which have not been reclassified to the other reserves noted below.

Statutory reserve: Nigerian banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by S16(1) of the Bank and Other Financial Institutions Act of 1991(amended), an appropriation of 30% of profit after tax is made if the statutory reserve is less than the paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid-up share capital.

AFS Fair value reserve: The AFS fair value reserve shows the effects from the fair value measurement of equity instruments elected to be presented in other comprehensive income on initial recognition after deduction of deferred taxes. No gains or losses are recognised in the consolidated income statement.

SSI reserve: This reserve is maintained to comply with the Central Bank of Nigeria (CBN) requirement that all licensed banks set aside a portion of the profit after tax in a fund to be used to finance equity investments in qualifying small and medium-scale enterprises. Under the terms of the guideline (amended by CBN letter dated 11 July 2006), the contributions will be 10% of profit after tax and shall continue after the first five years but banks' contributions shall thereafter reduce to 5% of profit after tax. However, this is no longer mandatory. The small and medium-scale industries equity investment scheme reserves are non-distributable.

42. Share premium and reserves continued

Contigency reserve: As required by insurance regulations, a contingency reserve is maintained for both the non-life insurance and life assurance contracts underwritten by the Group. The appropriation to contingency reserve for non-life underwriting contracts is calculated in accordance with section 21(2) and 22(1)(b) of the Insurance Act 2003. The reserve is calculated at the higher of 3% of gross premiums and 20% of net profits of the business for the year. The appropriation to contingency reserve for life underwriting contracts is calculated at the higher of 1% of the gross premium and 10% of net profits of the business for the year. The appropriations are charged to the Life Fund. Following the business restructuring in December 2012, this reserve has been transferred to the new Holding company.

Statutory credit reserve: The group determines its loan loss provisions based on the requirements of IFRS. The difference between the loan loss provision as determined under IFRS and the provision as determined under Nigerian Prudential guideline (as prescribed by the Central Bank of Nigeria) is recorded in this reserve. This reserve is non distributable.

Treasury share reserve: The Group buys and sells its own shares in the normal course of its equity trading and market activities. These shares are reported to a separate reserve. Gains and losses on sales or redemption of own shares are credited or charged to reserves.

Foreign currency translation reserve: Records exchange movements on the Group's net investment in foreign subsidiaries.

43. Reconciliation of profit before tax to cash generated from operations

	GROUP		BANK	
	31 December 2012 N 'millions	31 December 2011 N 'millions	31 December 2012 N 'millions	31 December 2011 N 'millions
Profit before tax from continuing operations	86,177	39,166	83,289	39,672
Profit before tax from discontinued operations	5,471	(3,303)	-	-
Profit before tax	91,648	35,863	83,289	39,672
Adjustments for:				
– Depreciation and amortisation	10,808	10,174	9,721	9,601
– Profit/(loss) from disposal of property and equipment	(1,760)	107	(1,760)	120
– Foreign exchange losses / (gains) on operating activities	(2,456)	(7,497)	(924)	(7,502)
– Profit/(loss) from disposal of subsidiaries	(288)	-	(3,490)	-
– Profit/(loss) on sale of assets to AMCON	-	15,501	-	15,501
– Profit/(loss) from disposal of investment securities	1,226	(1,046)	1,826	(439)
– Net gains/(losses) from financial assets classified as held for trading	(1,752)	996	(168)	996
– Impairment on loans and advances	16,729	38,127	13,664	32,564
– Change in provision in other assets	-	3,696	-	2,726
– Change in provision for impairment of investments	(981)	944	(560)	1,533
– Change in employee benefits provisions	19,107	8,570	18,615	7,499
– Share of loss/(profit) from associates	(432)	1,507	-	-
– Dividend income	(518)	(4,400)	(3,766)	(5,801)
– Net interest income	(224,529)	(176,191)	(205,548)	(167,223)
– Provision for banking sector resolution cost	-	5,872	-	5,872
Increase/(decrease) in operating assets:				
– Cash and balances with the Central Bank (restricted cash)	(87,612)	(92,766)	(83,589)	(92,736)
– Inventories	1,826	(2,528)	-	-
– Loans and advances to banks	(706)	-	(13,264)	-
– Loans and advances to customers	(310,696)	(144,207)	(212,132)	(144,806)
– Financial assets held for trading	1,086	10,496	142	8,757
– Other assets	21,718	(26,686)	14,775	(13,116)
– Pledged assets	22,020	49,879	22,020	49,881
Increase/(decrease) in operating liabilities:				
– Deposits from banks	(89,873)	35,216	(32,694)	(3,775)
– Deposits from customers	430,146	510,323	385,688	449,670
– Financial liabilities	(1,061)	1,218	135	(496)
– Liability on investment contracts	-	(27,006)	-	-
– Liability on insurance contracts	-	824	-	-
– Other liabilities	(39,071)	38,301	(32,347)	32,705
Cash (used in) /generated from operations	(145,421)	285,287	(40,367)	221,203

44. Contingent liabilities and commitments

	31 December 2012 N 'millions	31 December 2011 N 'millions	1 January 2011 N 'millions
44.1 Capital commitments			
Authorised and contracted			
Group	1,300	2,600	3,300
Bank	1,300	2,600	3,300

The expenditure will be funded from the group's internal resources.

44.2 Litigation

The Group is a party to a number of legal actions arising out of its normal business operations
The Directors believe that, based on currently available information and advice of counsel, none of the outcomes that result from such proceedings will have a material adverse effect on the financial position of the Group, either individually or in the aggregate.

44.3 Other contingent commitments

In the normal course of business the group is a party to financial instruments which carry off-balance sheet risk. These instruments are issued to meet the credit and other financial requirements of customers. The contractual amounts of the off-balance sheet financial instruments are:

	GROUP		BANK	
	31 December 2012 N 'millions	31 December 2011 N 'millions	31 December 2012 N 'millions	31 December 2011 N 'millions
Performance bonds and guarantees	344,079	230,200	320,655	228,357
Letters of credit	220,388	228,880	196,267	153,695
	564,467	459,080	516,922	382,052

44.4 Loan Commitments

	GROUP		BANK	
	31 December 2012 N 'millions	31 December 2011 N 'millions	31 December 2012 N 'millions	31 December 2011 N 'millions
Undrawn irrevocable loan commitments	27,111	13,481	-	-

45. Related party transactions

The Group is controlled by FBN Holdings Plc incorporated in Nigeria, which owns 99.9% of the ordinary shares.
FBN Holdings Plc is the parent company of FBN Nigeria Limited as well as the ultimate controlling party.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans and deposits.

The volumes of related-party transactions, outstanding balances at the year-end, and related expense and income for the year are as follows:

45.1 Loans and advances to related parties

The Bank granted various credit facilities to other companies which have common directors with the bank and those that are members of the Group. The rates and terms agreed are comparable to other facilities being held in the bank's portfolio. Details of these are described below:

BANK

	Parent	Entities controlled by Parent and Associates of the Parent	Directors and other key management personnel (and close family members)	Associates	Subsidiaries
31 December 2012					
Loans and advances to customers					
Loans outstanding at 1 January	-	16,556	74,381	8,267	22,417
Loans issued during the year	-	6,407	32,018	-	-
Loan repayments during the year	-	-	(23,851)	(8,267)	(22,417)
Loans outstanding at 31 December	-	22,963	82,548	-	-

45.1 Loans and advances to related parties continued

	Parent	Entities controlled by Parent	Directors and other key management personnel (and close family members)	Associates	Subsidiaries
31 December 2011					
Loans and advances to customers					
Loans outstanding at 1 January	-	-	44,174	95,280	37,192
Loans issued during the year	-	-	36,670	-	1,781
Loan repayments during the year	-	-	(6,463)	(95,280)	-
Loans outstanding at 31 December	-	-	74,381	-	38,973

The loans to directors and other key maangement 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 consolidatoin and do not form part of the reported group loans and advances to customers

45.2 Deposits from related parties

BANK					
31 December 2012					
Due to customers					
Deposits at 1 January	-	5,828	189	780	5,828
Deposits received during the year	-	669,443	1,841	73,805	1,009,064
Deposits repaid during the year	-	(666,331)	(1,846)	(74,283)	(934,372)
	-				
Deposits at 31 December	-	8,940	184	302	80,520
31 December 2011					
Due to customers					
Deposits at 1 January	-	-	189	780	5,828
Deposits received during the year	-	-	-	51,844	669,443
Deposits repaid during the year	-	-	-	(51,532)	(666,331)
Deposits at 31 December	-	-	69	1,092	8,940
	-	-	258	2,184	17,880

45.3 Other transactions with related parties

31 December 2012					
Interest income	-	3	-	-	1,057
Interest expense	-	-	-	-	(424)
Fee and commission income	-	2	-	-	-
Other operating income	-	-	-	-	-
Operating expenses	-	(190)	-	-	(667)
31 December 2011					
Interest income	-	-	-	-	2,480
Interest expense	-	-	-	-	(455)
Fee and commission income	-	-	-	-	25
Other operating income	-	-	-	-	-
Operating expenses	-	-	-	-	(705)

45.4 Key management compensation

	GROUP		BANK	
	31 December 2012 N 'millions	**31 December 2011 N 'millions**	**31 December 2012 N 'millions**	**31 December 2011 N 'millions**
Salaries and other short-term employee benefits	399	383	399	383
Post-employment benefits	-	-	-	-
Other long term benefits	1,716	161	1,716	161
Termination benefits	796	1,472	796	1,472
	2,911	2,016	2,911	2,016

Direct credit assets to Directors

Name Of Company/Individual	Relationship to Reporting	Outstanding Credit Performing (N)	Outstanding Credit Non Performing (N)	TOTAL (N)	Status	Nature of security and security status
Honeywell Flour Mill Ltd (Srf)	Ex-Chairman/Non.Ed	35,851,849,917	-	35,851,849,917	Performing	LM on pty.CG of Pivot and Honeywell Oil & Gas PG of Oba Otudeko. All asset Deb of HFM
Honeywell Oil & Gas Ltd	Ex-Chairman/Non.Ed	8,644,910,584	-	8,644,910,584	Performing	Lien, Debenture, PG and CG.
Pivot Engineering Ltd	Ex-Chairman/Non.Ed	4,336,440,319	-	4,336,440,319	Performing	CG of Honeywell Flour Mill, debenture
Anchorage Liesure Ltd	Ex-Chairman	2,838,993,177	-	2,838,993,177	Performing	Deb., lm on pty, domiciliation, CG of honeywell group
Fan Milk Plc	Ex-Chairman	909,967,695	-	909,967,695	Performing	Mortg. Deb. over Kano & Ibadan factory.
Khalil & Dibbo Transport Ltd.	Ex-Chairman	186,822,909	-	186,822,909	Performing	Mortg. Deb. on Ibadan Factory, lm on pty,lien.
Incar Nigeria Plc	Ex-Chairman	5,535,693,944	-	5,535,693,944	Performing	L/M on pty at Ijora, Lagos and Abuja
Seatrucks Nigeria Ltd	Ex-Chairman	2,757,680,052	-	2,757,680,052	Performing	PG of J. Roomans, CG of Sea Trucks Group, L/M on refinanced vessels.
Deanshanger Projects Ltd	Ex-Chairman	5,984,019,116	-	5,984,019,116	Performing	Mortg. Debenture on rice factory
Dpl katampe project debt service reserve account	Ex-Chairman	294,000,000	-	294,000,000	Performing	
Jaiz Bank Plc	Ex-Chairman	113,585,122	-	113,585,122	Performing	Cash collateral of N200 million to be pledged as security by the customer. The collateral should be 110% coverage at all time.
Mahey Rafindadi Rasheed	Non ED	89,129	-	89,129		
Premium Poultry Farms Ltd	Non ED	256,314,754	-	256,314,754	Performing	All assets debenture on assets of Premium Farms valued at N138.5M
P. W. Nig. Ltd (B&G)	Non.ED	5,525,600,311.36	-	5,525,600,311	Performing	All Assets Deb. L/M STC N859m
Lister Flour Mills (Nigeria) Ltd	Non-ED	7,080,042,777	-	7,080,042,777	Performing	Mortgage Debenture on Lister Flour Mills.Legal Mortgage
Al-Fil Petroleum Company Ltd	Non-ED	-	174,431,442	174,431,442	non-Performing	Charge on asset financed.
Alhaji Abdul-Azeez Arisekola Alao	Non-ED	60,974,725	-	60,974,725	Performing	Mortgage debenture on property valued at N1.6billion
Lawal Kankiya Ibrahim	Non-ED	6,423,425	-	6,423,425	Performing	L/M on pty financed
Rasheed Mahey Rafindadi	Non-ED	89,129	-	89,129	Performing	Domiciliation of salary
Feese Ambrose Asula	Non-ED	1,602,438	-	1,602,438	Performing	Domiciliation of salary
Alao Khadijat Straub	Non-ED	2,456,386	-	2,456,386	Performing	Domiciliation of salary
Kehinde Lawanson	ED.	64,696,738	-	64,696,738	Performing	Domiciliation of salary
Remi Odunlami	ED.	88,649,242	-	88,649,242	Performing	Domiciliation of salary
Adelabu Adebayo Adekola	ED.	19,514,772	-	19,514,772	Performing	Domiciliation of salary
Design Group	ED.	50,000,000	-	50,000,000	Performing	Domiciliation of proceeds
Maccido Bello Mohammed	ED.	4,462	-	4,462	Performing	Domiciliation of salary
Adesola Bola	EX-ED.	118,574,514	-	118,574,514	Performing	L/M on pty at Plot 1, Block 6, Ogidi crescent, Lekki.
Maccido Bello Mohammed	ED.	4,462	-	4,462	Performing	Domiciliation of salary

46. Employees

The average number of persons employed by the Group during the period was as follows:

	GROUP		BANK	
	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
Executive directors	7	5	7	5
Management	161	219	66	58
Non-management	8,451	8,202	7,849	7,738
	8,619	8,426	7,922	7,801

See note 15 for compensation for the above staff

The number of employees of the Group, other than directors, who received emoluments in the following ranges (excluding pension contribtions and certain benefits) were:

N300,000 - N2,000,000	158	393	31	47
N2,000,001 - N2,800,000	197	664	19	568
N2,800,001 - N3,500,000	566	202	482	146
N3,500,001 - N4,000,000	62	39	2	1
N4,000,001 - N5,500,000	2,917	2,629	2,855	2,610
N5,500,001 - N6,500,000	1,531	1,327	1,491	1,307
N6,500,000 - N7,800,000	927	209	892	192
N7,800,001 - N9,000,000	215	871	189	857
N9,000,001 and above	2,039	2,087	1,954	2,068
	8,612	8,421	7,915	7,796

47. Directors' emoluments

Remuneration paid to the Group's directors (excluding certain allowances) was:

	GROUP	
	31 December 2012 N 'millions	31 December 2011 N 'millions
Fees and sitting allowances	79	162
Executive compensation	319	520
Compensation for loss of office	-	316
Retirement benefit costs	796	1,326
Other director expenses	1,716	970
	2,910	3,294

Fees and other emoluments disclosed above include amounts paid to:

Chairman	24	19
Highest paid director	100	71

47. Directors' emoluments continued

The number of directors who received fees and other emoluments (excluding pension contributions and certain benefit) in the following ranges was:

	Number GROUP 31 Dec 2012	31 Dec 2011
Below N1,000,000	-	3
N1,000,000 -N2,000,000	-	-
N2,000,001 -N3,000,000		16
N5,500,001 and above	18	36
	18	55

48. Compliance with banking regulation

a A penalty of N20 million was paid by the bank for contravening section 20 (1) of BOFIA 1991 as amended for providing unsecured loans to related parties.

b A penalty of N2 million was paid on the bank for investing in long term subordinated debt capital of FBN Bank UK without prior consent from CBN.

c The Bank contravened Section 10 of the Money Laundering Prohibition Act 2011 and paid a penalty of N7.5 million

d The Bank contravened Section 701(1) of the Federal Government Financial Regulation and paid a penalty of N2 million.

e The Bank paid a penalty of N30 million for not exercising sufficient due dilligence in the opening and operations of the accounts of the beneficiaries of the funds from the pension accounts of the bank which is in contravention of Section 6(1)-(8) of the Money Laundering Prohibition Act 2011 and Section 1.15.1 of CBNs AML/CFT regulations.

49. Events after statement of financial position date

The Bank has no events after the financial position date.

50. Dividends per share

The dividends paid by the bank in 2012 and 2011 were N26,105 million (80k per share) and N19,580 million (60k per share) respectively.

51. Transition to IFRS

Explanation of transition to IFRS

As stated in note 2, these are the Bank's and Group's first IFRS annual financial statements. The Bank and Group have applied IFRS 1 in preparing these financial statements and the accounting policies set out in note 2 have been applied in preparing the consolidated financial statements for the year ended 31 December 2012, the comparative information presented in these financial statements for the year ended 31 December 2011, and in the preparation of an opening IFRS statement of financial position at 1 January 2011 (the date of the Group's transition to IFRS).

In preparing its opening statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with Statements of Accounting Standards issued by the Nigerian Accounting Standards Board ("previous GAAP" or "NGAAP"). An explanation of how the transition from previous GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.
In preparing this financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions from full retrospective application of IFRS. The optional exemptions from full retrospective application selected by the Group are summarised below.

Exceptions from full retrospective application - followed by the Group

The Group applied the following mandatory exceptions from retrospective application:

Derecognition of financial assets and liabilities exception
Financial assets and liabilities derecognised before 1 January 2011 are not re-recognised under IFRS.

Hedge accounting exception
This exception requires the Group to apply hedge accounting only if the hedge relationship meets all the hedge accounting criteria under IAS 39. The Group has not applied hedge accounting under IFRS.

Non-controlling interests exception
From 1 January 2011 total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if it results in the non-controlling interests having a deficit balance.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners) from 1 January 2011.

The guidance contained in IFRS on accounting for the loss of control of a subsidiary is applied prospectively from 1 January 2011.

Classification and measurement of financial assets exception
The assessment of whether the Group's financial assets meet the requirements to be measured at amortised cost, as set out in IAS 39, was performed at 1 January 2011.

Estimates exception
Estimates under IFRS at 1 January 2011 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

Government loan

The requirements of IAS 20 and IAS 39 would be applied prospectively to government loans existing at the date of transition to IFRS. As a result of this, all government loans were carried at their previous GAAP amount with no adjustment for day 1 gain or loss and have been classified as financial liabilities in accordance with IAS 32.

The Group applied the following optional exemptions from retrospective application

Business combinations
The Group has elected to apply the exemption on business combintations. As a result of this election the previous GAAP numbers were carried forward as none of its previous business combinations were restated. Consequently, no additional assets were recognised.

Foreign currency translation
FBN Plc has elected to apply the exemption to set the foreign currency translation reserve in respect of its FBN UK Limited subsidiary to zero. As a result of this exemption, the foreign currency translation reserve in the opening statement of financial position was reclassified to retained earnings.

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Explanation of transition to IFRS continued

Investments in subsidiaries, associates and joint ventures
FBN Plc has elected to apply the exemption to retain its previous GAAP numbers as the deemed cost of its investments in subsidiaries, joint ventures and associates in the company stand alone financial statements.

Employee Benefits
The Group has elected to apply the exemption relating to employee benefits by recognising all cumulative actuarial gains and losses at the date of transition to IFRS, and thus set the unrecognised actuarial gains and losses to zero.

Fair value measurement of financial asset or liabilities at initial recognition
The Group has elected to apply the exemption on "day 1" gain or loss recognition requirements per IAS 39 for financial instruments recorded at fair value. As a result of applying this exemption,the Group applies the "day 1" gain or loss recognition requirements in IAS 39 prospectively to transactions entered into after 1 January 2011.

Reconciliation of profit for the year

		31 Dec 2011		
Group	**Note**	**N-GAAP**	**Adjustments**	**IFRS**
Continuing operations				
Interest income	(b),(c),(k)	220,397	(13,378)	207,019
Interest expense	(n)	(36,950)	2,223	(34,727)
Net interest income		**183,447**	**(11,155)**	**172,292**
Impairment charge for credit losses	(c).	(44,814)	6,803	(38,011)
Net interest income after impairment charge for credit losses		**138,633**	**(4,352)**	**134,281**
Net fee and commission income	(b), (o)	61,721	(18,130)	43,591
Net loss from investment securities	(g)	-	458	458
Net gains from financial instruments held for trading	(g)	-	2,828	2,828
Foreign exchange income		7,549	(52)	7,497
Dividend income	(o)	4,950	(775)	4,175
Loss/Profit on sale of investments	(g)	(2,245)	2,245	-
Other income		3,812	(3,800)	12
Loss on sale of assets to AMCON	(d)	-	(15,501)	(15,501)
Other operating expenses	(k),(m),(o)	(147,358)	10,690	(136,668)
Operating profit		**67,062**	**(26,389)**	**40,673**
Exceptional items	(d)	(15,489)	15,489	-
Share of (loss)/Profit of associates	(q)	(1,507)	-	(1,507)
Profit before tax		**50,066**	**(10,900)**	**39,166**
Income tax expense		(5,281)	(13,583)	(18,864)
Profit for the year from continuing operations		**44,785**	**(24,483)**	**20,302**
Discontinued operations				
Profit for the year from discontinued operations	(o)		(1,666)	**(1,666)**
PROFIT FOR THE YEAR		**44,785**	(26,149)	**18,636**
Other comprehensive income				
Foreign currency translation differences		-	606	606
Unrealised net gains on AFS Financial Assets	(g)	-	(38,509)	(38,509)
Actuarial gains/(losses) on retired benefit obligation	(m)		(3,042)	(3,042)
Share of other comprehensive income of associates		-	-	
Tax effect of other comprehensive income			913	913
Other comprehensive income for the period net of income tax		-	(40,032)	(40,032)
Total comprehensive income for the year		**44,785**	**(66,181)**	**(21,396)**

FIRST BANK OF NIGERIA LIMITED

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
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Reconciliation of profit for the period

		31 Dec 2011		
Bank	**Note**	**N-GAAP**	**Adjustments**	**IFRS**
Continuing operations				
Interest income	(b),(c),	208,843	(11,014)	197,829
Interest expense		(30,772)	166	(30,606)
Net interest income		**178,071**	**(10,848)**	**167,223**
Impairment charge for credit losses	(c)	(41,902)	9,737	(32,165)
Net interest income after impairment charge for credit losses		**136,169**	**(1,111)**	**135,058**
Net fee and commission income	(b)	49,785	(7,871)	41,914
Net gains / (losses) from investment securities	(g)	-	(738)	(738)
Net gains / (losses) from financial held for trading	(g)	-	(996)	(996)
Foreign exchange income		7,502	-	7,502
Dividend income		-	5,801	5,801
(Loss)/Profit on sale of investments	(g)	6,234	(6,234)	-
Other operating income		3,125	(3,125)	-
Loss on sale of assets to AMCON	(d)		(15,501)	(15,501)
Other operating expenses	(m)	(134,786)	1,418	(133,368)
Operating profit		**68,029**	**(28,357)**	**39,672**
Exceptional item	(d)	(15,501)	15,501	-
Share of profit / (loss) of associates			-	
Profit before tax		**52,528**	**(12,856)**	**39,672**
Income tax expense		(5,066)	(11,554)	(16,620)
Profit for the year/period		**47,462**	**(24,410)**	**23,052**
Other comprehensive income				
Unrealised net gains on AFS Financial Assets	(g)	-	(39,476)	(39,476)
Actuarial gains/(losses) on retired benefit obligation	(m)	-	(3,042)	(3,042)
Tax effect of other comprehensive income		-	913	913
Other comprehensive income for the period net of income tax		-	(41,605)	(41,605)
Total comprehensive income for the year/period		**47,462**	**(66,015)**	**(18,553)**

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- **a** Effective interest rate - Interest payable and receivable
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- **o** Profit from discontinued operations
- **p** Deferred tax
- **q** Investment in associates

Notes to the reconciliation of equity and profit

(a) IFRS requires financial assets carried at amortised cost to be measured using the effective interest method. Under 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:

	GROUP		BANK	
	31 Dec 2011 'N'million	1 Jan 2011 'N'million	31 Dec 2011 'N'million	1 Jan 2011 'N'million
Investment securities	8,023	113	7,853	138
Loans and advances to customers	1,370	-	1,370	-
Loans and advances to banks	45,818	482	229	1,203
	55,211	595	9,452	1,341

In addition interest relating to accrued interest payable was transferred from other liabilities to:

Deposits from customers	3,517	2,495	713	2,495
Deposits from banks	55	66	55	56
Borrowings	11,190	1,478	1,277	-
	14,762	4,039	2,045	2,551

Furthermore, under the previous GAAP the amortised cost is calculated by amortising the unearned discount/premium on a debt instrument to income statement on a 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.

	GROUP		BANK	
	31 Dec 2011 'N'million	1 Jan 2011 'N'million	31 Dec 2011 'N'million	1 Jan 2011 'N'million
Investment securities	12,563	(2,270)	12,563	(2,270)

(b) The effective interest rate calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate. Under NGAAP interest income and expense are recognised in accordance with terms of the related instrument on an accrual basis and the related fees are earned in one period. The effect of applying the effective interest method resulted in a reclassification of N 7.8 bn for the bank and N 12.4 bn 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: N0.544bn) to interest income for the income that has been earned. The unearned portion of the fee and commission income of N 4.6 bn is deferred and released as and when due. N 5.4 bn of the fees and commissions has also been reclassified and reported as part of the profit from discontinued operations.

(c) For the periods presented in this reconcilliation, Interest and similar income on impaired loans and advances to customers suspended under the previous GAAP was recognised under IFRS, resulting in an increase in interest income (retained earnings for 1 January 2011) as follows:

	GROUP		BANK	
	31 Dec 2011 'N'million	1 Jan 2011 'N'million	31 Dec 2011 'N'million	1 Jan 2011 'N'million
Interest in suspense	4,487	24,982	2,531	23,606

Under 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 N1.06bn for 31 December 2011 (1 January 2011: N23.54bn). In line with the regulatory requirement, this reduction in impairment loss was transferred from retained earnings to a non distributatble 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 N 7.9 bn 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.

Notes to the reconciliation of equity and profit

(d) Under the previous GAAP, certain amounts were classified as exceptional items on the face on the income statement. On transitioning to IFRS, these amounts were reclassified as part of (loss)/gain from sale of assets to the Asset Management Company of Nigeria (AMCON) and disclosed on the face of the income statement based on the transaction's nature and materiality.

	GROUP		BANK	
	31 Dec 2011 'N'million	1 Jan 2011 'N'million	31 Dec 2011 'N'million	1 Jan 2011 'N'million
Exceptional items	15,489	226	15,501	383

(e) Advances under finance lease are reported separately in the statement of financial position under Nigerian GAAP. Given the nature of this portfolio, management has reclassified the total balance of N4.697bn at 31 December 2011 (1 January 2011: N8.282bn) 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 N11.22bn (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 N72.13bn as at 31 Dec 2011 (1 January 2011:N122.01bn) have been reclassified as assets pledged as collateral from investment securities and treasury bills. Under the previous GAAP, this amount was not seperately disclosed as a line item on the face of the statement of financial position.

(g) Under the previous GAAP, investment securities were either classified as short-term or long-term investments. Short-term investments are investments that are held temporarily in place of cash and which can be converted into cash when current financing needs make such conversion desirable. These investments are measured at net realisable value and gain/loss on revaluation is credited/charged to profit or loss during the period. Long-term investments are investments held by management over a long period of time to earn income. This may include debt and equities and carried at cost less impairments.

IFRS requires financial assets to either be classified as loans and receivables, held to maturity, fair value through profit or loss or available for sale. For financial assets measured at fair value (including derivatives), gains and losses are recognised in profit or loss except for classification and measurement basis per investments in equity instruments for which the Group has elected to present gains and losses in other comprehensive income.

(h) Under the previous GAAP revaluation was carried out for some items of property plants and equipment (PPE) which resulted in a revalution surplus in reserves. On transitioning to IFRS, the group elected the cost model to account for its items of PPE and the revaluation reserve was reclassified to retained earnings.This resulted in an amount of N2.37bn being transferred from revaluation reserve to retained earnings as at 1 January 2011. No amount existed for subsequent periods.

Under the previous GAAP some items of PPE that are available for use in their present location and condition were recognised as deferred acquisitiion cost in other assets. Under IFRS, items of PPE must be recognised once the item is available for management use.The amount of N8.07bn for 31 Dec 2011 (1 January 2011:N9.64bn) was reclassifed from other assets to form part of PPE. These amounts relate to Group and Bank.

(i) IFRS 1 Adjustments- The foreign currency translation reserve in respect of its subsidiary (FBN UK Limited) was set to zero. As a result of this exemption the opening balance of the foreign currency translation reserve of N2.3b was reclassified to retained earnings as shown in the table below.

	GROUP		BANK	
	31 Dec 2011 'N'million	1 Jan 2011 'N'million	31 Dec 2011 'N'million	1 Jan 2011 'N'million
Foreign currency translation reserves	4,203	3,597	2,836	2,836
Revaluation reserve	2,379	2,379	2,379	2,379

Notes to the reconciliation of equity and profit

(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 seperately disclosed as inventories;

	GROUP		BANK	
	31 Dec 2011	**1 Jan 2011**	**31 Dec 2011**	**1 Jan 2011**
	25,609	23,081	-	-
	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:

	GROUP		BANK	
	31 Dec 2011	**1 Jan 2011**	**31 Dec 2011**	**1 Jan 2011**
	'N'million	**'N'million**	**'N'million**	**'N'million**
Net decrease in loans and advances to customers	(2,687)	(1,578)	(2,687)	(1,578)
Net Increase in other assets (prepayment)	3,159	1,863	3,159	1,863
Net Increase in interest income	886	285	886	285
Net movement in employee benefits expense	(1,550)	(7,179)	(1,550)	(7,488)

(l) Under the previous GAAP, some of the entities within the First Bank Group had shares of First Bank Plc as part of their investment portfolio. These are treasury shares under IFRS. Under IFRS, when an entity purchases its own share (either directly or indirectly) , the amount paid for the treasury shares is deducted from equity as treasury shares. The amount of N1.94bn for 31 Dec 2011 (1 January 2011:N27.77bn) 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 recognize 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: N 1.74 billion, 1 January 2011 : N 1.97 billion) a reduction of investment securities (31 December 2011: N 801 million, 1 January 2011: N 401 million) and an increase in other liabilities (31 December 2011: N 1 billion; 1 January 2011: N 1.59 billion).

As a result of the transiton to IFRS, liabilities under investment contracts recorded off balance sheet under the previous GAAP have been recognised on balance sheet. (31 December 2011: N 10.3 billion). As at 1 January 2011, liabilities under investment contracts of N 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 (N 15.4 billion) and investment securities (N 2.64 billion). Managed funds assets of N 21.6 billion and short term investments of N 711 million were also reclassified to loans and

(o) Income statement balances relating to subsidiaries whose operations were discontinued or were sold have been reclassifed to the profit on discontinued operations as detailed in note 26 to the financial statements.

(p) The effect of deferred tax on financial instruments per IFRS
(q) The effect of equity accounting for associates per IFRS

Notes to the reconciliation of equity and profit

Explanation of material adjustments to the consolidated cash flow statements

Under IFRS, only call deposits, tresury 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.

On transitioning to IFRS, the net effect of IFRS on the cash flow statements are are as follows;

	GROUP		BANK	
	31 Dec 2011 'N'million	**1 Jan 2011 'N'million**	**31 Dec 2011 'N'million**	**1 Jan 2011 'N'million**
Net effect of IFRS on cash and cash equivalents	33,966	-	(11,624)	-
Net effect of IFRS on cash generated from/used in operations	(99,862)	-	33,611	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
Note 51. Explanation of transition to IFRSs (continued)

		GROUP 31 December 2011			GROUP 1 January 2011		
	Note	N-GAAP	Adjustments	IFRS	N-GAAP	Adjustments	IFRS
ASSETS							
Cash and balances with central banks		199,228	-	199,228	75,517	-	75,517
Treasury bills	(f)	187,457	(187,457)	-	23,769	(23,769)	-
Loans and advances to banks	(a), (n)	404,959	57,897	462,856	550,414	25,053	575,467
Loans and advances to customers	(a), (c) (e), (k)	1,235,615	16,847	1,252,462	1,127,900	32,393	1,160,293
Advances under finance leases	(e)	4,642	(4,642)	-	7,581	(7,581)	-
Financial assets held for trading		-	5,964	5,964	-	16,636	16,636
Insurance Assets	(e)	111	(111)	-	-	-	-
Investments	(a), (g), (n)	572,853	(572,853)	-	337,181	(337,181)	-
Investment Securities - Available for sale	(f)	-	356,933	356,933	-	222,822	222,822
Investment Securities -Held to maturity	(f)	-	337,336	337,336	-	31,886	31,886
Pledged assets	(f)	-	72,129	72,129	-	122,009	122,009
Investment in subsidiaries		5,503	(5,503)	-	1,000	(1,000)	-
Managed funds	(n)	21	(21)	-	37,917	(37,917)	-
Investment in associates	(g)	8,209	(720)	7,489	9,716	(720)	8,996
Deferred tax 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	(24,276)	39,282
Investment Property		10,708	(6,653)	4,055	10,326	(7,886)	2,440
Inventory	(j)	-	25,609	25,609	-	23,081	23,081
Property, plant and equipment	(h)	57,171	8,703	65,874	53,998	9,636	63,634
Intangible assets		1,006	2	1,008	494	-	494
Total assets		**2,839,374**	**20,795**	**2,860,169**	**2,304,686**	**50,145**	**2,354,831**
LIABILITIES							
Deposits from banks	(a)	181,892	1,608	183,500	148,286	66	148,352
Deposits from customers	(a)	1,947,804	3,517	1,951,321	1,450,095	(2,495)	1,447,600
Borrowings	(a)	93,284	11,189	104,473	124,872	1,478	126,350
Financial liabilities held for trading		-	2,857	2,857		1,639	1,639
Current income tax liabilities		23,844	410	24,254	20,051	1	20,052
Other liabilities	(a), (n)	178,443	(19,670)	158,773	121,026	(556)	120,470
Provision for insurance contracts		824	-	824	-	-	-
Liability on investment contracts	(n)	39,104	10,336	49,440	95,352	(18,906)	76,446
Deferred income tax liability	(l)	1,067	-	1,067	901	-	901
Retirement Benefit obligations		7,628	7,453	15,081	4,898	6,528	11,426
Total liabilities		**2,473,889**	**17,699**	**2,491,590**	**1,965,481**	**(12,245)**	**1,953,236**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
Explanation of transition to IFRSs (continued)

		GROUP 31 December 2011			GROUP 1 January 2011		
	Note	**N-GAAP**	**Adjustments**	**IFRS**	**N-GAAP**	**Adjustments**	**IFRS**
EQUITY							
Share capital		16,316	-	16,316	16,316	-	16,316
Share premium		254,524	-	254,524	254,524	-	254,524
Retained earnings	(h)	42,322	(735)	41,587	23,540	23,764	47,304
Other reserves				-			-
Statutory reserve		35,804	(3,660)	32,144	28,508	-	28,508
SMEEIS reserve		8,960	(2,884)	6,076	9,193	(2,884)	6,309
Contingency reserve	(h)	13	-	13			-
Revaluation reserve	(i)	2,379	(2,379)	-	2,379	(2,379)	-
Treasury reserve		-	(1,941)	(1,941)	-	(27,767)	(27,767)
Statutory credit reserve	©	-	9,766	9,766	-	28,220	28,220
Foreign currency translation reserve	(i)	4,203	(3,597)	606	3,597	(3,597)	-
AFS reserve		-	8,524	8,524	-	47,033	47,033
					-	-	-
Non-controlling interest		964	-	964	1,148	-	1,148
Total equity		**365,485**	**3,094**	**368,579**	**339,205**	**62,390**	**401,595**
Total equity and liabilities		**2,839,374**	**20,793**	**2,860,169**	**2,304,686**	**50,145**	**2,354,831**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
Explanation of transition to IFRSs (continued)

		BANK 31 December 2011			BANK 1 January 2011		
	Note	N-GAAP	Adjustments	IFRS	N-GAAP	Adjustments	IFRS
ASSETS							
Cash and balances with central banks		199,091	-	199,091	74,894	-	74,894
Treasury bills	(f)	186,626	(186,626)	-	23,599	(23,599)	-
Loans and advances to banks	(a)	222,118	229	222,347	383,893	(13)	383,880
Loans and advances to customers	(a), (c) (e), (k)	1,128,851	15,610	1,144,461	1,017,411	29,514	1,046,925
Advances under finance leases	(e)	4,642	(4,642)	-	7,581	(7,581)	-
Financial assets held for trading		-	2,552	2,552	-	11,485	11,485
Investments	(a) (g)	550,368	(550,368)	-	309,292	(309,292)	-
Investment Securities - Available for sale	(f)	-	340,767	340,767	-	201,163	201,163
Investment Securities -Held to maturity	(f)	-	329,857	329,857	-	44,331	44,331
Pledged assets	(f)	-	72,129	72,129	13,140	108,869	122,009
Managed funds		-	-	-	-	-	-
Investment in subsidiaries		37,919	(5,503)	32,416	31,416	(1,000)	30,416
Investment in associates	(g)	12,599	1,500	14,099	12,599	1,500	14,099
Deferred tax asset	(l)	8,877	(3,682)	5,195	5,187	6,959	12,146
Other assets	(a), (h)	56,366	(12,633)	43,734	43,691	(10,347)	33,344
Investment Property		-	-	-	-	-	-
Property, plant and equipment	(h)	55,352	8,704	64,056	52,616	9,636	62,252
Intangible assets		734	-	734	265	-	265
Total assets		**2,463,543**	**7,894**	**2,471,438**	**1,962,444**	**75,239**	**2,037,209**
LIABILITIES							
Deposits from banks	(a)	51,251	55	51,306	55,165	56	55,221
Deposits from customers	(a)	1,783,777	713	1,784,490	1,330,771	(2,553)	1,328,218
Borrowings	(a)	93,102	11,185	104,287	124,617	1,479	126,096
Financial liabilities held for trading		-	1,143	1,143		1,639	1,639
Current income tax liabilities		21,354	-	21,354	15,115	3	15,118
Other liabilities	(a)	133,265	(16,327)	116,938	86,309	(2,076)	84,233
Deferred income tax liability	(l)	-	-	-			-
Retirement Benefit obligations		7,222	7,454	14,676	4,545	6,530	11,075
Total liabilities		**2,089,971**	**4,223**	**2,094,194**	**1,616,522**	**5,078**	**1,621,600**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
Explanation of transition to IFRSs (continued)

		BANK 31 December 2011			BANK 1 January 2011		
	Note	**N-GAAP**	**Adjustments**	**IFRS**	**N-GAAP**	**Adjustments**	**IFRS**
EQUITY							
Share capital		16,316	-	16,316	16,316	-	16,316
Share premium		254,524	-	254,524	254,524	-	254,524
Retained earnings	(h)	53,144	(3,495)	49,649	32,380	930	33,310
Statutory reserve		35,413	(3,660)	31,753	28,294	-	28,294
SMEEIS reserve		8,960	(2,884)	6,076	9,193	(2,884)	6,309
Revaluation reserve	(i)	2,379	(2,379)	-	2,379	(2,379)	-
Treasury reserve		-	-	-	-	-	-
Statutory credit reserve		-	9,766	9,766	-	28,220	28,220
Foreign currency translation reserve	(i)	2,836	(2,836)	-	2,836	(2,836)	-
AFS reserve		-	9,160	9,160	-	48,636	48,636
Total equity		**373,572**	**3,672**	**377,244**	**345,922**	**69,687**	**415,609**
Total equity and liabilities		**2,463,543**	**7,895**	**2,471,438**	**1,962,444**	**74,765**	**2,037,209**

FIRST BANK OF NIGERIA LIMITED

Statement of Value Added - Group
Year ended 31 December 2012

Group	31 December 2012 N'million	%	31 December 2011 N'million	%
Gross income	**358,397**		256,804	
Interest expense	**(62,253)**		(36,784)	
	296,144		220,020	
Administrative overheads:				
- Local	**(108,783)**		(80,909)	
- Foreign	**(5,911)**		(1,793)	
Value added	**181,450**	**100**	137,318	100
Distribution				
Employees				
- Salaries and benefits	**65,808**	**36**	53,072	39
Government				
- Taxation	**16,839**	**9**	17,227	13
The future				
- Asset replacement (depreciation)				
- Local	**9,434**	**5**	8,923	6
- Foreign	**461**	**0**	52	0
- Asset replacement (amortisation)				
- Local	**518**	**0**	1,130	1
- Foreign	**127**	**0**	69	0
- Asset replacement (provision for losses)	**13,165**	**7**	38,209	28
- Expansion (transfers to reserves)	**75,097**	**41**	18,637	14
	181,450	**100**	137,318	100

FIRST BANK OF NIGERIA LIMITED

Statement of Value Added - Bank

Bank	31 December 2012 N'million	%	31 December 2011 N'million	%
Gross income	**313,821**		235,811	
Interest expense	**(51,778)**		(30,606)	
	262,043		205,205	
Administrative overheads	**(98,735)**		(75,395)	
Value added	**163,308**	**100**	129,810	100
Distribution				
Employees				
- Salaries and benefits	**60,447**	**37**	48,374	37
Government				
- Company income tax	**12,145**	**7**	16,620	13
The future				
- Asset replacement (depreciation)	**9,169**	**6**	8,517	7
- Asset replacement (amortisation)	**556**	**0**	1,082	1
- Asset replacement (provision for losses)	**9,847**	**6**	32,165	25
- Expansion (transfers to reserves)	**71,144**	**44**	23,052	18
	163,308	**100**	129,810	100

FIRST BANK OF NIGERIA LIMITED

FIVE YEAR FINANCIAL SUMMARY - GROUP

STATEMENT OF FINANCIAL POSITION

	As reported under IFRS			*As reported under N-GAAP*	
	31 December 2012 N'million	31 December 2011 N'million	31 December 2010 N'million	31 December 2009 N'million	31 March 2009 N'million
Assets:					
Cash and balances with central bank	**298,024**	199,228	75,517	70,332	140,403
Loans and advancs to banks	**393,125**	462,856	575,467	514,193	764,048
Loans and advances to customers	**1,563,005**	1,252,462	1,160,293	1,072,640	752,166
Financial assets held for trading	**2,565**	5,964	16,636	-	-
Investment securities	**682,234**	694,269	254,708	292,843	214,332
Assets pledged as collateral	**50,109**	72,129	122,009	-	-
Inventory	**-**	25,609	23,081		
Managed funds	**-**	-	-	84,630	36,894
Investment in associates	**5,609**	7,489	8,996	13,373	2,884
Investment in subsidiaries	**-**	-	-		1,510
Other assets	**33,733**	62,272	39,282	69,286	51,884
Investment property	**-**	4,055	2,440	8,466	6,098
Intangible assets	**3,417**	1,008	494	-	-
Property, plant and equipment	**74,454**	65,874	63,634	47,987	39,695
Deferred tax	**7,955**	6,954	12,274	-	-
Assets held for sale	**12,978**	-	-	-	-
	3,127,208	2,860,169	2,354,831	2,173,750	2,009,914
Financed by:					
Share capital	**16,316**	16,316	16,316	14,504	12,432
Share premium	**189,241**	254,524	254,524	254,524	254,524
Reserves	**187,623**	96,775	129,607	41,973	70,449
Non controlling interest	**1,353**	964	1,148	3,081	-
Deposits from banks	**87,551**	183,500	148,352	173,280	170,410
Deposits from customers	**2,405,858**	1,951,321	1,447,600	1,342,704	1,194,455
Financial liabilities held for trading	**1,796**	2,857	1,639	-	-
Liabilities on investment contracts	**-**	49,440	76,446	148,224	93,296
Liabilities on insurance contracts	**-**	824	-	-	-
Borrowings	**75,541**	104,473	126,350	35,729	35,042
Retirement benefit obligations	**18,648**	15,081	11,426	724	332
Current income tax	**22,374**	24,254	20,052	19,635	11,283
Other liabilities	**118,066**	158,773	120,470	128,760	154,057
Deferred income tax liabilities	**6**	1,067	901	10,612	13,634
Liabilities held for sale	**2,836**	-	-	-	-
	3,127,209	2,860,169	2,354,831	2,173,750	2,009,914

FIRST BANK OF NIGERIA LIMITED

FIVE YEAR FINANCIAL SUMMARY - GROUP

INCOME STATEMENT

	As reported under IFRS		*As reported under N-GAAP*		
	12 months ended 31 Dec 2012 N'million	12 months ended 31 Dec 2011 N'million	12 months ended 31 Dec 2010 N'million	9 months ended 31 Dec 2009 N'million	12 months ended 31 Mar 2009 N'million
Gross Earnings	**338,921**	265,580	232,079	193,932	218,287
Net operating income	**280,410**	230,853	178,062	127,662	160,730
Operating expenses	**(182,329)**	(136,668)	(119,274)	(77,574)	(90,141)
Group's share of associate's results	**1,008**	(1,507)	(3,657)	114	-
Impairment charge for credit losses	**(12,912)**	(38,011)	(21,590)	(38,174)	(16,790)
(Loss) on sale of assets to AMCON	**-**	(15,501)	-	-	-
Exceptional item	**-**	-	226	-	(26,113)
Profit before taxation	**86,177**	39,166	33,767	12,028	27,686
Taxation	**(14,918)**	(18,864)	(4,590)	(8,406)	(15,117)
Profit from continuing operations	**71,259**	20,302	29,177	3,622	12,569
Profit from discontinuing operations	**3,838**	(1,666)	-	-	-
Profit for the year	**75,097**	18,636	29,177	3,622	12,569
Profit attributable to:					
Owners of the parent	**75,040**	19,520	27,244	2,612	12,569
Non controlling interest	**57**	(884)	1,933	1,010	-
	75,097	18,636	29,177	3,622	12,569
Earnings per share in kobo (basic/diluted)	230	57	89	12	51

FIRST BANK OF NIGERIA LIMITED

FIVE YEAR FINANCIAL SUMMARY - BANK

STATEMENT OF FINANCIAL POSITION

	As reported under IFRS			*As reported under N-GAAP*	
	31 December 2012 N'million	31 December 2011 N'million	31 December 2010 N'million	31 December 2009 N'million	31 March 2009 N'million
Assets:					
Cash and balances with central bank	**288,125**	199,091	74,894	67,576	140,353
Loans and advancs to banks	**329,120**	222,347	383,880	255,903	510,722
Loans and advances to customers	**1,316,407**	1,144,461	1,046,925	1,033,321	695,876
Financial assets held for trading	**1,942**	2,552	11,485	-	-
Investment securities	**631,211**	670,624	245,494	285,469	203,471
Assets pledged as collateral	**50,109**	72,129	122,009	-	-
Investment in associates	**2,224**	14,099	14,099	2,224	2,224
Investment in subsidiaries	**40,348**	32,416	30,416	30,416	28,449
Other assets	**32,459**	43,734	33,344	51,245	48,007
Intangible assets	**1,302**	734	265	-	-
Property, plant and equipment	**70,724**	64,056	62,252	46,302	38,320
Deferred tax	**6,703**	5,195	12,146	-	-
	2,770,674	2,471,438	2,037,209	1,772,456	1,667,422
Financed by:					
Share capital	**16,316**	16,316	16,316	14,504	12,432
Share premium	**189,241**	254,524	254,524	254,524	254,524
Reserves	**166,619**	106,404	144,769	48,460	84,098
Deposits from banks	**18,463**	51,306	55,221	65,087	78,980
Deposits from customers	**2,171,807**	1,784,490	1,328,218	1,244,030	1,071,836
Financial liabilities held for trading	**1,278**	1,143	1,639	-	-
Borrowings	**81,987**	104,287	126,096	35,473	35,042
Retirement benefit obligations	**18,156**	14,676	11,075	544	718
Current income tax	**19,768**	21,354	15,118	14,948	7,238
Other liabilities	**87,039**	116,938	84,233	84,742	109,796
Deferred income tax liabilities	-	-	-	10,144	12,758
	2,770,674	2,471,438	2,037,209	1,772,456	1,667,422

FIRST BANK OF NIGERIA LIMITED

FIVE YEAR FINANCIAL SUMMARY - BANK

INCOME STATEMENT

	As reported under IFRS		*As reported under N-GAAP*		
	12 months ended 31 Dec 2012	12 months ended 31 Dec 2011	12 months ended 31 Dec 2010	9 months ended 31 Dec 2009	12 months ended 31 Mar 2009
Gross Earnings	**313,822**	251,312	209,187	175,390	184,536
Net operating income	**258,554**	220,706	163,142	119,167	140,949
Gain from disposal of subsidiary	**3,490**	-	-	-	-
Operating expenses	**(168,908)**	(133,368)	(107,392)	(70,016)	(80,880)
Impairment charge for credit losses	**(9,847)**	(32,165)	(22,596)	(41,462)	(13,959)
(Loss) on sale of assets to AMCON	**-**	(15,501)	-	-	-
Exceptional item	**-**	-	383	-	-
Profit before taxation	**83,289**	39,672	33,537	7,689	46,110
Taxation	**(12,145)**	(16,620)	(1,414)	(6,414)	(11,036)
Profit after taxation	**71,144**	23,052	32,123	1,275	35,074
Earnings per share (basic)	218	71	98	4	141

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