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1 DIRECTOR’S REPORT – INTRODUCTION

In the year just concluded, First Bank of Nigeria Plc continued to make progress against the goal we set for ourselves – to set the pace in corporate governance by ensuring that the level of risk management disclosure in the published financial statements moves towards international best practices.

This level of disclosure is not at present a requirement of the Nigerian Accounting Standards Board, the Central Bank of Nigeria, the Nigerian Stock Exchange, the Securities and Exchange Commission or any other regulatory body in the country. However, the Board of Directors of FirstBank took a voluntary decision to move disclosure practices towards international standards, borrowing from the guidelines of Pillar 3 of the New Capital Accord (Basel II). We aim to continue to enhance the level and quality of disclosures year on year.

The operating environment continues to pose challenges for risk management. The impact of the increased capitalisation levels of the Bank and of our competitors continues to drive competition for both assets and liabilities, particularly in the wholesale segment with a resultant pressure on interest margins. The effect of reduced interest margin was mitigated in part by continuing growth in risk assets. FirstBank’s portfolio growth – at 55.3% – is slower than in the preceding year and is reflective of growth levels within the industry as a whole. It remains, however, an area of intense focus for both Management and the Board given the absolute amount and the increasing concentration deriving from the current economic challenges. Our approach has continued to be one of taking large exposures only in low-risk transactions while growing a structured, granular and diversified retail portfolio to take advantage of higher margins.

Despite these challenges, FirstBank has continued to support economic growth by making both short and long term facilities available to start-up companies with good business plans and to infrastructure development projects. We continue to be concerned about the inability of the system to provide adequate independent information with which to make credit assessments and limited disclosures by banking institutions, both of which constitute significant sources of risk. A substantial portion of the liquidity in the system is absorbed by government securities or direct and indirect inter-bank exposures as opposed to the economic drivers – manufacturing and agriculture. This is largely due to the fact that most of the asset growth in the banking industry is not backed by detailed information on the obligors and as such tends towards the shorter end of the spectrum. The licensing of credit bureaux is thus a welcome development and we look to further regulatory support for these initiatives.

The collapse of the capital markets during the year under review and the exposure of the banking industry to that sector have constituted a systemic crisis arising from the lack of disclosure and appropriate provisioning by some of the banks, which caused a crisis of confidence within the industry. FirstBank, however, can assert that all capital market exposures in the Group have been fully provided for in accordance with the Prudential Guidelines and marked to market in those subsidiaries in which proprietary trading took place.

In the light of the global economic crisis, exposures to the downstream oil sector and to unstructured middle market names – about many of whom there is insufficient information – may be further sources of systemic risks if not properly managed. Economic growth slowed down due to global economic shocks and the tumbling price of oil – the key revenue driver for the country.

Our Strategic Priorities

OPERATIONAL EXCELLENCE

Turbulent global economic conditions demand we pay even greater attention to steering a steady ship. At FirstBank, we are dedicated to developing world-class institutional processes, systems and capabilities so we can seize competitive advantage and deliver an exceptional customer experience.

RISK MANAGEMENT DISCLOSURE

Our Strategic Priorities

GROWTH

At FirstBank, we have clear strategies and are driving key, cross-functional initiatives to translate our aspirations into reality. We are firmly focused on the future and our goal to be the bank of first choice for all our stakeholders.

In the latter part of FirstBank's financial year, the naira depreciated sharply against the major currencies with its attendant impact on the economy. The major bottlenecks – energy (including power), infrastructure, security and the Niger Delta crisis remained. As the government addresses these issues, further opportunities open up in infrastructure financing, specialised loans in the power/oil and gas sectors and real estate development. These are for us growth areas which we have been consolidating in the past year. We remain open to the opportunities in alternative assets such as private equity and venture capital and are building strong risk management structures around those members of the Group that will be responsible for the origination and management of these transactions.

The general security situation has been a source of operational risk as we have seen an increase in the rate of armed robbery on banks, often leading to loss of life in addition to theft and damage to property. The increased reliance on technology and deployment of ATMs, cards and card products, etc and the attendant risk of fraud therein have also increased the importance of information security.

Market risk is limited due to the very simple character of many products. However, foreign exchange denominated transactions, especially when conducted in currencies other than US dollars, have had to be closely watched and managed, given the turmoil which affected the US and other international markets. Market risk sources in the banking and trading books are clearly identified, mitigated and monitored.

In what follows, we present details of our enterprise risk management framework, as well as highlights of key areas (credit, operational, market, liquidity and legal risks). The purpose is to give a clear view of the major risks we believe are faced by the Bank and the role of the Board and Management in managing these risks. We have tried to strike a balance between providing useful information that enhances transparency and our responsibility to protect customer and counterparty information/data.

The level of disclosures in this report is in line with the tradition we have set for ourselves as well as FirstBank.



Remi Odunlami
Chief Risk Officer