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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

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2 ENTERPRISE RISK MANAGEMENT FRAMEWORK

2.1 Risk Management Philosophy

The key elements of the Bank's risk management philosophy are the following:

2.1.1 The Bank considers sound risk management to be the foundation of a long lasting financial institution;

2.1.2 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;

2.1.3 Risk officers are empowered to perform their duties professionally and independently without undue interference;

2.1.4 Risk management is governed by well defined policies which are clearly communicated across the Bank;

2.1.5 Risk management is a shared responsibility. Therefore, the Bank aims to build a shared perspective on risks that is grounded in consensus;

2.1.6 The Bank's risk management governance structure is clearly defined;

2.1.7 There is clear segregation of duties between market facing business units and risk management functions;

2.1.8 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;

2.1.9 Risks are reported openly and fully to the appropriate levels once they are identified;

2.1.10 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;

2.1.11 All subsidiaries are guided by the principles enshrined in the risk management policies of the Bank.

2.2 Risk Culture

2.2.1 The Board and Management consciously promote a responsible approach to risk and ensure that the long-term survival

and reputation of the Bank are not jeopardised while expanding the Bank's market share;

2.2.2 The responsibility for risk management in the Bank is fully vested in the Board of Directors which in turn delegates such to Senior Management;

2.2.3 The Bank pays attention to both quantifiable and unquantifiable risks;

2.2.4 The Bank's Management promotes awareness of risk and risk management across the Bank;

2.2.5 The Bank avoids products, markets and businesses where it cannot objectively assess and manage the associated risks.

2.3 Risk Appetite

The Bank's risk appetite is set by the Board of Directors annually, at a level that minimises erosion of earnings or capital due to avoidable losses in the banking and trading books or from frauds and operational inefficiencies.

The Bank's appetite for risk is governed by the following:

2.3.1 High quality risk assets measured by the following three key performance indicators:

- Ratio of non-performing loans to total loans;
- Ratio of loan loss expenses to interest revenue; and
- Ratio of loan loss provision to gross non-performing loans.

The broad objective is to be among the top three banks with respect to (i) and (ii) above and maintain a ratio of not less than 100% on (iii).

2.3.2 Diversification targets are set for the Credit Portfolio and limits are also set for aggregate large exposures.

2.3.3 Losses due to frauds and operational lapses are pegged at a maximum of a specified percentage of gross earnings and in any case must be lower than the industry average.

2.3.4 Financial and Prudential ratios targets are pegged at a level more conservative than regulatory requirements and better than the average of benchmark banks. These include liquidity ratios, deposit concentration limits and open position limits.

2.3.5 The Bank aims at minimising the following independent indicators of excessive appetite for risk:

- Exception reporting by internal control officers, auditors, regulators and external rating agencies;
- Adverse publicity in local and international press;
- Frequent litigations;
- Payment of fines and other regulatory penalties; and
- Above average level of staff and customer attrition.

2.3.6 The Bank will not compromise its reputation through unethical, illegal and unprofessional conduct. The Bank also maintains zero appetite for association with disreputable individuals and entities.

2.4 Risk Oversight

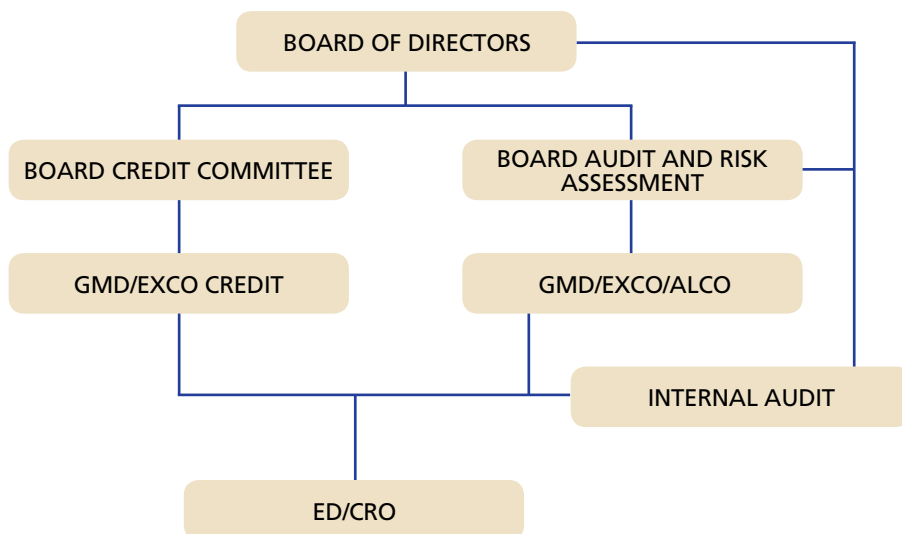
The Bank's Risk Management Directorate ("the Directorate") provides a central oversight of risk management across the Bank and its subsidiaries to ensure that the full spectrum of risks facing the Bank and the Group are properly identified, measured, monitored and controlled to minimise adverse outcomes. The Directorate is, however, complemented by other departments in the management of certain important risks as illustrated below:

Risk Management Responsibilities and Functions

Risk Management	Financial & Management Control	Strategy
• Credit Risk	• Internal Control	• Strategic Risk
• Operational Risk	• Financial Control	• Reputational Risk
• Information Security	• Compliance	
• Market and Liquidity Risk		
• Legal Risk		

RISK MANAGEMENT DISCLOSURE

RISK MANAGEMENT GOVERNANCE FRAMEWORK



The Risk Management Directorate coordinates the monitoring and reporting of all risks across the Bank. The Directorate is headed by the Chief Risk Officer, who is also an Executive Director.

Internal Control Division performs first level and continuous independent verification/testing of control measures put in place to manage all risks across the Bank.

Without prejudice to the above, Internal Audit has the responsibility of auditing the risk management function to ensure that all units charged with risk management perform their roles effectively on a continuous basis. Internal Audit also tests the adequacy of internal controls and makes appropriate recommendations where weaknesses are identified.

2.5 Risk Management Governance Framework

FirstBank's Risk Management Governance Framework is outlined in the diagram above.

2.6 Role of the Board of Directors

2.6.1 General

- i. Approve and periodically review risk strategy and policies;
- ii. Approve the Bank's risk appetite annually and monitor the Bank's risk profile against this appetite;
- iii. Ensure senior management takes steps necessary to monitor and control risks;

iv. Ensure that management maintains an appropriate system of internal control and review its effectiveness;

v. Ensure risk strategy reflects the Bank's tolerance for risk;

vi. Review and approve changes/amendments to the risk management framework;

vii. Review and approve risk management procedures and control for new products and activities; and

viii. Periodically receive risk reports from the Management highlighting key risk areas, control failures and remedial action steps taken by the Management. This is done at least once every quarter.

2.6.2 Credit Risk

i. Approve the Bank's overall risk tolerance in relation to credit risk based on the recommendation of the Chief Risk Officer;

ii. Ensure that the Bank's overall credit risk exposure is maintained at prudent levels and consistent with the available capital through quarterly review of various types of credit exposure;

iii. Ensure that the Management as well as individuals responsible for credit risk management possess the requisite expertise and knowledge to accomplish the risk management function;

iv. Ensure that the Bank implements a sound methodology that facilitates the identification, measurement, monitoring and control of credit risk;

v. Ensure that detailed policies and procedures for credit risk exposure creation, management and recovery are in place; and

vi. Appoint Credit Officers and delegate approval authorities to individuals and committees.

2.6.3 Board Committees

The above responsibilities of the Board of Directors are discharged primarily by two committees of the Board namely:

- i. Board Credit Committee
- ii. Board Audit and Risk Assessment Committee

Without prejudice to the roles of these committees, the full Board retains ultimate responsibility for risk management.

2.6.4 Board Audit and Risk Assessment Committee

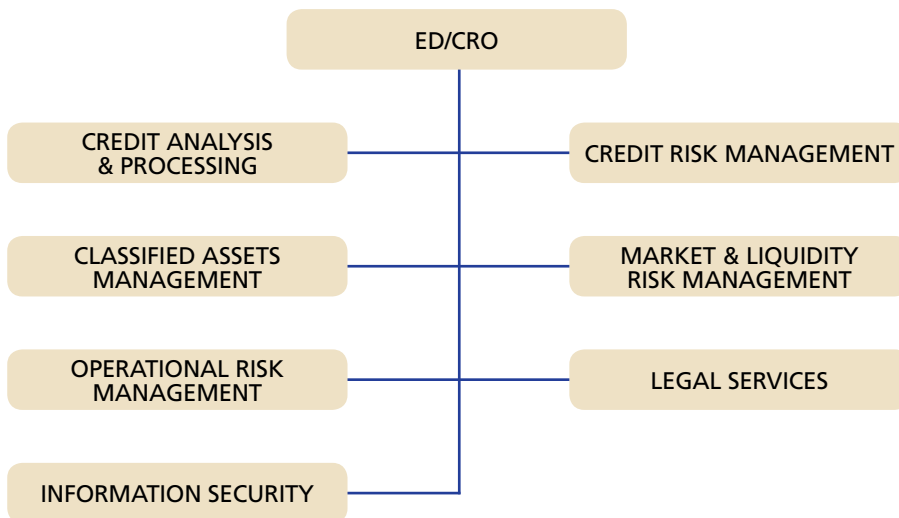
The primary role of the Committee is to report to the Board and provide appropriate recommendations on matters relevant to Risk Management and Internal Audit. The Committee is made up of two Executive and three Non-Executive Directors, with a Non-Executive Director as Chairman. The Chief Risk Officer reports to this committee and is a non-voting member.

2.6.5 Board Credit Committee

The Board Credit Committee ensures effective management of credit risk by the Bank and its subsidiaries. It is also responsible for approving the following:

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RISK MANAGEMENT DIRECTORATE STRUCTURE



- Credit risk management strategy, policies and standards;
- Credit products, processes and approving authorities;
- Credit risk appetite and limits; and
- Credit requests above EXCO (Credit) level, including those going to the full Board as a recommendation.

This committee is made up of the Managing Director/Chief Executive, all the Executive Directors and five Non-Executive Directors. The Chairman is a Non-Executive Director.

2.6.6 Executive Committee (EXCO)

For all categories of risk, the Executive Committee is responsible for formulating policies, monitoring implementation and reviewing risk reports for presentation to the Board/Board committees as well as implementing Board decisions across the Bank.

The Risk Management Operating Model is depicted in the chart above.

To be more specific, the Management of the Bank is responsible for the following:

- Implementation of risk strategy approved by the Board of Directors;
- Developing policies and procedures for identifying, measuring and controlling risk;
- Providing appropriate resources to evaluate and control risk;

- Reviewing risk reports on a regular and timely basis; and
- Providing all reports required by the Board and its committees for the effective performance of risk management oversight functions.

2.6.7 Executive Management Committee for Credit Risk (EXCO Credit)

It is the responsibility of this Committee to:

- Establish and maintain an effective risk management environment in the Bank;
- Review proposals in respect of credit policies and standards and endorse them to the Board of Directors for approval;
- Define the Bank's risk and return preferences and target risk portfolio;
- Monitor on an ongoing basis the Bank's risk quality and performance, review periodic credit portfolio reports and assess portfolio performance;
- Define credit approval framework and assign credit approval limits in line with the Bank's policy;
- Review defined credit product programmes on recommendation of the Head, Credit Risk Management and endorse to the Board of Directors for approval;
- Review credit policy changes initiated by the Management of the Bank and endorse to the Board of Directors for approval;

- Ensure compliance with the Bank's credit policies and statutory requirements prescribed by the regulatory/supervisory authorities;

- Approve credit facility requests within limits defined by FirstBank's credit policy, and within the statutory requirements set by the regulatory/supervisory authorities;

- Review and recommend to the Board Credit Committee facilities beyond Management approval limits;

- Review monthly credit portfolio reports and assess portfolio performance;

- Request rapid portfolio reviews or sector/industry reviews from CRM where deemed appropriate; and

- Approve exceptions/write-offs, waivers and discounts on non-performing credit facilities within specified limits.

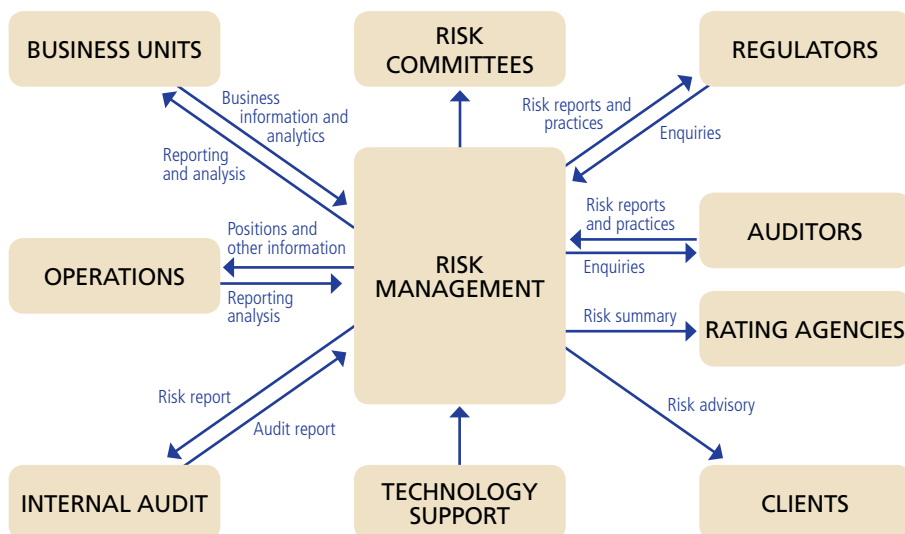
2.7 Risk Management Directorate (RMD) – Relationship with other Units

The relationships between the Risk Management Directorate and other sections of the Bank are highlighted below:

- RMD sets policies and defines limits for other units in the Bank;
- RMD performs bankwide risk monitoring and reporting;
- Other units provide relevant data to RMD for risk monitoring and reporting and identify potential risks in their line of business, while RMD provides a framework for managing such risks;

RISK MANAGEMENT DISCLOSURE

RISK MANAGEMENT DIRECTORATE – RELATIONSHIP WITH OTHER UNITS



- iv. RMD and market facing units collaborate in designing new products;
 - v. RMD and Internal Audit coordinate activities to provide a holistic view of risks across the Bank;
 - vi. RMD makes recommendations with respect to capital allocation, pricing and reward/sanctions based on risk reports; and
 - vii. Information Technology support group provides relevant user support to the RMD function in respect of various risk management software, such as credit scoring, loss databases, loan origination and management systems, etc.
- i. Create, monitor and manage credit risk in a manner that complies with all applicable laws and regulations;
 - ii. Identify credit risk in each investment, loan or other activity of the Bank;
 - iii. Utilise appropriate, accurate and timely tools to measure credit risk;
 - iv. Set acceptable risk parameters;
 - v. Maintain acceptable levels of credit risk for existing individual credit exposures;
 - vi. Maintain acceptable levels of overall credit risk for the Bank's portfolio; and
 - vii. Coordinate credit risk management and other risks inherent in the Bank's business activities.

3 CREDIT RISK MANAGEMENT

3.1 Overview

Credit risk arises when an obligor fails to perform its obligations under a trading or loan contract or when its ability to perform such obligations is impaired. It does not only arise when a borrower defaults on payment of a loan or settlement but also when its repayment capability declines (as reflected in a rating downgrade).

Credit risk arises from activities both on and off the balance sheet such as trade finance and acceptances, inter-bank transactions, foreign exchange, swaps, bonds, equities, options, commitments and guarantees, and settlement transactions.

3.2 Authority and Responsibility

Final authority and responsibility for all activities that expose the Bank to credit risk rests with the Board of Directors. The Board, however, may delegate this authority to the Board Credit Committee, the Executive Committee (Credit), the Chief Risk Officer or other officers with credit risk management responsibilities.

3.3 Credit Risk Management Philosophy

The following principles guide credit risk management across the Bank. The Bank shall:

- i. Deliberately manage its risk asset portfolio to ensure that the risk of excessive concentration to any industry, sector or individual customer is minimised, as well as ensure portfolio flexibility and liquidity;
- ii. Ensure that exposures to any industry or customer are determined by the regulatory guidelines, clearly defined internal policies, debt service capability and balance sheet management guidelines;
- iii. Extend credit to only suitable and well-identified customers and never where there is any doubt as to their ethical standards and record;
- iv. Never extend credit where the source of repayment is unknown or speculative nor where the purpose/destination of funds is undisclosed;
- v. Never take a credit risk where ability of customer to meet obligations is based on the most optimistic forecast of events. Risk considerations shall have priority over business and profit considerations;

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- vi. Ensure that the primary source of repayment for each credit is from an identifiable cash flow from the counterparty's normal business operations or other financial arrangements. The realisation of security remains a fall back option;
- vii. Adopt a pricing model that reflects variation in the risk profile of various exposures to ensure that higher risks are compensated by higher returns;
- viii. Ensure that products to be sold in the retail market are backed by approved product programmes;
- ix. Ensure that the quantum of exposure and quality and value of collateral required are determined based on the risk profile of the counterparty;
- x. Avoid all conflict of interest situations and report all insider-related credits to appropriate bodies; and
- xi. Ensure that there are consequences for non-compliance with the Bank's credit policies.

3.4 Responsibilities and Functions of Key Stakeholders in the Credit Process

3.4.1 Board of Directors (See 2.6)

3.4.2 Board Credit Committee (BCC) (See 2.6.5)

3.4.3 Executive Committee (See 2.6.6 and 2.6.7)

Credit risk in FirstBank is managed by three departments, namely:

- Credit Risk Management (CRM)
- Credit Analysis & Processing (CAP)
- Classified Assets Management (CAM)

Each department is headed by an officer of the rank of Assistant General Manager or Deputy General Manager.

Credit Risk Management (CRM) is responsible for the planning of the credit portfolio, the monitoring of loans on an obligor and portfolio basis as well as the reporting of these to Management and the Board. It is also responsible for controlling and ensuring that conditions set out for obligors are met before disbursement of funds. 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 the Management. CRM also manages the Retail

Collections Unit responsible for calling retail customers with past due obligation of one to 59 days to correct irregularities detected on these category of accounts.

Credit Analysis & Processing (CAP) is responsible for the appraisal of credit requests and processing through to final decision.

Classified Assets Management (CAM) is responsible for the recovery of classified loans that are 360 days past due and the provision of necessary support to branch recovery teams on other accounts.

The above structure ensures the separation of policy, monitoring, reporting and control functions from credit processing functions, thus ensuring broad credit governance.

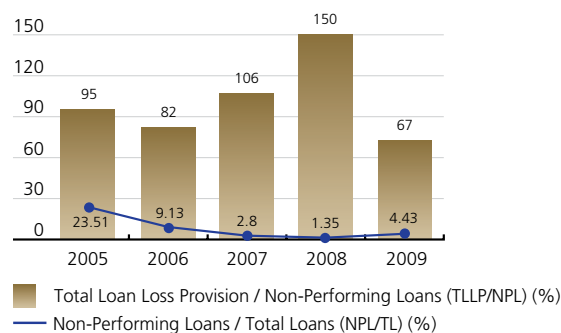
3.5 Provisioning Policy and Credit Performance (Limits)

Classification	Past Due Obligation	Provision
Performing	<1 day – 89 days	1%
Substandard	>90 days – 179 days	10%
Doubtful	>180 days – 359 days	50%
Lost	>360 days	100%

Non-performing exposures are defined as exposures with past due obligations >90 days. Loans move from performing status to substandard, doubtful and lost category, depending on number of days past due. This is explained above.

3.5.1 Asset Quality Ratios

The decline in asset quality is as a result of the deterioration in margin trading facilities and loans secured by quoted shares. Non-performing accounts have been recognised, classified and provisions made as appropriate in line with the prudent guidelines (see chart).



3.5.2(a) Portfolio Distribution by Business Lines

The Bank consistently pursued its retail banking strategy, increasing the contribution of consumer and retail from 33% of total loans in 2008 to 50% in the current year.

Business Lines	March 2009 ₦'bn	% of Portfolio
Corporates	355	50%
Consumer	113	15%
Retail Business	249	35%
Total	717	100%

3.5.2(b) Portfolio Distribution by Sector

Sector / Industry	Exposure ₦'mn	% of Portfolio
Agriculture	7,110	1%
Oil & Gas	146,744	20%
Manufacturing (Processed)	62,839	9%
Manufacturing (Allied Products)	38,436	5%
Manufacturing (Others)	22,072	3%
Construction	6,044	1%
Real Estate	71,234	10%
Utilities	5,081	1%
General Commerce	59,821	8%
Transport	8,275	1%
Communication	53,154	7%
Finance & Insurance	66,204	9%
Consumer	82,998	12%
Retail Services	86,781	12%
Public Sector	394	0%
Total	717,187	100%

RISK MANAGEMENT DISCLOSURE

Top 20 Obligors: Distribution by Industry and Industry Rating

Industry	Industry Rating	Exposure ₦'bn	% of LAD
Oil & Gas Services	B	58	8.09
Conglomerate	A	24	3.35
Telecommunications	BBB	18	2.50
Telecommunications	B	16	2.23
Logistics	B	12	1.67
Commercial Residential	B	11	1.53
Asset Management	BBB	11	1.53
Manufacturing Cement	A	10	1.39
Oil & Gas Marketing	BBB	9	1.26
Owner Occupier	B	8	1.12
Telecommunications	A	8	1.12
Asset Management	C	8	1.12
Manufacturing – Beverages	CC	8	1.12
Oil & Gas Marketing	CCC	7	0.98
Telecommunications	BBB	6	0.84
General Commerce – Chemicals & Allied Products	B	6	0.84
Manufacturing – Flour	BB	6	0.84
Oil & Gas Marketing	B	6	0.84
Commercial Non-Residential	B	5	0.70
Oil & Gas Services	BB	5	0.70
Sub Total		242	33.75
Others		475	66.25
Total		717	100.0

3.5.3 Top 20 Obligors: Distribution by Industry and Industry Rating

See table above.

3.5.4 Margin Trading Facilities/Loans Secured by Shares

- Exposure secured by shares (quoted and unquoted) stood at ₦58 billion, which represents 7.8% of Total Loan Portfolio (TLP). However, exposure against quoted shares was ₦42 billion and accounts for 5.7% of Total Loan portfolio. These positions are within the approved portfolio limit of 10%.
- 30% of total exposure is secured by an unquoted stock. FirstBank exceptionally accepted the unquoted shares of a large telecommunications company as partial security for loans to investors in its private placement. Although the stock is not listed, liquidity risk is fair in over the counter (OTC) trading. All such facilities

also have additional margin collateral of at least 30% in cash or quoted shares and have not been affected by the drastic drop in prices of shares quoted on the Nigerian Stock Exchange.

- As a result of significant depression in prices of quoted stock in the year, total value of shares held as collateral on the portfolio was 80% of total exposure.
- The Bank remedial strategy on the portfolio secured by quoted shares is to recover past due obligations on non-performing accounts before restructuring, restructure other exposures against realistic cashflows, obtain alternative/additional collateral and pursue gradual work-out. Other measures include obtaining increased collateral coverage of exposure to a minimum of 150% and an outright freeze on capital market lending.

- Non-performing accounts have been classified in accordance with the Prudential Guidelines.

3.6 Credit Risk Management Outlook

The current global economic crisis has manifested in systemic financial risk, typically accompanied by a sharp decline in asset values/quality, economic activity, abrupt loss of liquidity, extreme volatility and instability throughout the financial system as a whole. The Bank's strategy is to ensure that target growth in loans and advances is conservative and attained without compromising asset quality. This is to be achieved through strategic risk planning, supported by sound risk identification, measurement, control, monitoring and reporting.

The risk appetite definitions have been reviewed to reflect market conditions and economic realities to enable the Bank to remain a sound institution. More emphasis will be placed on validation and independent review of models that are adopted by the Bank, starting with the risk rating and scoring model. Stress tests will be adopted as appropriate as they provide a valuable perspective on risks falling outside the normal scope and force one to step back from daily concerns to think through the implications of scenarios that may seem relatively unlikely but could pose serious risks to the institution if they materialised. FirstBank has taken a good initiative by acquiring the SAS risk management module and business analytics. This application will be available to develop models, test and validate different business scenarios.

Financial and credit analytical skills will also be strengthened through both internal and external training geared towards acquiring the expertise for analysing and managing risks posed by complicated transactions.

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4 MARKET AND LIQUIDITY RISK MANAGEMENT

4.1 Overview

The Bank is exposed daily to a number of market risks. Market risk relates to the risk that movements in market risk factors, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices, will have an adverse effect on the profitability and/or net worth of the Bank, eg an adverse interest rate movement. Liquidity risks relate to the risk of insufficient liquid assets to meet the Bank's obligation as they fall due or meet the obligations at excessive costs.

4.2 Market Risk Structure and Framework

The Bank ensures that all the market risk exposures are consistent with its business strategy and within its risk tolerance. The goals of the Bank are principally to:

- Define the Bank's market risk appetite;
- Ensure that the Bank's overall market risk exposure is maintained at levels consistent with the available capital; and
- Ensure that management and individuals responsible for market risk management possess sound expertise and knowledge to accomplish the risk management function.

Regular market risk reports are presented to the Board Audit and Risk Management Committee (BARAC) and the Assets & Liabilities Management Committee (ALCO).

The Assets & Liabilities Management Committee, made up of Executive Directors and other relevant Divisional Heads, is responsible for the following:

- Review of policies relating to market risk management and assets & liabilities management;
- Recommend market risk policies to the Board;
- Provide management oversight for the implementation of policies relating to liquidity, interest rate, foreign currency and equity risks;

- Review market and liquidity risk strategy and recommend same for Board approval;
- Monitor liquidity, asset and liability mismatch, pricing and interest rates;
- Develop policies, procedures, tools and systems for identifying, measuring, controlling and reporting market and liquidity risks;
- Evaluate market risk inherent in new products;
- Ensure compliance with statutory and regulatory requirements relating to market risks;
- Review and recommend for approval market and liquidity risks related limits i.e. position, concentration, currency, dealing gap, total portfolio and counterparty limits;
- Approve appointment of dealers; and
- Balance sheet management.

BARAC and full Board are responsible for the following:

- Approve market and liquidity risk management framework, policies, strategies, guidelines and philosophy;
- Provide Board oversight for the implementation of market and liquidity risk management policies;
- Approve market and liquidity risks related limits for the Bank and subsidiaries.

Implementation of the Bank's market and liquidity risk management policies, procedures and systems is delegated to the Head, Market and Liquidity Risk Management Department who reports to the ED/Chief Risk Officer.

FirstBank is committed to managing market risks emanating from the following activities:

- Money Market Activities
- Capital Market Activities
- Financial Intermediation Activities

The Bank maintains a well-articulated market risk policy, which drives the level of market and liquidity risk exposures during trading activities and determines business size and maturities that are subject to re-pricing when the interest rate changes. The Bank is moving from traditional methods of market risk management (risk mitigation) to risk optimisation by linking the Bank's business strategy to its day-to-day risk exposures.

Due to the size of the Bank's holdings in rate-sensitive assets and liabilities and its volume of foreign exchange trade, a major area of market risk exposures in the Bank relates to interest rate and foreign exchange risks. Some of the Bank's subsidiaries engage in limited proprietary trading in quoted equities but there is control oversight on such exposures. In addition, each subsidiary has a risk management framework and policy that is consistent with the Enterprise Risk Management manual.

4.3 Market Risk Policy and Strategy

FirstBank has put in place a clearly defined Market Risk Management Framework that provides the Board of Directors and Management with guidance on market risk management processes. The Bank has also prescribed tolerable market and liquidity related losses, vis a vis quantum of available capital and level of other risk exposures.

The Bank's Market Risk strategy and policy is anchored on the following:

- Product diversification which involves trading in a wide range and class of products such as debt, equity, derivative, foreign exchange instruments, corporate securities and government securities;
- Risk-taking within well-defined limits with the sole purpose of creating and enhancing shareholder value and competitive advantage;
- Effective utilisation of risk capital;
- Continuous re-evaluation of risk appetite and communication of same through market risk limits;
- Independent market and liquidity risk management function that reports directly to Management;

RISK MANAGEMENT DISCLOSURE

- vi. Robust market and liquidity risk management infrastructure reinforced by strong automated system for controlling, monitoring and reporting market risk, including transactions between the Bank and its subsidiaries;
- vii. Deployment of a variety of tools to monitor and restrict market risk exposures such as position limits, sensitivity analysis, ratio analysis and management action triggers;
- viii. Adoption of Value-at-Risk (VaR) as one of the risk measurement tools:
- The Bank, during the year, improved on its use of the VaR model to estimate the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time at a given level of confidence. The VaR model is based on historical simulation with potential market movements calculated by reference to published data from pre-approved sources for two years. It is calculated to a 99% confidence level and for a 10-day holding period.
 - The use of the VaR model is still in its nascent stage as limits are still substantially based on contract/volume basis – rather than factor sensitivity limits which are set on the basis of maximum loss allowable based on volatility in the various markets.
- ix. Use of stress testing:
- In recognition of the volatile 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.
- x. Usage of 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 upon the forecast of interest rate position). 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;
 - Re-pricing risk in various portfolios and yield curve analysis;
 - Using the Assets and Liabilities Management process to determine balance sheet interest rate sensitivity and implement market risk management practices to hedge the potential effect of interest rate changes.
- xi. Setting Internal Open Position Limit (OPL) lower than the CBN prescribed limit (currently 5% of Shareholders' funds). The Bank has put in place approval process for exceeding the internal OPL limit. However, any trading above the CBN regulated OPL limit must be approved by the Central Bank;
- xii. Enforcement of market risk operating limits and other risk management guidelines that will ensure consistent compliance with OPL limit.

4.4 Liquidity and Funding

4.4.1 Policies and Procedures

The objective of the Bank's liquidity risk management is to ensure that all anticipated funding commitments can be met when due and that access to funding sources is co-ordinated and cost effective. The principal mechanism for implementing the Bank's liquidity policy is to maintain liquid assets to deposit ratio above the

regulatory defined ratio of 25%. The Bank's definition of liquid assets is more stringent than as defined by the Central Bank. While the apex bank admits federal government of Nigeria bonds as liquid assets, the Bank has stressed its liquid assets only to the portion of securities available for immediate sale and for which a deep and liquid market exists.

The liquidity ratio is interpreted in conjunction with cash flow projection and liability concentration ratios to measure the Bank'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 the potential for net shortfalls or net funding requirements. In order to ensure compliance with liquidity levels, the Bank has pre-set liquidity gap limits. The liquidity and funding management process also includes the preparation of multi-currency balance sheets and 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 limited number of depositors or funding sources.

4.4.2 Primary Sources of Funding

The Bank's funding base consists of well-diversified corporate and retail deposits as well as inter-bank and other borrowings. Traditionally, the Bank has sought to attract lower-cost demand and savings deposits in order to keep its funding cost as low as possible and has attempted to minimise its reliance on higher cost time deposits as a significant source of funding. The Bank places considerable importance on the demand and savings deposit which form 73% of its funding base. Although these accounts are contractually repayable on demand, in reality, they are stable and have formed a core component of the Bank's liabilities. Also due to market perception of the Bank as one of the strongest banks in Nigeria, it enjoys a relatively lower cost time deposit base by attracting the retail segment whose principal consideration is the safety of their funds.

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4.4.3 Loans-to-Deposit Ratio

The Bank emphasises the importance of core current and savings deposit accounts as a source of funds to finance lending to customers and discourage reliance on short-term wholesale funding (inter-bank borrowing and public sector fund). This is achieved by placing limits on the various Business Development Units of the Bank, which restrict their ability to increase loans and advances to customers without corresponding growth in current and savings deposit accounts. The pre-set loans to deposit ratio set and monitored by ALCO is 80%.

4.4.4 Diversification Policy on Asset Base and Contingent Liquidity Risk

The Bank maintains a large portfolio of tradable liquid assets in the form of Nigerian Treasury Bills and federal government of Nigeria bonds which are low in risk and can be converted in a short period of time or used to enhance the Bank's borrowing. The Bank also maintains a large portfolio of low risk assets which can be securitised and traded as off-balance sheet items. In addition, the Bank has put in place contingency funding arrangements with similar-sized Nigerian banks and maintains a standing credit facility with Central Bank of Nigeria, which can be assessed at short notice.

4.4.5 Market Turmoil and Liquidity Risk Position

The global financial crisis and margin lending related exposures by the banking industry continue to have adverse effects on the liquidity and funding risk profile of the banking industry. At systemic levels, these may be summarised as follows:

- Cancellation of offshore credit lines to Nigerian banks;
- Inter-bank funding cost increased as banks became reluctant to lend to each other;
- Many asset classes primarily considered to be liquid became illiquid;
- The difficulty of many banks to raise wholesale deposits at reasonable cost; although this has been mitigated by CBN Expanded Discount Window.

In specific terms, the Bank's exposure in margin lending is relatively insignificant to the size of its loan portfolio and, therefore, its liquidity position is unaffected. Also, the strain arising from the liquidity trapped in margin lending exposures is concentrated in the inter-bank market where FirstBank has been a dominant net placer of funds. The retail market from which the Bank derives its current and savings deposits is relatively unaffected. The desire by most customers for flight to safety and the Bank's market perception as a stronger Bank have impacted positively on the level of deposits.

4.5 Market and Liquidity Risk Reporting

Various Market and Liquidity Risk Management reports are issued on a daily, fortnightly, monthly and quarterly basis as shown below:

- Daily Liquidity & Market Risk Report: All ALCO members
- Fortnightly ALM & Market Risk Report: ALCO meeting
- Monthly ALM & Market Risk Report: ED, Risk & Mgt Control
- Quarterly ALM & Market Risk Report: Board of Directors

4.5.1 Market and Liquidity Risk Exposures

The major sources of market risk in the Bank's books have been identified and are being well managed. Interest rate risk in the USD175 million subordinated debt was fully hedged with the aid of an interest rate swap with a top rated investment bank. The exchange rate risk associated with the EUR borrowing disbursed in dollars is being managed through an accumulator contract that will close the open position over the life of the borrowing without a loss to the Bank.

Foreign currency liabilities generally fund assets in the same currency and, where tenors differ, re-pricing and liquidity risks are generally adjudged fair.

Generally, market risk management in the Bank is still in its nascent stage but as new products enter the market, there is greater emphasis on strengthening systems and people.

The Bank's liquidity position on the naira side is very robust. In the period under review, growth in our deposit liabilities exceeded growth in risk assets. The Bank's focus this year will remain on liability generation which will be a necessary pre-condition for significant asset growth.

4.5.2 Capital Adequacy and Management

FirstBank's capital management approach is driven by its strategy and organisational requirements, taking into account the regulatory and commercial environment in which it operates.

The Bank achieved Capital Adequacy Ratio of 29.7% at the end of the year; a marked reduction over the 48.2% recorded for the year ended March 2008. This is attributable to 55.3% increase in net Loans and Advances during the year. The Bank, as a policy, works to maintain adequate capital cover for its trading activities. While the regulatory requirement is 10%, FirstBank has a minimum internal target of 16%. Current position is closely monitored and reported fortnightly to the Assets & Liabilities Management Committee.

Capital Adequacy

	31.03.09	31.03.08
Capital Adequacy Ratio	29.74%	48.23%
Capital Composition:	₦'mn	₦'mn
Tier I		
Paid up Capital	12,432	9,945
Reserves	333,407	324,687
Tier II		
Long Term Debt	25,266	20,379
Stock Reserves	5,215	5,215
Capital Utilisation:		
Qualifying Risk Weighted Assets	1,192,475	700,099

RISK MANAGEMENT DISCLOSURE

5 OPERATIONAL RISK MANAGEMENT

5.1 Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. This definition includes legal risk but excludes reputational risk. The Bank recognises the significance of operational risk, which is inherent in all areas of our business. Operational risk is managed within acceptable levels through an appropriate level of management focus and resources.

5.2 Operational Risk Management Framework

FirstBank is committed to the management of operational risks. The Bank's operational risk management framework aims to:

- i. Reduce losses arising from operational risk – a key role of operational risk management in the Bank is to reduce losses from operational failure and, in particular, avoid potentially large or catastrophic losses;
- ii. Improve performance measurement – the Bank's improved understanding of its operational risk profile shall enable appropriate allocation of risk and economic capital to individual lines of business which would allow improved performance measurement and evaluation of activities;
- iii. Ensure better control of operations – the Bank expects that increased understanding of risk activities within various business units, the Board and senior management will lead to improvement in the control of operations and the emergence of a more proactive operational risk management culture;
- iv. Provide early warning signals of deterioration in the Bank's internal control system; and
- v. Raise awareness of operational risk in the Bank from top to bottom through the implementation of an enterprise-wide operational risk approach.

5.3 Operational Risk Strategy

Failure to manage operational risk effectively often leads to significant financial losses, regulatory fines or sanctions, reputational damage, brand erosion or even the loss of banking licence, all of which directly impact shareholder value. Accordingly, the FirstBank operational risk strategy aims to minimise the impact of operational risk on its shareholder value. Specifically, the Bank's strategy is to:

- i. Reduce the likelihood of occurrence of unexpected events and related costs by managing the risk factors and implementing loss prevention or reduction techniques to reduce variation in earnings;
- ii. Minimise the impact of unexpected and catastrophic events including related costs through risk financing strategies that support the Bank's long-term growth, cash flow management and balance sheet protection; and
- iii. Make all managers responsible for the management of operational risk and thus minimise actual or potential losses. The Bank recognises that some losses, such as operational errors, are inevitable but it will ensure the consequent costs are kept within acceptable levels and potential losses are minimised.

In implementing this strategy, the Bank:

- i. Has put in place best practice operational risk management policies and procedures. These include toolkits to help identify, assess, control, manage and report on operational risk within the Bank;
- ii. Ensures that roles and responsibilities are agreed and clearly understood by employees at all levels;
- iii. Ensures that all staff in business and support functions are aware of their responsibilities for operational risk management;

- iv. Considers the potential operational risk impact of its activities and products at the outset with a view to minimising these as far as possible;
- v. Has put in place structures and processes for reporting control failures to designated individuals and escalating material issues to EXCO and the Board Audit and Risk Assessment Committee;
- vi. Ensures that staff are provided with appropriate operational risk management training that is commensurate with their roles;
- vii. Establishes workable business continuity plan (including disaster recovery and crisis management procedures) that minimises the impact of unexpected and catastrophic events on business operations and customer service;
- viii. Minimises financial impact of operational losses, through management of risk factors and utilisation of insurance or other risk transfer strategies; and
- ix. Ensures that staff responsibilities with respect to operational risk management are communicated through on-going risk awareness workshops and management action.

5.4 Operational Risk Management Philosophy and Principles

The following philosophy and principles govern the management of operational risk in FirstBank:

- i. The Board of Directors is responsible for setting the operational risk strategy of the Bank and its implementation;
- ii. The Board approves and periodically reviews the operational risk management framework;
- iii. Operational risk management in the Bank is co-ordinated through a centralised and independent operational risk management function;
- iv. Ownership, management and accountability of operational risk is decentralised with business and functional units;

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- v. There are consistent standards for defining, evaluating, measuring, monitoring and reporting operational risk;
- vi. The Bank's operational risk management practices are in line with Basel II;
- vii. The Bank's operational risk management practices are subject to regular independent review by internal and external auditors;
- viii. Operational risk management is governed by well-defined policies and procedures, which are clearly communicated across the Bank;
- ix. Operational risk related issues are taken into consideration in business decisions including new product and process designs;
- x. Operational risk and loss events are reported openly and fully to the appropriate levels, once they are identified; and
- xi. Adequate processes and systems for identifying, measuring, monitoring, reporting and controlling operational risks are being implemented by the Bank.

5.5 Organisation and Structure

The Bank's overall approach is to create and promote a culture that emphasises effective operational risk management, adherence to operating controls and acting in accordance with the Bank's policies. The management of operational risk in the Bank is undertaken at three distinct levels, each with clearly defined roles and responsibilities as follows:

5.5.1 Board and Board Committees
See 2.6.1 and 2.6.3

5.5.2 Senior Management

At the second level is a management function performed by the Risk Management Directorate. The Operational Risk Management Division has direct responsibility for formulating and implementing the Bank's operational

risk management framework including methodologies, policies and procedures approved by the Board. The division works with the Bank's Internal Control and Internal Audit divisions to ensure that the day-to-day operations of the Bank are in line with the approved operational risk management policies.

Operational Risk Management (ORM) Division is an independent risk management function within FirstBank. The prime responsibility for the implementation of the operational risk framework as well as the day-to-day operational risk management lies with the business divisions. Based on this business partnership model, the Division ensures close monitoring and high awareness of operational risk, which are driven across the Bank through training and strategic communication initiatives.

5.6 Monitoring and Managing Operational Risk

Several tools and techniques are deployed in managing operational risks in FirstBank. These tools and techniques incorporate risk identification, risk assessment, implementation of adequate control measures to reduce the impact of risks, risk monitoring and reporting. They include:

5.6.1 Delphi Sessions:

A type of Risk Self Assessment which provides for brainstorming sessions during which 'experts' (in this case, senior personnel in business units) identify, measure and analyse the risks inherent in business units, activities and products, and draw up controls aimed at reducing the risks. This is done in collaboration with Operational Risk Managers who coordinate the sessions.

5.6.2 Risk Control Self Assessment (RCSA):

Risk Control Self Assessment (also called Control Self Assessment or CSA) is a process whereby business areas identify and evaluate inherent risks, the level of control the area has over these risks, and action points for improvement.

The goals of the Delphi sessions and RCSA are to continuously assess changing market and business conditions and evaluate all

operational risks impacting the business. The self-assessment process assists in identifying emerging operational risk issues and determining how lines of business should be managed.

5.6.3 Key Risk Indicators (KRIs):

KRIs have been developed and are used to help identify trends and issues at both corporate and business unit levels.

5.7 Key Operational Risks

Major operational risks faced by the Bank are internal fraud and armed robbery. Each incident is analysed and control failures identified and new controls designed. The Bank is also investing in enhanced physical security and collaborating with the security agencies to improve protection of branches and staff. Key counter-measures put in place include:

- i. Enhanced staff training;
- ii. Issuance of appropriate and deterrent circulars;
- iii. Job rotation and segregation;
- iv. Dissemination of email and SMS alerts to customers for every transaction on their accounts;
- v. Imposition of stiff disciplinary measures, including prosecution of fraudulent staff; and
- vi. Installation of panic alarm systems, closed-circuit televisions (CCTVs), deadman's doors etc.

5.8 Role of Internal Audit and Internal Control in Operational Risk Management

5.8.1 Internal Audit

The role of Internal Audit is to:

- i. Provide independent assessment and evaluation of the Bank's operational risk management framework;
- ii. Monitor that business units and support functions comply with the Bank's operational risk policies;
- iii. Assess the adequacy of the Bank's Operational Risk measurement methodology;

RISK MANAGEMENT DISCLOSURE

- iv. Assess the effectiveness of the Bank's risk management and control process for operational risk; and
- v. Conduct an independent assessment and evaluation of the risk in business units.

5.8.2 Internal Control

The Internal Control Division is responsible for evaluating and monitoring control activities as well as ensuring compliance with minimum control standards set in the framework. Other Internal Control activities include:

- i. Top level review of appropriate activities and controls for branches and departments/divisions;
- ii. Physical control and checking for compliance with the Bank's policies, including exposure limits, system of approvals and authorisations;
- iii. Conduct independent verification and reconciliation.

6 LEGAL RISK MANAGEMENT

6.1 Legal Risk Concept in FirstBank

Companies in operation are required to implement policies, procedures and guidelines in respect of the management and control of legal risks and First Bank of Nigeria Plc has conformed with this international best practice.

Legal risk covers contractual risk, legislative risk, intellectual property risk and litigation risk. Legal risk includes:

- i. Failure to act appropriately or diligently in response to a claim made against the Bank;
- ii. Failure to take proper action to preserve the right of recourse to insurers in respect of any claim against the Bank;
- iii. Inability to successfully defend a claim brought against the Bank;
- iv. Inability to take action to enforce the rights of the Bank through the law courts; or
- v. Failure or inability to mitigate the likelihood that an adverse claim will be successfully made against the Bank.

6.2 Legal Risk Management Structure

The Bank has a dedicated global legal function which is responsible for managing legal risk. This comprises the provision of legal advice and support in resisting claims and legal proceedings against the Bank, analysis of legal issues, management of litigation, non-routine debt recoveries, and any other litigation against third parties.

The Head Office Legal Services Department oversees the global legal function of the Bank and reports to the Chief Risk Officer.

For the smooth, efficient and effective performance of its duties, the Department is sub-divided into four hubs which are headed by senior officials of the department who report to the Head, Legal Services. The four hubs are as follows:

- i. Retail and Securities Hub – with responsibility for the documentation and perfection of securities considered necessary to secure credit facilities extended by the Bank to its customers.
- ii. Litigation Hub – with responsibility for the commencement and monitoring of legal actions on behalf of the Bank, defence of any legal action against the Bank, and rendition of legal advice in relevant matters. The unit evaluates out-of-court settlement options with a view to decongesting the Bank's litigation portfolio and reducing contingent liabilities to a bare minimum.
- iii. Corporate and Contracts Hub – with responsibility for the documentation of transactions entered into between the Bank and its corporate customers as well as the preparation and vetting of contracts entered into between the Bank and its customers/third parties in appropriate cases.
- iv. Regional Co-ordination/Administration Hub – with responsibility for the co-ordination and supervision of duties performed by Legal Managers posted to some Business Development Offices (BDOs) of the Bank and the performance of administrative duties in the Head Office Legal Department. The Legal Managers perform the duties arising from the hubs they cover to a limited extent.

- v. There are two sub-hubs responsible for the preparation and vetting of bonds and guarantees issued by the Bank or accepted as security by the Bank.

6.3 Legal Risk Policy and Reporting

A major legal policy of the Bank is that all known potential incidents of material legal risks are reported at an early stage and mechanisms put in place for rapid escalation to Management for proactive summary decision.

For effective implementation of this major legal policy, the various units of the Bank are expected to promptly notify Legal Services Unit of any actual or threatened litigation against the Bank or any of its officers in their official capacities.

The Head, Legal Services prepares quarterly reports on litigation matters and their consequent costs to the Board of Directors while Management is furnished and kept abreast of details of cases involving major potential liabilities against the Bank.

7 INFORMATION SECURITY RISK MANAGEMENT

7.1 Information Security Risk Management Framework

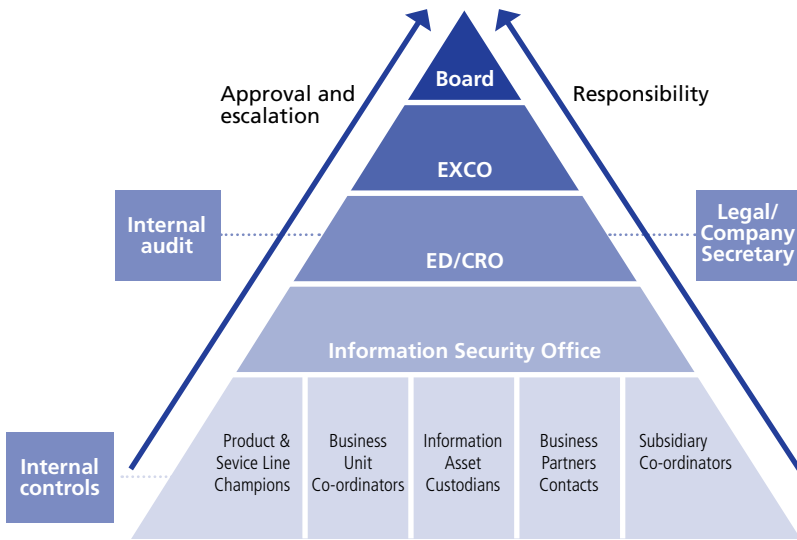
FirstBank has adopted an integrated approach to Information Security Risk Management in line with ISO27001 standard. Its fundamental objective is to ensure the confidentiality, integrity and availability of its information assets.

Information assets are viewed as a very critical asset of the Bank and shall therefore be adequately protected. The protection of FirstBank's information assets is critical to the Bank's business continuity and its ability to meet business objectives. Accordingly, Information Security Management Department (ISMD) has been assigned the responsibility of ensuring that the Bank's information assets are adequately protected at all times. This responsibility is shared by both management and employees of FirstBank, irrespective of designation or function.

The diagram opposite depicts the various stakeholders within the FirstBank information security organogram.

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INFORMATION SECURITY ROLES AND RESPONSIBILITIES



Final authority and responsibility for safeguarding FirstBank’s information assets rests with the Board of Directors. Key responsibilities of the Board with respect to information security are detailed below:

- i. Approve the Bank’s overall Information Security Framework and policy;
- ii. Ensure that the Bank’s information security posture is maintained in line with its risk appetite and commensurate with the risks associated with information asset.

FirstBank, through its information security management, is continually putting in place structures to help protect its information assets and create assurance for investors. As part of its responsibility, ISMD monitors risk indicators such as information security-related incidents supplemented by trend analysis which highlights high-risk or emerging issues so that prompt action can be taken to address them.

7.2 Information Security Risk Mitigation

In the light of recent rising incidents of information insecurity and compromise resulting from identity theft and social engineering attacks on financial institutions globally, FirstBank has taken a number of proactive measures to ensure that its systems are not vulnerable to these attacks.

These include:

- i. Information security controls being built into all existing processes and procedures while security procedures have been developed to bridge the gaps in identified areas;
- ii. The Bank carried out a comprehensive classification of all its information assets with priorities/custodians allocated to the asset to ensure that the right amount of security level is assigned based on criticality;
- iii. The Bank engaged the services of an independent company to carry out a bankwide security risk assessment, to determine the security posture of the Bank and allocate appropriate safeguards to the asset.

FirstBank has developed a robust information security framework that addresses its immediate and future needs to ensure a safe and secure operating environment for its customers and staff. The Bank would continue to improve on its information security drive through programmes aimed at enhancing staff knowledge and customer protection against password compromise, social engineering attacks and use of key-logging devices as hacking tools.

8 INTERNAL CONTROL

8.1 Internal Control Concept in FirstBank

“Internal control” in FirstBank refers to the overall operating framework of practices, systems, organisational structures, management philosophy, code of conduct, policies, procedures and actions which exist in the Group and designed to ensure:

- i. Essential business objectives are met, including the effectiveness and efficiency of operations and the safeguarding of assets against loss;
- ii. The reliability of financial reporting and compliance with general accounting principles;
- iii. Compliance with applicable laws and regulations including internal policies;
- iv. Systematic and orderly recording of transactions;
- v. Provision of reasonable assurance that undesired events will be prevented or detected and corrected.

FirstBank is committed to creating and maintaining a world-class internal control environment that is capable of sustaining its current leadership position in the financial services industry.

FirstBank operates in an environment that is continuously exposed to uncertainties and change. Such risks may prevent the institution from achieving its strategic business objectives. To effectively manage these risks, FirstBank Group has put in place internal control measures that cover the Bank and its subsidiaries.

The Bank has also instituted an effective and efficient internal control environment that ensures minimal operational losses arising from fraud, errors, operational lapses, armed robberies, customer dissatisfaction, customer complaints and other risk exposures.

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8.2 Components of FirstBank Internal Control Environment

- i. A Board of Directors that is actively concerned with sound corporate governance coupled with effective management and control of the Bank;
- ii. An independent Audit Committee with strong oversight and constant monitoring of the Bank's controls;
- iii. Executive Management that actively manages and operates the Bank in a sound and prudent manner;
- iv. Strong organisational and procedural controls supported by an effective management information system aimed at prudent management of the Bank's exposure to risk;
- v. A robust independent control and audit mechanism that monitors the effectiveness and safety of all activities in the Bank;
- vi. A functional risk management framework and structure;
- vii. Risk recognition, assessment and management by Risk Management Directorate covering all categories of risks – credit, operational, information security, market and liquidity;
- viii. Appropriate and standardised control activities covering all branches, departments, businesses and subsidiaries;
- ix. Segregation of duties;
- x. Effective financial and management reporting system;
- xi. Continuous and ongoing monitoring of control activities by an independent Internal Control Division;
- xii. Independent evaluation of control activities on a periodic basis by Internal Audit Division;
- xiii. Strong regulatory and policy compliance culture driven from the top to the lowest level;
- xiv. Tiered ownership of internal controls – Board of Directors, Executive Management, Divisional Heads and Staff.

8.3 Responsibilities for Internal Control in the Bank

- i. Board of Directors, Board Audit Committee, Board Audit and Risk Assessment Committee – monitor effectiveness of internal control system;
- ii. GMD/CEO and EXCO – design and maintain adequate system of internal controls;
- iii. Top and middle management – implement and enforce internal controls;
- iv. Internal Control and Internal Audit Divisions – review, monitor, evaluate and enforce internal controls in the Bank;
- v. All Staff – owned internal control measures inherent in their various job functions.

8.4 FirstBank Internal Control Objectives

- i. Achievement of business objectives;
- ii. Safeguarding of assets;
- iii. Reliability of financial records;
- iv. Business/customer oriented control practices;
- v. Automation of internal control and reconciliation activities;
- vi. Zero tolerance for prudential provision on other assets;
- vii. Minimise financial losses attributable to control infractions and reconciliation problems;
- viii. Transaction safety;
- ix. Risk-based departmental and independent control activities;
- x. Operational control efficiency and effectiveness;
- xi. Strict compliance with regulations and internal policies;
- xii. Zero tolerance for fraud and errors as well as control/regulatory infractions;
- xiii. Strict personal and Business Units responsibility for operational and control activities;
- xiv. Confidentiality and integrity of information resources;
- xv. Business continuity and disaster recovery.

8.5 FirstBank Internal Control Philosophy and Principles

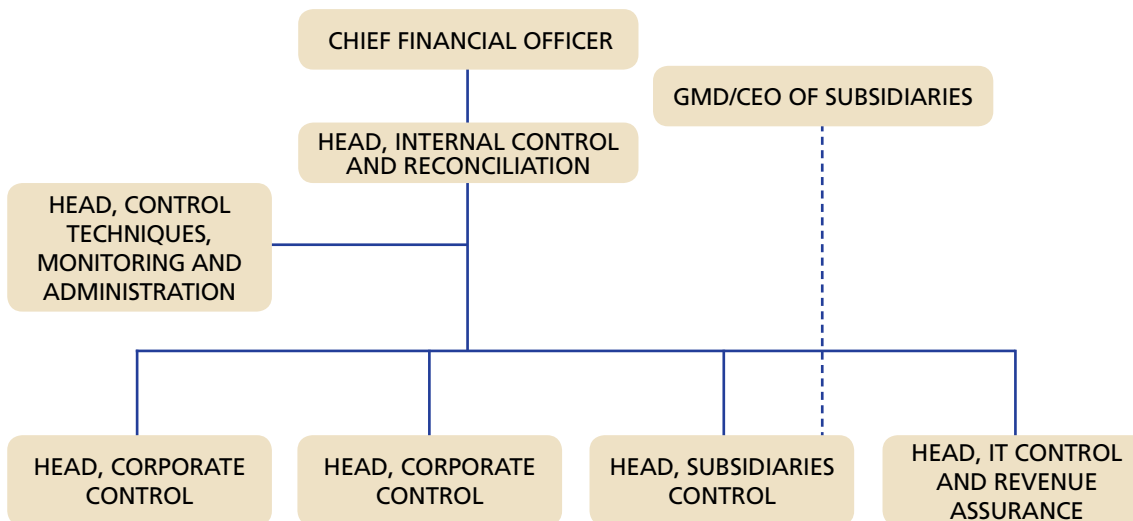
Major internal control philosophy and principles of the Bank are reflected in seven documents as detailed below:

- i. FirstBank Internal Control Framework. This document, which is predicated on COSO (Committee of Sponsoring Organisation) standard, provides policies aimed at achieving the following objectives in the Bank:
 - Proactive identification of key business risks with appropriate internal controls;
 - Ensure quality of internal and external financial reporting;
 - Ensure compliance with applicable laws, internal policies and regulations;
 - Identify and exploit opportunities for improving efficiency of processes and controls; and
 - Effective management of business operations and achievement of strategic objectives.

It also covers line of defence and control responsibilities of the Board of Directors, GMD/CE, Executive Management, Head Office Departments, branches and subsidiaries.
- ii. FirstBank Internal Control Policy. This document outlines best practice control standards, roles and responsibilities of Directors, senior management, departments, subsidiaries and staff of the Bank.
- iii. FirstBank Internal Control Guidelines. FirstBank has adopted the COSO framework (customised to the Bank's local environment) for its internal control procedures and guidelines. The guidelines outline procedures for identification, management and documentation of relevant processes/sub-processes including mapping of specific risks and control mitigants.
- iv. FirstBank Operational Procedure. Detailed Control, Accounting and Administrative Procedures (CAAP) manuals have been developed for all processes, activities, products and services of the Bank, including business continuity and disaster recovery.
- v. FirstBank Operational Desk Manual/Job Card for operational activities.

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ORGANISATIONAL STRUCTURE OF THE INTERNAL CONTROL AND RECONCILIATION DIVISION



vi. FirstBank Departmental and Independent Control Function Checklist. Used for managing supervisory and independent control risks.

vii. FirstBank Independent Control Function Proof Chart. Standardised procedure for executing various independent control activities in the Bank.

8.6 Structure of FirstBank Internal Control Division

Internal Control and Reconciliation Division is dynamically structured to identify emerging/incremental areas of risk exposures aimed at instituting immediate preventive control measures.

Major features of the internal control structure include:

- Group-wide independent control oversight with Resident Internal Control Officers (RICO) in all branches, Head Office departments and subsidiaries;
- Proper branch profiling, risk rating and control vulnerability are considered in order to determine optimum RICO requirements and placements;
- Institution of efficient staff deployment strategies that align staff quality with the risk rating of the branches;
- Alignment of RICO specialist skills with the core competences required for specialised functions in the Bank, especially Head Office and subsidiaries;
- Training, orientation and development of RICOs are predicated on ensuring superior knowledge of product features,

policies, regulations, processes and systems inherent in processing activities under their purview.

8.7 Major Internal Control/Audit Reports to Board and Senior Management

- Major Audit Issues and Countermeasures/Mitigants;
- Fraud Recovery Status Report (₦10 million and above);
- Fraud Statistics: type and frequency with year-on-year comparison including general remedial actions;
- Major Operational/Control lapses in Audit reports;
- Control Situation Report;
- Cash Tracking Report;
- Prudential Provision on Other Assets;
- Control Risk Rating of Business Units.

8.8 Fraud Management Strategies in FirstBank

8.8.1 Fraud Management Objectives

- Prevention of fraud occurrence or losses. Where prevention is not possible, they should be promptly detected and mitigated;
- Efficient Fraud Loss Mitigation Measures i.e. rapid escalation of fraud occurrence, insurance recovery, effective management of law enforcement agencies;

iii. Prevent repeat of operational lapses and system defects that facilitate fraud incidence;

iv. Minimise other operational losses associated with fraud losses.

8.8.2 Fraud Management Strategies

- Implementation of world-class enterprise fraud management software with strong emphasis on automated fraud prevention and detection;
- Implementation of world-class automated internal control and continuous monitoring solution;
- Build fraud prevention and detection controls in processes and systems;
- Strict compliance with internal policy, regulatory and statutory requirements;
- Implementation of anti-fraud operational, supervisory and independent controls;
- Proactive management of financial and non-financial risks;
- Holding operators and supervisors personally responsible for fraud occurrence;
- Conducting root cause analysis of fraud occurrence;
- Automation of reconciliation activities;
- Risk-based departmental and independent control checklist for supervisors and RICOs;

RISK MANAGEMENT DISCLOSURE

- xi. Enforcement of GL account ownership policy;
- xii. Strong handshake/partnership amongst various stakeholders responsible for fraud escalation, management and loss recovery;
- xiii. Continuous awareness campaign on fraud learning points;
- xiv. Dynamic/continuous control improvement measures;
- xv. Improve RICO manning and skill capacity;
- xvi. Improve anti-fraud operational control capacities amongst operations staff;
- xvii. Process optimisation and automation;
- xviii. Frequent rotation of RICOs and operations staff;
- xix. Effective fraud escalation mechanism to all levels of management;
- xx. Effective implementation of whistleblowing policy.

8.9 Adoption of Integrated Governance, Risks and Compliance (iGRC) Framework

To gain control over diverse risks through a consistent, coordinated and sustainable strategy, FirstBank has begun implementation of a leading practice – “integrated governance, risk and compliance”, or iGRC.

The iGRC framework is a principles-guided, step-by-step, logical and scalable method that integrates governance, risk and compliance activities into a manageable and sustainable process.

The implementation of the iGRC has helped the Bank to achieve the following:

- i. Avoid duplication of efforts;
- ii. Make better use of staff and resources;
- iii. Identify unmanaged/unknown risks through a practical but comprehensive evaluation process;
- iv. Improve the content, quality and timing of governance, risk and compliance analysis and reporting;

- v. Implement a proactive approach to risk management;
- vi. Control the growth of governance, risk and compliance-related expenses;
- vii. Enable effective revenue generation and assurance function;
- viii. Establish a timely and consistent approach for assessing audit/compliance programmes across all business units in the organisation including the subsidiaries.

The implementation of iGRC is manifested in the following risk and governance structure of the Bank:

- i. Risk Management Governance Framework, which encompasses Board of Directors, Board Credit Committee, Board Audit and Risk Assessment Committee, GMD/EXCO/ALCO, Risk Management Directorate, Internal Control and Audit;
- ii. Strong and well-defined relationship between the Risk Management Directorate and other key stakeholders and Divisions in the Bank;
- iii. Institution of Management Risk and Assessment Committee (MRAC) made up of the following officers of the Bank:

- Chief Compliance Officer – Chairman
- Chief Internal Auditor – Member
- Head, Internal Control – Member
- Head, Information Security – Member
- Head, Operational Risk Management – Member

The committee has provided a veritable platform for resolving common control, risk and audit issues in the Bank.

9 COMPLIANCE RISK MANAGEMENT

9.1 Compliance Risk Management Philosophy, Strategy and Policies

Compliance risk is the risk of potential loss of and/or damage to the Group's reputation arising from violation of, or non-compliance with legal, regulatory and supervisory requirements. It could be in both financial

and reputation terms and at the extreme, could translate into loss of business and/or franchise.

In FirstBank, whilst the primary responsibility for complying with regulatory requirements lies with all members of staff conducting particular transactions or activities to which regulation applies, the Board of Directors has the ultimate accountability for compliance performance. The Board and the Chief Executive have delegated authority to the Chief Compliance Officer (CCO), and the Compliance function under his leadership, to ensure that the compliance process is running effectively, to monitor that statutory, regulatory and supervisory requirements are adhered to and to report breaches.

The Bank remains committed to fully comply with both the spirit and the letter of applicable regulations and to always act with due skill, care and diligence. There is in place a comprehensive and functional Compliance Policy and Procedures Manual which, amongst other things, defines very clearly the Group's compliance objectives, roles and responsibilities as well as the minimum acceptable compliance standards across the Group.

The Compliance function operates from the Head Office and some selected hubs, each of which is manned by dedicated Compliance Officers whose only job in the Bank is ‘compliance’. Highlights of the scope of coverage of the Compliance function include:

- i. regulatory compliance;
- ii. Anti-Money Laundering (AML)/ Countering Terrorist Financing (CTF) compliance (including KYC/KYB principles);
- iii. corporate governance compliance monitoring.

Each and every one of the activities of the Compliance function is governed by well articulated policies and process duly approved by the Board. The Group's AML/CTF regime is driven by a well-documented, functional AML Policies & Procedures Manual to which every member of staff has unfettered access through the Group's

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e-reporter. As a living document, the manual is reviewed and updated regularly to reflect the dynamism and changing regulatory or environmental imperatives.

9.2 Compliance Risk Management Governance Structure

In line with international best practice, the Compliance function is structured as part of the Chief Financial Officer (CFO) function and is responsible for ensuring that the Bank continuously manages its regulatory risk. Regulatory risk is the risk that 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, regulatory and supervisory 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 FirstBank itself lies with the Internal Audit and Control functions. These are monitored as part of their normal duty of ensuring that an effective system of internal controls is maintained in FirstBank.

Certain internal rules are of such importance that the Executive Committee (EXCO) 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 EXCO from time to time.

The Compliance function operates independently from internal Audit and Control Divisions. 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.

9.3 Compliance Risk Management Roles and Responsibilities

Roles and responsibilities for compliance are assigned to various functions as follows:

Function	Role
Board of Directors	Assumes overall accountability for compliance performance.
Chief Executive Officer	Provides demonstrable support to the CCO with the development of a compliance culture.
Executive Directors (EDs) & Executive Committee	Assume overall accountability for compliance within their Strategic Business Units (SBUs)/Strategic Resource Function (SRFs).
CEOs of subsidiaries and their management teams	CEOs assume overall accountability for compliance within their companies and their respective management is responsible for day-to-day compliance with regulations applicable to their business.
Business Unit Heads & Business Development Managers	Responsible for day-to-day compliance with regulations applicable to their business.
SBU – Strategic Business Unit SRF – Strategic Resource Function	Facilitate the implementation of the compliance process within their SBU/SRF/Subsidiary.
Branch Managers (Branch Compliance Officers)	As the Compliance Officer of their respective branches, Branch Managers assume overall responsibility for compliance in their branches and are responsible for conducting periodic compliance reviews.
All employees	Responsible for familiarising themselves with the regulatory requirements applicable to their business and ensuring that all transactions and activities in which they are involved are carried out in accordance with those regulations.
Internal Control	Assists the Compliance function in the conduct of independent monitoring.
Internal Audit	Provides quality assurance for the Compliance function.
Chief Compliance Officer (CCO)	Responsible for the development, communication, leadership and implementation of the compliance strategy, policy, structure and process.
External Audit	Responsible for reviewing the compliance risk management process as part of their statutory audit duties.

9.4 Responsibilities of the Chief Compliance Officer

The CCO takes overall responsibility for compliance issues in the Group including its Strategic Business Unit. The CCO works closely with the ED (Risk & Management Control) in the performance of the following specific responsibilities.

- i. Assign a robust compliance structure, process and advisory service in order to ensure line management's compliance with current laws, regulations and supervisory requirements;
- ii. Report non-compliance with laws, regulations and supervisory requirements to the CE and the Board of Directors in a timely manner;
- iii. Provide the Board of Directors with regular information on the level of FirstBank's compliance with laws, regulations and supervisory requirements;
- iv. Ensure, as far as possible, that no conflict of interest exists between the Compliance function and other internal control functions;
- v. Establish compliance culture in FirstBank that contributes to the overall objective of prudent risk management;
- vi. Establish effective communication with line management in order to continuously monitor compliance with laws, regulations and supervisory requirements;

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- vii. Mandate line management to monitor compliance with laws, regulations and supervisory requirements as part of their normal operational duties;
- viii. Ensure that regulatory requirements are incorporated into operational procedures and manuals where appropriate;
- ix. Make recommendations whenever necessary to ensure that laws, regulations and supervisory requirements are being complied with;
- x. Establish effective mechanisms for reporting and resolving non-compliance with laws, regulations or supervisory requirements;
- xi. Document findings, including any remedial action, as part of the compliance monitoring programme;
- xii. In conjunction with Human Capital management, recruit sufficient staff with requisite quality in order to continuously monitor compliance with laws, regulations and supervisory requirements;
- xiii. In conjunction with Training and Development, ensure compliance staff are trained on technical knowledge of regulatory framework and associated risks; and
- xiv. Compile and maintain comprehensive compliance manual for the Group, in conjunction with line management.

9.5 The Regulatory Universe

Ever dynamic, the Bank is regulated by a body of rules which include but are not limited to the following:

No.	Regulations and Acts
1	Banks and Other Financial Institutions Act, 1991 (as amended)
2	Companies and Allied Matters Act (CAMA), 1990
3	Nigerian Deposit Insurance Corporation Act, 1986
4	Money Laundering Act, 1995 (as amended)
5	Economic and Financial Crimes Commission (Establishment) Act, 2002
6	Foreign Exchange (Monetary and Miscellaneous Provisions) Decree No. 17 of 1995
7	Investments and Securities Act, 1999
8	Securities and Exchange Commission Rules and Regulations
9	Nigerian Investment Promotions Commission Act
10	Insurance Act, 1997
11	National Minimum Wage Act (as amended)
12	Workmen's Compensation Act, Cap. 470, Laws of the Federation of Nigeria, 1990
13	Labour Act, Cap. 198, Laws of the Federation of Nigeria
14	Nigeria Social Insurance Trust Fund (Establishment) Act
15	Industrial Training Fund Act, 1971
16	Trade Union Acts
17	Trade Disputes Acts
18	National Salaries, Incomes and Wages Commission Act, 1993
19	Advance Free Fraud and Other Offences Act, 2006
20	All relevant CBN Guidelines 2002–2008 and various
21	CBN Code of Corporate Governance for Banks in Nigeria
22	CBN Policy Statements
23	Various CBN/NDIC/SEC regulatory guidelines and circulars