



Guaranty Trust Bank plc

## GUARANTY TRUST BANK PLC

# Consolidated IFRS financial statements for the year ended 31 December 2011



*Orange Rules*

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## Corporate Governance

### Introduction

Guaranty Trust Bank plc (“the Bank”) has over the years built an enviable reputation as an institution which has consistently adopted, implemented and applied international best practices in corporate governance, service delivery and value creation for all its stakeholders.

The Bank’s corporate governance principles are embodied in its Code of Corporate Governance (“the Code”) which represents the core values upon which the Bank was founded. Code of Corporate Governance is designed to ensure accountability of the Board and Management to stakeholders. For the Bank, good corporate governance goes beyond just adhering to rules and policies of the regulators; it is about consistently going the extra mile to create excellent value for our stakeholders using the best possible principles within a sustainable and enduring system.

As a company publicly quoted on the Nigerian Stock Exchange with Global Depositary Receipts (GDRs) listed on the London Stock Exchange, the Bank remains focused on its responsibilities and commitment to protect and increase shareholder value through transparent corporate governance practices which imbibe local regulatory standards as well as international best practices. The Bank ensures compliance with the Code of Corporate Governance for Public Companies issued by the Securities and Exchange Commission with effect from April, 2011 (“the SEC Code”), the Code of Corporate Governance for Banks in Nigeria Post Consolidation issued by the Central Bank of Nigeria (“the CBN Code”), as well as disclosure requirements under the Disclosure and Transparency Rules of the Financial Services Authority (FSA), United Kingdom, which are applicable to non-United Kingdom companies with Global Depositary Receipts (GDRs) listed on the London Stock Exchange.

In order to remain a pace setter in the area of good corporate governance practices, the Bank continuously reviews its Code to align with legal and regulatory requirements and global best practices. Accordingly, the Bank reviewed its Code during the financial year to align with disclosure requirements under the SEC Code.

In compliance with the requirements of the Central Bank of Nigeria (CBN), the Bank undertakes monthly internal reviews of its compliance status with defined corporate governance practices and submits reports on the Bank’s compliance status to the CBN and the Nigeria Deposit Insurance Corporation. An annual Board Appraisal is also conducted by an Independent Consultant appointed by the Bank whose report is submitted to the CBN and presented to Shareholders at the Annual General Meeting of the Bank in compliance with the provisions of the CBN Code of Corporate Governance.

### Governance Structure- The Board

The ultimate responsibility for the governance of the Bank resides with the Board of Directors which is accountable to shareholders for creating and delivering sustainable value through the management of the Bank’s business. The Board is also responsible for the management of the Bank’s relationship with its various stakeholders.

The business of the Bank is driven by the Board of Directors which exercises its oversight functions through its various Committees, namely, Board Risk Management Committee, Board Credit Committee, Board Human Resources and Remuneration Committee and the Audit Committee of the Bank.

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Through these Committees, interactive dialogue is employed on a regular basis to set broad policy guidelines, and to ensure the proper management and direction of the Bank.

The Board comprises fourteen members, eight (8) of whom are Non-Executive Directors (including the Chairman of the Board), while six (6) are Executive Directors. Two (2) of the Non-Executive Directors are “Independent Directors”, appointed based on criteria laid down by the CBN for the appointment of Independent Directors and the core values enshrined in the Bank’s Code of Corporate Governance. Both Independent Directors do not have any significant shareholding interest or any special business relationship with the Bank.

The effectiveness of the Board derives from the appropriate balance and mix of skills and experience of Directors, both Executive and Non-Executive. The Bank’s Board is made up of a crop of seasoned professionals, who have excelled in their various professions including banking, accounting, oil and gas as well as law, and possess the requisite integrity, skills and experience to bring independent judgment to bear on the deliberations of the Board.

The Board meets quarterly and additional meetings are convened as required. Material decisions may be taken between meetings by way of written resolutions, as provided for in the Articles of Association of the Bank. The Directors are provided with comprehensive group information at each of the quarterly Board meetings and are also briefed on business developments between Board meetings. The Board met five (5) times during the year ended December 31, 2011.

### Responsibilities of the Board

The Board determines the strategic objectives and policies of the Bank to deliver long-term value by providing overall strategic direction within a framework of rewards, incentives and controls. The Board also ensures that Management strikes an appropriate balance between promoting long-term growth and delivering short-term objectives. In fulfilling its primary responsibility, the Board is aware of the importance of achieving a balance between conformance to governance principles and economic performance.

Powers reserved for the Board include the approval of quarterly, half-yearly and full year financial statements (whether audited or unaudited) and any significant change in accounting policies and/or practices; appointment or removal of Company Secretary; approval of major change to the Bank’s corporate structure (excluding internal reorganizations) and changes relating to the Bank’s capital structure or its status as a public limited company; the determination and approval of the strategic objectives and policies of the Bank to deliver long-term value; approval of the Bank’s strategy, medium and short term plan and its annual operating and capital expenditure budget; recommendation to shareholders of the appointment or removal of auditors and the remuneration of Auditors; approval of resolutions and corresponding documentation for shareholders in general meeting(s), shareholders circulars, prospectus and principal regulatory filings with the regulators.

Other powers reserved for the Board are the determination of Board structure, size and composition, including appointment and removal of Directors, succession planning for the Board and senior management and Board Committee membership; approval of mergers and acquisitions, branch expansion and establishment of subsidiaries; approval of remuneration policy and packages of the Managing Director and other Board members, appointment of the Managing Director and other Directors of subsidiaries nominated by the Bank; approval of the Board performance evaluation process, corporate governance framework and review of the performance of the Managing Director; approval of policy documents on significant issues including Enterprise-

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wide Risk Management, Human Resources, Credit, Corporate governance and Anti – Money laundering, and approval of all matters of importance to the Bank as a whole because of their strategic, financial, risk or reputational implications or consequences.

### Roles of Chairman and Chief Executive

The roles of the Chairman and Chief Executive are separate and no one individual combines the two positions. The Chairman’s main responsibility is to lead and manage the Board to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. The Chairman is responsible for ensuring that Directors receive accurate, timely and clear information to enable the Board take informed decisions: monitor effectively and provide advice to promote the success of the Bank. The Chairman also facilitates the contribution of Directors and promotes effective relationships and open communications between Executive and Non-Executive Directors, both inside and outside the Boardroom.

The Board has delegated the responsibility for the day-to-day management of the Bank to the Managing Director/Chief Executive Officer, who is supported by Executive Management, comprising the Executive Directors. The Managing Director executes the powers delegated to him in accordance with guidelines approved by the Board of Directors. Executive Management is accountable to the Board for the development and implementation of strategies and policies. The Board regularly reviews group performance, matters of strategic concern and any other matter it regards as material.

### Director Nomination Process

The Criteria for the desired experience and competencies of new Directors is agreed upon by the Board. The balance and mix of appropriate skills and experience of Non-Executive Directors is taken into account when considering a proposed appointment. In reviewing Board composition, the Board ensures a mix with representatives from different industry sectors.

The following core values are considered critical in nominating a new Director;

- (i) Integrity
- (ii) Professionalism
- (iii) Career Success
- (iv) Recognition
- (v) Ability to add value to the Bank.

Shareholding in the Bank is not considered a criterion for the nomination or appointment of a Director. The appointment of Directors is subject to the approval of the Central Bank of Nigeria.

### Induction and Continuous Training

On appointment to the Board and to Board Committees, all Directors receive a formal induction tailored to meet their individual requirements.

The induction, which is arranged by the Company Secretary, may include meetings with senior management staff and key external advisors, to assist Directors in building a detailed understanding of the Bank’s operations, its strategic plan, its business environment, the key issues the Bank faces, and to introduce Directors to their

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fiduciary duties and responsibilities. Directors are also encouraged to make site visits to see the Bank's operations first hand.

Training and education of Directors on issues pertaining to their oversight functions is a continuous process, in order to update their knowledge and skills and keep them informed of new developments in the Bank's business and operating environment. The Bank attaches great premium to training its Directors. Each Non-Executive Director attended both foreign and local courses during the financial period ended December 31, 2011.

### Changes on the Board

The erstwhile Managing Director/Chief Executive Officer of the Bank, Mr. Tayo Aderinokun passed away on June 14, 2011. Mr. Aderinokun served the Bank as Managing Director/Chief Executive Officer from 2002 till his demise in June 2011. He had earlier served as Deputy Managing Director for twelve (12) years from the inception of the Bank in 1990 till 2002.

In line with the Bank's well defined succession plan, Mr. Segun Agbaje was appointed as Managing Director/Chief Executive Officer on June 22, 2011. Before his appointment as Managing Director, Mr. Agbaje had served as an Executive Director from January 2000 and as Deputy Managing Director from 2002.

In a bid to rejuvenate the Board at Executive Management level and put in place an enduring Succession Plan for the Bank, Mr. Jide Ogundare, Mrs. Titi Osuntoki and Mr. Akin George Taylor retired as Executive Directors of the Bank with effect from October 19, 2011. The Board, with the approval of the Central Bank of Nigeria, appointed Mr. Demola Odeyemi, Mrs. Tola Omotola, Mr Wale Oyedeji and Mr. Ohis Ohiwerei as Executive Directors of the Bank to fill the vacancies created by the said resignations.

### Profile of the new Executive Directors:

#### 1. **Mr. Demola Odeyemi** – Executive Director and Chief Financial Officer

Mr. Demola Odeyemi is a Chartered Accountant (Fellow), graduate member of the Chartered Institute of Stockbrokers of Nigeria, and a Chartered member of the Institute of Taxation in Nigeria. He holds a First Class Honours degree (B.Ed) in Social Studies from Obafemi Awolowo University (1990), a Master of Science Degree in Tests, Measurement and Statistics which he finished with a distinction average in 1992, and a Doctorate in Tests, Measurement and Statistics from the same university in 2011.

With career spanning over 19 years in the areas of Accounting, Financial Control, Strategy Development and Tax Audit, Mr. Odeyemi is the Chief Financial Officer of the Bank responsible for International expansion and Group Coordination of the Bank's subsidiaries.

He joined Guaranty Trust Bank Plc in 1997 and worked in the Financial Control Unit until March 2000 when he left the Bank to work in other institutions. He returned to the Bank in 2003. He serves as a Non-Executive Director on the boards of Guaranty Trust Bank (Ghana) Limited, Guaranty Trust Bank (United Kingdom) Limited, Guaranty Trust Bank (Liberia) Limited. He is also a Non-Executive Director on the boards of Terra Kulture Nigeria Limited, Sokoa Chair Centre Limited and 3 Peat Investment Limited, all companies in which the Bank has investments under the Small and Medium Industries Equity Investments (SMIEI) Scheme.

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2. **Mr. Ohiwerei** - Executive Director and Divisional Head, Commercial Banking, Lagos Division and Public Sector

Mr. Ohiwerei holds a Bachelor of Engineering degree from the University of Benin (1988) and also a Master of Business Administration degree from the same school in 1991. More recently he has attended the Advanced Management Program at Harvard Business School.

His career spans over 19 years in core banking, out of which he served as Executive Director and Chief Financial Officer of a bank prior to joining Guaranty Trust Bank Plc. He is exposed to managing risks associated with banking across multicurrency and multicultural countries, and was a critical part of the regional treasury audit team of his previous bank of employment.

Mr. Ohiwerei is the Executive Director responsible for Commercial Banking, Lagos Division and Public Sector.

3. **Mrs. Olutola Omotola** – Executive Director, Corporate Services Division and Company Secretary

Mrs. Tola Omotola obtained a Bachelor of Laws (LL.B) degree from the Obafemi Awolowo University, Ile-Ife in 1987, graduating at the top of her class, and obtained the professional certification of Barrister at Law (BL) from the Nigerian Law School in 1988. She holds Masters Degrees in both Law and Business Administration from University of Lagos and Obafemi Awolowo University, Ile-Ife, respectively. She is a Fellow of the Institute of Chartered Secretaries and Administrators, United Kingdom and an Honorary Member of Council of the Institute of Chartered Secretaries and Administrators of Nigeria.

Her career spans over 20 years in Company Secretariat and Legal Advisory Services, having served as Company Secretary and Legal Adviser in some banks prior to joining the Bank. She joined the Bank as the Legal Adviser in July 2006 and was subsequently appointed as the Company Secretary /Legal Adviser in June 2007.

As the Divisional Head of Corporate Services Division, Mrs. Omotola is responsible for running the Legal Group, General Administration Group, Procurement Group and Total Quality Management Group of the Bank. She is also the Company Secretary of the Bank and serves as a Non-Executive Director on the board of Guaranty Trust Bank (Gambia) Limited.

4. **Mr. Wale Oyedeji**– Executive Director and Head, Corporate Banking Group

Mr. Wale Oyedeji holds a Bachelors of Science degree in Agricultural Economics from the University of Ibadan (1990) and an Master of Science degree in Financial Economics from the University of London in 2001. He is also a Fellow of the Institute of Chartered Accountants of Nigeria (ICAN) and an associate of the Chartered Institute of Taxation.

With career spanning over 19 years in the areas of Accounting, Corporate Banking, Treasury and Commercial Banking, Wale was also the Managing Director of Guaranty Trust Bank (United Kingdom) Limited, the Bank's United Kingdom subsidiary from September 2008 to September 2011. He is currently a Non-Executive Director of Guaranty Trust Bank (United Kingdom) Limited.

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All the new Executive Directors are in their 40s and reside in Nigeria.

The said Executive Directors will be presented to shareholders at the 22<sup>nd</sup> Annual General Meeting of the Bank for approval.

### Board Committees

The Board carries out its responsibilities through its Standing Committees, which have clearly defined terms of reference, setting out their roles, responsibilities, functions and scope of authority. The Board has four (4) Standing Committees, namely; Board Risk Management Committee, Board Credit Committee, Board Human Resources and Remuneration Committee and the Audit Committee of the Bank.

Through these Committees, the Board is able to more effectively deal with complex and specialized issues, and to fully utilize its expertise to formulate strategies for the Bank. The Committees make recommendations to the Board, which retains responsibility for final decision making.

All Committees in the exercise of their powers so delegated conform to the regulations laid down by the Board, with well defined terms of reference contained in the Charter of each Committee. The Committees render reports to the Board at the Board's quarterly meetings.

A summary of the roles, responsibilities, composition and frequency of meetings of each of the Committees are as stated hereunder:

### Board Risk Management Committee

This Committee is tasked with the responsibility of setting and reviewing the Bank's risk policies. The coverage of supervision includes the following: credit risk, reputation risk, operations risk, technology risk, market and rate risks, liquidity risk and other pervasive risks as may be posed by the events in the industry at any point in time.

The Terms of Reference of the Board Risk Management Committee include:

1. To review and recommend for the approval of the Board, the Bank's Risk Management Policies including the risk profile and limits;
2. To determine the adequacy and effectiveness of the Bank's risk detection and measurement systems and controls;
3. To evaluate the Group's internal control and assurance framework annually, in order to satisfy itself on the design and completeness of the framework relative to the activities and risk profile of Bank and its subsidiaries ;
4. To oversee Management's process for the identification of significant risks across the Bank and the adequacy of risk mitigation, prevention, detection and reporting mechanisms;
5. To review and recommend to the Board for approval, the contingency plan for specific risks;
6. To conduct quarterly review of the Bank's central liability report and summary of criticized loans with the concurrent power of recommending the adequacy of the reserves for loan losses and approving possible charge-offs to the Board;



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7. To review the Bank's compliance level with applicable laws and regulatory requirements which may impact on the Bank's risk profile;
8. To conduct periodic review of changes in the economic and business environment, including emerging trends and other factors relevant to the Bank's risk profile;
9. To handle any other issue referred to the Committee from time to time by the Board.

The Chief Risk Officer of the Bank presents regular briefings to the Committee at its meetings. The Committee meets quarterly and additional meetings are convened as required. The Committee met four (4) times in the financial year ended December 31, 2011.

The Board Risk Management Committee comprised the following members during the period under review:

1	Mr. Egbert Imomoh	Non-Executive Director	Chairman
2	Mr. Tayo Aderinokun (Deceased) <sup>1</sup>	Managing Director(Former)	Member
3	Mr. Segun Agbaje	Managing Director	Member
4	Mr. Andrew Alli	Non-Executive (Independent) Director	Member
5	Mrs. Stella Okoli	Non-Executive Director	Member
6	Mr. Babajide Ogundare <sup>2</sup>	Executive Director	Member
7	Mrs. Titilayo Osuntoki <sup>2</sup>	Executive Director	Member
8	Mr. Demola Odeyemi <sup>3</sup>	Executive Director	Member
9	Mrs Olutola Omotola <sup>3</sup>	Executive Director	Member

<sup>1.</sup> Deceased on June 14, 2011

<sup>2.</sup> Resigned from the Board with effect from October 19, 2011

<sup>3.</sup> Appointed to the Risk Management Committee with effect from November 2011

### Board Credit Committee

This Committee is responsible for approval of credit facilities in the Bank. The Terms of Reference of the Board Credit Committee include:

1. To consider and approve specific loans above the Management Credit Committee's authority limit, as determined by the Board from time to time
2. To review Management Credit Committee's authority level as and when deemed necessary and recommend new levels to the Board for consideration;
3. To conduct quarterly review of credits granted by the Bank to ensure compliance with the Bank's internal control systems and credit approval procedures;
4. To notify all Director related loans to the Board;
5. To monitor and notify the top debtors to the attention of the Board;

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6. To review the Bank's internal control procedures in relation to credit risk assets and ensure that they are sufficient to safeguard the quality of the Bank's risk assets;
7. To review the Asset and Liability Management of the Bank;
8. To ensure that the Bank complies with regulatory requirements regarding the grant of credit facilities;
9. To handle any other issue referred to the Committee from time to time by the Board.

In view of the volume of transactions that require Board Credit Committee approvals, there are instances where the need arises for credits to be approved by members expeditiously between Board Credit Committee Meetings. Such urgent credits are circulated amongst the members for consideration and approval in line with a defined procedure that ensures that all members of the Committee are furnished with full information on such credits. All credits considered as "Large Exposures" as defined by the Board of Directors from time to time are considered and approved by the Board Credit Committee at a special meeting convened for that purpose.

The Board Credit Committee meets at least once in each quarter. However, additional meetings are convened as required. The Committee met five (5) times during the the financial year ended December 31, 2011.

The Board Credit Committee is made up of the following members:

1	Mr. Akindele Akintoye	Non-Executive(Independent) Director	Chairman
2	Mr. Segun Agbaje*	Managing Director	Member
3	Mrs. Cathy Echeozo	Deputy Managing Director	Member
4	Mr. Adebayo Adeola	Non-Executive Director	Member
5	Mr. Olabode Augusto	Non-Executive Director	Member
6	Mr. Ibrahim Hassan	Non-Executive Director	Member
7	Mr. Akinola George-Taylor <sup>1</sup>	Executive Director	Member
8	Mr. Ohis Ohiwerei <sup>2</sup>	Executive Director	Member
9	Mr. Wale Oyedeji <sup>3</sup>	Executive Director	Member

\* Ceased to be a member of the Committee in November, 2011

1. Disengaged from the Bank with effect from October 19, 2011
2. Appointed as Director with effect from October 19, 2011 and a member of the Board Credit Committee in November 2011.
3. Appointed to the Risk Management Committee with effect from November 2011

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### Board Human Resources and Remuneration Committee

The Board Human Resources and Remuneration Committee is responsible for the approval of the remuneration of the Executive Directors (including the Managing Director and Deputy Managing Director). The Committee is also responsible for the oversight of strategic people issues, including employee retention, equality and diversity as well as other significant employee relations matters. The Board Human Resources and Remuneration Committee is made up of all Non-Executive Directors of the Bank (excluding the Chairman of the Board) as listed below:

1	Mr. Andrew Alli	Chairman
2	Mr. Egbert Imomoh	Member
3	Mr. Akindele Akintoye	Member
4	Mr. Adebayo Adeola	Member
5	Mr. Olabode Augusto	Member
6	Mr. Ibrahim Hassan	Member
7	Mrs. Stella Okoli	Member

The Committee met six (6) times during the 2011 financial year.

### Audit Committee of the Bank

This Committee is responsible for ensuring that the Bank complies with all the relevant policies and procedures both from the regulators and as laid-down by the Board of Directors. Its major functions include the approval of the annual audit plan of the internal auditors, review and approval of the audit scope and plan of the external auditors, review of the audit report on internal weaknesses observed by both the internal and external auditors during their respective examinations and to ascertain whether the accounting and reporting policies of the Bank are in accordance with legal requirements and agreed ethical practices.

The Committee also reviews the Bank's annual and interim financial statements, particularly the effectiveness of the Bank's disclosure controls and systems of internal control as well as areas of judgment involved in the compilation of the Bank's results. The Committee is responsible for the review of the integrity of the Bank's financial reporting and oversees the independence and objectivity of the external auditors. The Committee has access to external auditors to seek explanations and additional information, while the internal and external auditors have unrestricted access to the Committee, which ensures that their independence is in no way impaired.

The Committee is made up of three (3) Non-Executive Directors and three (3) shareholders of the Bank appointed at Annual General Meetings, while the Chief Inspector of the Bank serves as the secretary to the Committee. The membership of the Committee at the Board level is based on relevant experience of the Board members, while one of the shareholders serves as the Chairman of the Committee.

The internal and external auditors are invited from time to time to attend the Meetings of the Committee. The Chief Financial Officer and appropriate members of Management also attend the meetings upon invitation. The Committee meets at least four (4) times in a year. The Audit Committee of the Bank met five (5) times during the period.

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The following members served on the Committee during the financial year ended December 31, 2011:

Name	Status	Designation	Attendance
Mr. Mobolaji Fatai Lawal	Shareholders' Representative	Chairman	5
Alhaji Mohammed Usman	Shareholders' Representative	Member	5
Mrs. Sandra Mbagwu-Fagbemi	Shareholders' Representative	Member	5
Mr. Andrew Alli	Non-Executive (Independent) Director	Member	5
Mr. Olabode Augusto	Non-Executive Director	Member	4
Mr. Ibrahim Hassan	Non-Executive Director	Member	5

### Attendance of Board and Committee Meetings

The table below shows the frequency of meetings of the Board of Directors and Board Committees, as well as Members' attendance for the financial year ended December 31, 2011.

S/N	DIRECTORS	BOARD	BOARD CREDIT COMMITTEE	BOARD RISK MANAGEMENT COMMITTEE	BOARD HUMAN RESOURCES & REMUNERATION COMMITTEE
	DATE OF MEETINGS	Jan 26, 2011 April 20, 2011 Jun 22, 2011 Jul 20, 2011 Oct 19, 2011	Jan 25, 2011 April 19, 2011 Jul 19, 2011 Sept. 6, 2011 Oct 18, 2011	Jan 25, 2011 April 19, 2011 Jul 19, 2011 Oct. 18 2011	Jan 26, 2011 April 20,2011 May 16, 2011 Jun 22, 2011 Jul 20, 2011 Oct. 19, 2011
	<b>NUMBER OF MEETINGS</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>6</b>
1	Mr. O. S. Oduyemi	5	N/A	N/A	N/A
2	Mr. O. Aderinokun <sup>1</sup>	1	N/A	1	N/A
3	Mr. J. K. O Agbaje	5	5	N/A	N/A
4	Mr. E. U. Imomoh	5	N/A	4	5
5	Mr. A O. Akintoye	5	5	N/A	5
6	Mr. A. F. Alli	5	N/A	4	5
7	Mrs. S. C. Okoli	5	N/A	4	5
8	Mr. O. M. Augusto	5	5	N/A	5
9	Mr. K. A. Adeola	5	5	N/A	4
10	Mr. I. Hassan	5	5	N/A	5
11	Mr. M. B. Ogundare <sup>2</sup>	5	N/A	4	N/A
12	Mrs. C. N Echeozo	5	4	N/A	N/A
13	Mrs. G.T Osuntoki <sup>2</sup>	5	N/A	4	N/A
14	Mr. A. George-Taylor <sup>2</sup>	5	5	N/A	N/A
15	Mr. A. A. Odeyemi <sup>3</sup>	Nil	N/A	Nil	N/A
16	Mr. O. Ohiwerei <sup>3</sup>	Nil	Nil	N/A	N/A
17	Mrs. O. O. Omotola <sup>3</sup>	Nil	N/A	Nil	N/A
18	Mr. A. Oyedeji <sup>3</sup>	Nil	Nil	N/A	N/A

N/A -Not Applicable

1. Away on medical leave from February 28, 2011, deceased on June 14, 2011,

2. Disengaged from the Board with effect from October 19, 2011

3. Appointed as Director with effect from October 19, 2011 and to the Board Committees in November 2011

## Corporate Governance

### Tenure of Directors

In order to ensure both continuity and injection of fresh ideas, the tenure for Non-Executive Directors is limited to a maximum of three (3) terms of four (4) years each, i.e. twelve (12) years whilst the maximum tenure for Independent Non-Executive Directors is limited to a maximum of two (2) terms of four (4) years each, i.e. eight (8) years.

### Board Appraisal

In the Bank's customary manner of imbibing the best corporate governance practices, the Board engaged an Independent Consultant, J. K. Randle International, to carry out the annual Board and Directors appraisal for the 2011 financial year. The annual appraisal covered all aspects of the Board's structure, composition, responsibilities, processes, relationships, individual members' competencies and respective roles in the Board performance, as well as the Bank's compliance status with the provisions of the CBN and SEC Codes.

The Independent Consultant adjudged the performance of the Board as outstanding and rated the performance of each individual Director as well above requirements. A summary of the Consultant's report is contained on page 19 of this Annual report.

### Shareholders

The General Meeting of the Bank is the highest decision making body of the Bank. The Bank's General Meetings are conducted in a transparent and fair manner. Shareholders have the opportunity to express their opinions on the Bank's financial results and other issues affecting the Bank. The Annual General Meetings are attended by representatives of regulators such as the Central Bank of Nigeria, the Securities and Exchange Commission, The Nigerian Stock Exchange, Corporate Affairs Commission as well as representatives of Shareholders' Associations.

The Bank has an Investors Relations Unit, which deals directly with enquiries from shareholders and ensures that shareholders' views are escalated to Management and the Board. In addition, quarterly, half-yearly and annual financial results are published in widely read national newspapers.

The Bank ensures that institutional investors and international holders of the Global Depositary Receipts get frequent updates on the Bank's progress via interactive conference calls, local and international investor presentations and meetings. These conference calls and investor meetings provide our investors with direct access to senior and executive Management.

### Protection of Shareholders Rights

The Board ensures the protection of the statutory and general rights of shareholders at all times, particularly their right to vote at general meetings. All shareholders are treated equally, regardless of volume of shareholding or social status.

## Corporate Governance

### Communication Policy

The Board and Management of the Bank ensures that communication and dissemination of information regarding the operations and management of the company to shareholders, stakeholders and the general public is timely, accurate and continuous, to give a balanced and fair view of the Bank's financial and non-financial matters. Such information, which is in plain language, readable and understandable, is available on the Bank's website, [www.gtbank.com](http://www.gtbank.com). The website is constantly updated with information as events occur.

The website also has an Investors Relations portal where the company's annual reports and other relevant information about the company is published and made accessible to its shareholders, stakeholders and the general public.

The main objective of the Bank's Communication Policy is to support the Bank in achieving the overall goals described in the Bank's core values which strengthens the Bank's culture of transparency in pursuit of best corporate governance practices.

In order to reach its overall goal on information dissemination, the Bank is guided by the following principles:

**Compliance with Rules and Regulations:** The Bank complies with the legislation and codes of corporate governance of the jurisdictions within which it operates. These include the Banks and other Financial Institutions Act (BOFIA), the Companies and Allied Matters Act (CAMA) and the codes of Corporate Governance issued by the Central Bank of Nigeria as well as the Securities and Exchange Commission, the United Kingdom Listing Authority ("UKLA") (by virtue of the listing of Global Depository Receipts by the Bank on The London Stock Exchange in July 2007);

- (i) **Efficiency:** The Bank uses modern communication technologies in a timely manner to convey its messages to its target groups. Synergies are sought when it comes to using different communication channels. The Bank replies without unnecessary delay to information requests by the media and the public;
- (ii) **Transparency:** As an international financial institution, the Bank strives in its communication to be as transparent and open as possible while taking into account the concept of confidentiality between the Bank and its customers, and bank secrecy. This contributes to maintaining a high level of accountability;
- (iii) **Proactivity:** The Bank proactively develops contacts with its target groups and identifies topics of possible mutual interest;
- (iv) **Clarity:** The Bank aims at clarity, i.e. to send uniform and clear messages on key issues;
- (v) **Cultural awareness:** As an international financial institution, the Bank operates in a multicultural environment and accordingly recognizes the need to be sensitive to the cultural peculiarities of its operating environment;
- (vi) **Feedback:** The Bank actively and regularly seeks feedback on its image and communication activities both from the media as well as from its key target groups. This feedback is used to fine-tune communication activities.

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### Information Flows

It is the responsibility of Executive Management under the direction of the Board, to ensure that the Board receives adequate information on a timely basis, about the Bank's businesses and operations at appropriate intervals and in an appropriate manner, to enable the Board to carry out its responsibilities.

### The Company Secretary

The Company Secretary provides a point of reference and support for all Directors. The Company Secretary also consults regularly with Directors to ensure that they receive required information promptly. The Board may obtain information from external sources, such as consultants and other advisers, if there is a need for outside expertise, via the Company Secretary or directly.

The Company Secretary is also responsible for assisting the Board and Management in the implementation of the Code of Corporate Governance of the Bank, co-ordinating the orientation and training of new Directors and the continuous education of Non-Executive Directors; assisting the Chairman and Managing Director to formulate an annual Board Plan and with the administration of other strategic issues at the Board level; organizing Board meetings and ensuring that the minutes of Board meetings clearly and properly capture Board's discussions and decisions.

### Independent Advice

Independent professional advice is available, on request, to all Directors at the Bank's expense when such advice is required to enable a Member of the Board effectively perform certain responsibilities. The Bank meets the costs of independent professional advice obtained jointly or severally by a Director or Directors where such advice is necessary to enable the obligations imposed on an individual, through membership of the Board, to be properly fulfilled.

### Insider Trading and price sensitive information

Directors, insiders and their related persons in possession of confidential price sensitive information ("insider information") are prohibited from dealing with the securities of the Bank where such would amount to insider trading. Directors, insiders and related parties are prohibited from disposing, selling, buying or transferring their shares in the Bank for a period commencing from the date of receipt of such insider information until such a period when the information is released to the public or any other period as defined by the Bank from time to time.

### Management Committees

These are Committees comprising senior management staff of the Bank. The Committees are risk driven as they are basically set up to identify, analyze, synthesize and make recommendations on risks arising from day to day activities of the Bank. They also ensure that risk limits as contained in the Board and Regulatory policies are complied with at all times. They provide inputs for the respective Board Committees and also ensure that recommendations of the Board Committees are effectively and efficiently implemented. They meet as frequently as necessary to immediately take action and decisions within the confines of their powers. The

## Corporate Governance

standing Management Committees in the Bank are:

- Management Risk Committee;
- Management Credit Committee;
- Criticized Assets Committee;
- Assets and Liability Management Committee.

### Management Risk Committee

This Committee is responsible for regular analysis and consideration of risks in the Bank. The Committee meets from time to time and at least quarterly. However, additional meetings may be held if required. The Committee reviews and analyses environmental issues and policies impacting either directly or remotely on the Bank, brainstorms on such issues and recommends steps to be taken by the Bank. The Committee's approach is risk based.

The Committee provides inputs for the Board Risk Management Committee and also ensures that the decisions and polices emanating from the Committee's meetings are implemented.

### Management Credit Committee

This is the Committee responsible for ensuring that the Bank complies fully with the Credit Policy Guide as laid down by the Board of Directors. The Committee also provides inputs for the Board Credit Committee. This Committee reviews and approves credit facilities to individual obligors not exceeding an aggregate sum to be determined by the Board from time to time. The Management Credit Committee is responsible for reviewing and approving all credits that are above the approval limit of the Managing Director as determined by the Board. The Committee reviews the entire credit portfolio of the Bank and conducts periodic assessment of the quality of risk assets in the Bank. It also ensures that adequate monitoring of credits is carried out. The Committee meets weekly depending on the number of credit applications to be considered. The secretary of the Committee is the Head of the Credit Administration Unit of the Bank.

### Criticized Assets Committee

This Committee is responsible for the assessment of the risk asset portfolio of the Bank. It highlights the status of the Bank's assets in line with the internal and external regulatory framework, and directs appropriate actions in respect of delinquent assets. The Committee ensures that adequate provisions are taken in line with the regulatory guidelines. The members of the Committee include the Managing Director, the Executive Directors, and other relevant Senior Management Staff of the Bank.

### Assets and Liability Management Committee

This Committee is responsible for the management of a variety of risks arising from the Bank's business including, market and liquidity risk management, loan to deposit ratio analysis, cost of funds analysis, establishing guidelines for pricing on deposit and credit facilities, exchange rate risks analysis, balance sheet structuring, regulatory considerations and monitoring of the status of implemented assets and liability strategies. The members of the Committee include the Managing Director, Executive Directors, the Treasurer, the Head of the Financial Control Group, the Chief Risk Officer as well as a representative of the Assets and Liability Management Unit.



## Corporate Governance

### Monitoring Compliance with Corporate Governance

#### Chief Compliance Officer

The Chief Compliance Officer monitors compliance with money laundering requirements and the implementation of the Corporate Governance Code of the Bank.

The Chief Compliance Officer together with the Chief Executive of the Bank certify each year to the Central Bank of Nigeria that they are not aware of any other violation of the Corporate Governance Code, other than as disclosed to the CBN during the course of the year.

The Company Secretary and the Chief Compliance Officer forward monthly returns to the Central Bank of Nigeria on all whistle-blowing reports and corporate governance breaches.

#### Whistle Blowing procedures

In line with the Bank's commitment to instil the best corporate governance practices, the Bank has established a whistle blowing procedure that ensures anonymity. The Bank has two (2) hotlines and a dedicated e-mail address for whistle-blowing procedures. The hotline numbers are 01-4480905 and 01- 4480906, and the email address is [hotline@gtbank.com](mailto:hotline@gtbank.com) Internally, the Bank has a direct link on its Intranet (internal web page) for dissemination of information, to enable members of staff report all identified breaches of the Bank's Code of Corporate Governance.

#### Code of Professional Conduct for Employees

The Bank has an internal Code of Professional Conduct which all members of staff are expected to subscribe to upon assumption of duties. Staff are also required to reaffirm their commitment to the Bank's Code annually.

All members of staff are expected to strive to maintain the highest standards of ethical conduct and integrity in all aspects of their professional life as contained in the Code of Professional Conduct which prescribes the common ethical standards, policies and procedures of the Bank relating to employee values.

#### Employee Share-ownership Scheme

The Bank has in place an employee share ownership scheme called the Staff Investment Trust (SIT) scheme. Under the Bank's Articles of Association, the Scheme is authorized to hold up to a specified percentage of ordinary shares of the Bank for the benefit of eligible employees of the Bank. The scheme was established for the benefit of the Bank's staff as an incentive mechanism, by enabling eligible staff invest in ordinary shares of the Bank at a discount (the prevailing Net Assets Value (NAV)), and buying-back their stock from the Bank at the market price, subject to attaining a determined length of service at the point of disengagement from the Bank.

## Corporate Governance

### Internal Management Structure

The Bank operates an internal management structure where all officers are accountable for duties and responsibilities attached to their respective offices and there are clearly defined and acceptable lines of authority and responsibility.

### Sustainability Reporting

Sustainability is embedded in our corporate DNA. As a first-class financial services provider with an internal obligation to comply with international best practices, the bank has always ensured that its lending activities comply with international performance standards and applicable national environmental and social regulations. This helped us to attract on-lending facilities from international finance institutions very early in our corporate life.

We continue to build internal capacity in managing the social and environmental aspects of our operations, guided by a comprehensive Sustainability Policy. We conduct environmental and social due diligence on major credit requests, benchmarking them against performance standards of reputable international finance institutions. This process provides a solid base upon which we identify new opportunities to grow our businesses, and build our competitive advantage in the marketplace. These performance standards also ensure that Guaranty Trust Bank's conduct also influences its customers and other stakeholders.

As our corporate strategic aspirations grow, we remain proudly African with an international outlook. We are committed to the creation of long term value for all our stakeholders by measuring the impact of our activities on the economies and communities where we operate but also the external environmental outcomes of transactions funded by the bank. We will partner with our clients, customers, regulators and communities in analysing our individual and collective environmental and social risks with a view to avoiding or reducing adverse impacts.

We will continue to be transparent in our conduct and operations; learning and improving on our sustainability journey. This report provides a summary of our efforts in environmental and corporate social responsibility activities over the past year and our future priorities. The report has been developed with reference to the Global Reporting Initiative (G3) Guidelines.

As we set stretch goals for ourselves over the coming years, we pledge to measure our successes through the prism of sustainability. We invite you to join us as partners with an independent voice.

Details of Guaranty Trust Bank's Sustainability Report are contained in our upcoming 2012 Sustainability Report.

Thank you.



## REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF GUARANTY TRUST BANK PLC

We have audited the accompanying consolidated financial statements of Guaranty Trust Bank Plc and its subsidiaries (“the group”) which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

### *Director’s responsibility for the financial statements*

The directors are responsible for the preparation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor’s responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinion*

In our opinion the accompanying consolidated financial statements give a true and fair view of the financial position of the group as of 31 December 2011 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Emphasis of matter*

Without qualifying our opinion, we draw attention to the fact that the accompanying financial statements are prepared in addition to the group’s statutory financial statements as described in Note 2 to the consolidated financial statements.

*PricewaterhouseCoopers*  
Chartered Accountants  
Lagos, Nigeria



18 April 2012

**REPORT BY EXTERNAL CONSULTANTS ON THE APPRAISAL OF THE  
BOARD OF DIRECTORS OF GUARANTY TRUST BANK PLC (GTBANK) FOR THE YEAR ENDED 31ST DECEMBER, 2011**

The Board of Directors of GTBank mandated the firm of J. K. Randle International to conduct the Evaluation of the Board of the Bank for the year ended December 31, 2011 in accordance with the requirements of the CBN Code.

The composition of the Board of GTBank remains sound following the re-composition of the executive arm of the Board after the demise of the former Managing Director. The erstwhile Deputy Managing Director was appointed as the Managing Director while four new executive directors were appointed due to the retirement of three of the existing ones. The new appointees are experienced bankers with diverse educational backgrounds and years of cognate banking experience. The Board is adequate in respect of skills-set with people of proven integrity who are well informed and knowledgeable about the business of the Bank and the operating environment through regular training provided by the Bank. There is clear separation of responsibilities between the executives and non-executives; the committee structure is adequate; and the principle of independence is maintained as regards the position of the Chief Executive Officer and the Chairman of the Board. Also, the number of non-executives is greater than the executives. The composition meets the requirements of the CBN Code and other recognised Best Practices.

We observed that the operations of the Board met the requirements of Best Practice and the CBN Code. Frequency of meetings exceeded the minimum requirement of the CBN Code. The Board held five meetings and all the members were present at each meeting. The conduct of the meetings followed conventional procedures in a conducive atmosphere where all members expressed their views freely. The agenda of the Board consisted of relevant strategic issues in order to address the critical evaluation of the unfolding scenarios within the Bank and the operating environment; and the resolution of issues arising therefrom. All the issues were resolved successfully based on consensus as a demonstration of the high level of Board dynamics. The activities of the Board were well documented in its minutes book.

The Board performed all the functions that fell within the purview of its oversight responsibilities which arose during the critical period among which was sustaining the governance structure of the Bank through the implementation of the existing Succession Plan whereby it achieved a seamless transition with regard to the leadership of executive management during a most critical period. Also, the executive arm of the Board was reconstituted. The change process was guided by appropriate legal counselling and was duly conveyed to all the stakeholders and regulatory authorities in accordance with the principle of transparency.

We observed that the Board continually fine-tuned the governance framework of the Bank by adopting formal procedures for the management of its key activities, namely Strategy and Performance Management. Furthermore, it has put in place a documented policy in respect of the responsibilities of the Non-Executive Directors and the Chief Executive Officer as well as several other policy instruments which were updated in line with the realities of the emerging operating environment.

Additionally, there was general improvement in the performance of key responsibilities in respect of Risk Management; overseeing Internal Audit Functions as well as monitoring Regulatory Compliance. The Board supported the Strategic Initiatives undertaken by management and participated in the planning process in order to re-inforce the overall Strategic Intentions of the Bank as well as the Performance Parameters. The performance of the Board is adjudged to be outstanding.

Following the conclusion of the appraisal we urge the Board to continue to focus on governance as a top priority in its agenda and also ensure that the issue of succession is addressed holistically. Also, it should be anchored on a long term strategy with a view to putting in place an enduring Succession Plan.

**Bashorun J. K. Randle, OFR**  
**Chairman/Chief Executive**



**Dated January 26, 2012**

## **Consolidated financial statements**

**Consolidated statement of financial position****As at 31 December 2011**

<i>In thousands of Nigerian Naira</i>	<i>Notes</i>	<b>2011</b>	<b>2010</b>
<b>Assets</b>			
Cash and cash equivalents	5, 8, 24	368,282,477	273,074,591
Loans and advances to banks	5, 8, 25	158,616	186,480
Loans and advances to customers	5, 8, 26	706,893,133	603,906,669
Financial assets held for trading	8, 27	173,297,556	148,872,254
Investment securities:			
– Available for sale	5, 8, 28	3,744,970	10,629,568
– Held to maturity	5, 8, 28	161,196,356	22,896,774
Assets pledged as collateral	8, 29	45,588,084	29,481,804
Investment properties	8, 30	-	7,349,815
Property and equipment	31	51,602,272	43,478,981
Intangible assets	32	1,006,470	1,956,459
Deferred tax assets	33	96,820	587,881
Other assets	34	87,006,691	25,631,621
		<b>1,598,873,445</b>	<b>1,168,052,897</b>
Assets classified as held for sale and discontinued operations	35	9,779,201	-
<b>Total assets</b>		<b>1,608,652,646</b>	<b>1,168,052,897</b>
<b>Liabilities</b>			
Deposits from banks	5, 8, 36	37,229,029	26,026,980
Deposits from customers	5, 8, 37	1,026,119,419	753,088,230
Debt securities in issue	5, 8, 38	145,767,516	66,886,763
Current income tax liabilities		14,062,596	10,082,335
Deferred tax liabilities	33	3,407,652	4,884,484
Other liabilities	39	48,708,157	60,869,620
Liabilities on insurance contracts		-	2,926,322
Other borrowed funds	5, 8, 41	93,230,139	23,033,947
		<b>1,368,524,508</b>	<b>947,798,681</b>
Liabilities included in assets classified as held for sale and discontinued operations	35	6,119,979	-
<b>Total liabilities</b>		<b>1,374,644,487</b>	<b>947,798,681</b>

## Consolidated statement of financial position (Continued)

<i>In thousands of Nigerian Naira</i>	<i>Notes</i>	<b>2011</b>	<b>2010</b>
<b>Equity</b>	42		
<b>Capital and reserves attributable to equity holders of the parent entity</b>			
Share capital		14,715,590	11,658,594
Share premium		123,471,114	119,076,565
Treasury shares		(2,046,714)	(1,562,603)
Retained earnings		28,745,522	16,944,102
Other components of equity		67,121,430	68,106,873
<b>Total equity attributable to owners of the Bank</b>		<b>232,006,942</b>	<b>214,223,531</b>
Non-controlling interests in equity		2,001,217	6,030,685
<b>Total equity</b>		<b>234,008,159</b>	<b>220,254,216</b>
<b>Total equity and liabilities</b>		<b>1,608,652,646</b>	<b>1,168,052,897</b>

Please refer to Note 49(n) for reclassified 2010 figures.

Signed on behalf of the Board of Directors on **18 April 2012** by:

  
 Director  
 Segun Agbaje

  
 Director  
 Cathy Echeozo

**Consolidated income statement***For the year ended 31 December 2011*

<i>In thousands of Nigerian Naira</i>	<b>Notes</b>	<b>2011</b>	<b>2010</b>
Interest income	9	126,471,509	112,396,831
Dividend income	10	245,956	192,331
Interest expense	11	(27,920,924)	(29,774,970)
<b>Net interest income</b>		<b>98,796,541</b>	<b>82,814,192</b>
Loan impairment charges	12	(19,503,412)	(10,368,326)
<b>Net interest income after loan impairment charges</b>		<b>79,293,129</b>	<b>72,445,866</b>
Fee and commission income	13	43,809,517	33,634,283
Fee and commission expense	14	(2,187,966)	(3,198,819)
<b>Net fee and commission income</b>		<b>41,621,551</b>	<b>30,435,464</b>
Net gains/(losses) on financial instruments classified as held for trading	15	6,843,478	7,935,040
Other operating income	16	5,329,097	(2,453,792)
<b>Other income</b>		<b>12,172,575</b>	<b>5,481,248</b>
Total Operating income		133,087,255	108,362,578
Net impairment loss on financial assets	17	-	(228,910)
<b>Net operating income after net impairment loss on financial assets</b>		<b>133,087,255</b>	<b>108,133,668</b>
Personnel expenses	18	(20,484,007)	(16,932,927)
General and administrative expenses	19	(21,621,110)	(22,791,994)
Operating lease expenses		(830,171)	(594,272)
Depreciation and amortization	20	(7,455,930)	(6,539,171)
Other operating expenses	21	(20,615,831)	(15,000,112)
<b>Total expenses</b>		<b>(71,007,049)</b>	<b>(61,858,476)</b>
Profit before income tax		62,080,206	46,275,192
Income tax expense	22	(14,277,068)	(7,666,836)
<b>Profit for the year from continuing operations</b>		<b>47,803,138</b>	<b>38,608,356</b>
Profit for the year from discontinued operations	35	3,938,482	995,668
<b>Profit for the year</b>		<b>51,741,620</b>	<b>39,604,024</b>



## Consolidated income statement (Continued)

<i>In thousands of Nigerian Naira</i>	<i>Notes</i>	<b>2011</b>	<b>2010</b>
<b>Profit attributable to:</b>			
Equity holders of the parent entity (total)		<b>51,203,738</b>	<b>39,173,722</b>
– Profit for the year from continuing operations		47,516,359	38,438,363
– Profit for the year from discontinued operations	35	3,687,379	735,359
Non-controlling interests (total)		<b>537,882</b>	<b>430,302</b>
– Profit for the year from continuing operations		286,779	169,993
– Profit for the year from discontinued operations	35	251,103	260,309
		<b>51,741,620</b>	<b>39,604,024</b>

### Earnings per share for the profit from continuing operations attributable to the equity holders of the parent entity during the year (expressed in naira per share):

– Basic	23	1.69	1.36
– Diluted	23	1.69	1.36

### Earnings per share for the profit from discontinued operations attributable to the equity holders of the parent entity during the year (expressed in naira per share):

– Basic		0.13	0.04
– Diluted		0.13	0.04

*The accompanying notes are an integral part of these consolidated financial statements.*

**Consolidated statement of comprehensive income**  
**For the year ended 31 December 2011**

<i>In thousands of Nigerian Naira</i>	<i>Notes</i>	<b>2011</b>	<b>2010</b>
<b>Profit for the year</b>		51,741,620	39,604,024
<b>Other comprehensive income:</b>			
Exchange differences on translation of foreign operations		200,360	(469,515)
Net change in fair value of available for sale financial assets		(3,452,120)	1,415,413
Income tax relating to component of other comprehensive income	33	731,072	(283,769)
Other comprehensive income for the year, net of tax		(2,520,688)	662,129
<b>Total comprehensive income for the year</b>		<b>49,220,932</b>	<b>40,266,153</b>
<b>Total comprehensive income attributable to:</b>			
<b>Equity holders of the parent entity (total)</b>		<b>48,682,082</b>	<b>39,900,570</b>
– Total comprehensive income for the year from continuing operations		44,994,703	39,165,211
– Total comprehensive income for the year from discontinued operations		3,687,379	735,359
Non-controlling interests (total)		<b>538,850</b>	<b>365,583</b>
– Total comprehensive income for the year from continuing operations		287,747	105,274
– Total comprehensive income for the year from discontinued operations		251,103	260,309
<b>Total comprehensive income for the year</b>		<b>49,220,932</b>	<b>40,266,153</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

## Consolidated Statement of Changes in Equity

### December 2011

<i>In thousands of Nigerian Naira</i>	Share capital	Share premium	Regulatory risk reserve	Other regulatory reserves	Treasury shares	Bonus reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Non-controlling interest	Total equity
Balance at 1 January 2011	11,658,594	119,076,565	10,959,720	52,677,637	(1,562,603)	2,914,648	1,806,609	(251,741)	16,944,102	6,030,685	220,254,216
Total comprehensive income for the year:											
Profit for the year	-	-	-	-	-	-	-	-	51,203,738	537,882	51,741,620
Other comprehensive income, net of tax											
Foreign currency translation difference	-	-	-	-	-	-	-	139,574	-	968	140,542
Fair value adjustment	-	-	-	-	-	-	(2,661,230)	-	-	-	(2,661,230)
<b>Total other comprehensive income</b>	-	-	-	-	-	-	<b>(2,661,230)</b>	<b>139,574</b>	-	<b>968</b>	<b>(2,520,688)</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>(2,661,230)</b>	<b>139,574</b>	<b>51,203,738</b>	<b>538,850</b>	<b>49,220,932</b>
Transactions with equity holders, recorded directly in equity:											
Bonus shares issued during the year	2,914,648	-	-	-	-	(2,914,648)	-	-	-	-	-
Transfers for the year	-	-	-	15,410,581	-	-	-	-	(15,410,581)	-	-
Increase/Dilution in non-controlling interest	-	-	-	-	-	-	-	-	-	(81,793)	(81,793)
Diminution in Small & Medium Enterprise investments	-	-	-	-	-	-	-	-	-	-	-
Acquisition/disposal of own shares	142,348	4,394,549	-	-	(484,111)	-	-	-	-	-	4,052,786
Reversal in the year	-	-	(10,959,720)	-	-	-	-	-	-	-	(10,959,720)
Dividend to equity holders	-	-	-	-	-	-	-	-	(24,774,509)	(389,669)	(25,164,178)
Dividend on own share adjusted	-	-	-	-	-	-	-	-	782,772	-	782,772
Non-controlling interest of subsidiaries disposed	-	-	-	-	-	-	-	-	-	(4,096,856)	(4,096,856)
<b>Total transactions with equity holders</b>	<b>3,056,996</b>	<b>4,394,549</b>	<b>(10,959,720)</b>	<b>15,410,581</b>	<b>(484,111)</b>	<b>(2,914,648)</b>	-	-	<b>(39,402,318)</b>	<b>(4,568,318)</b>	<b>(35,466,989)</b>
<b>Balance at 31 December 2011</b>	<b>14,715,590</b>	<b>123,471,114</b>	-	<b>68,088,218</b>	<b>(2,046,714)</b>	-	<b>(854,621)</b>	<b>(112,167)</b>	<b>28,745,522</b>	<b>2,001,217</b>	<b>234,008,159</b>

## Consolidated statement of changes in equity

### December 2010

<i>In thousands of Nigerian Naira</i>	Share capital	Share premium	Regulatory risk reserve	Other regulatory reserves	Treasury shares	Bonus reserve	Fair value reserve	currency translation reserve	Retained earnings	Non-controlling interest	Total equity
Balance at 1 January 2010	9,326,875	119,076,565	12,288,268	40,931,359	(1,873,920)	2,331,719	815,820	12,200	10,215,218	5,141,939	198,266,043
Total comprehensive income for the year:											
Profit for the year	-	-	-	-	-	-	-	-	39,173,722	430,302	39,604,024
Other comprehensive income, net of tax											
Foreign currency translation difference	-	-	-	-	-	-	-	(263,941)	-	(64,719)	(328,660)
Fair value adjustment	-	-	-	-	-	-	990,789	-	-	-	990,789
<b>Total other comprehensive income</b>	-	-	-	-	-	-	<b>990,789</b>	<b>(263,941)</b>	-	<b>(64,719)</b>	<b>662,129</b>
<b>Total comprehensive income</b>	-	-	-	-	-	-	<b>990,789</b>	<b>(263,941)</b>	<b>39,173,722</b>	<b>365,583</b>	<b>40,266,153</b>
Transactions with equity holders, recorded directly in equity:											
Bonus shares issued during the year	2,331,719	-	-	-	-	(2,331,719)	-	-	-	-	-
Transfers for the year	-	-	(1,328,548)	11,746,278	-	2,914,648	-	-	(13,332,378)	-	-
Increase/Dilution in non-controlling interest	-	-	-	-	-	-	-	-	-	638,203	638,203
Acquisition/disposal of own shares	-	-	-	-	311,317	-	-	-	-	-	311,317
Dividend to equity holders	-	-	-	-	-	-	-	-	(19,819,610)	(115,040)	(19,934,650)
Dividend on own share adjusted	-	-	-	-	-	-	-	-	707,150	-	707,150
<b>Total transactions with equity holders</b>	<b>2,331,719</b>	-	<b>(1,328,548)</b>	<b>11,746,278</b>	<b>311,317</b>	<b>582,929</b>	-	-	<b>(32,444,838)</b>	<b>523,163</b>	<b>(18,277,980)</b>
<b>Balance at 31 December 2010</b>	<b>11,658,594</b>	<b>119,076,565</b>	<b>10,959,720</b>	<b>52,677,637</b>	<b>(1,562,603)</b>	<b>2,914,648</b>	<b>1,806,609</b>	<b>(251,741)</b>	<b>16,944,102</b>	<b>6,030,685</b>	<b>220,254,216</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated statement of cash flows***For the year ended 31 December 2011**In thousands of Nigerian Naira*

	<i>Notes</i>	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>			
Profit for the period		51,741,620	39,320,255
Adjustments for:			
Depreciation of property and equipment	20, 31	6,902,698	5,957,778
Amortisation of Intangibles	20, 32	743,080	782,777
Gain on disposal of property and equipment		(446,386)	(118,603)
Loss /(Gain) on disposal of investment properties		(325,038)	(174,769)
Gain from disposal of subsidiaries		(2,766,712)	-
Impairment on financial assets		22,761,707	10,597,236
Net interest income		(98,550,585)	(83,853,342)
Foreign exchange gains	16	(2,594,672)	(245,344)
Dividend received		(245,956)	(192,331)
Income tax expense		14,703,089	8,248,203
Other non-cash items		(1,748,252)	(297,226)
		(9,825,407)	(19,975,366)
Changes in:			
Financial assets held for trading		(24,425,302)	(13,945,285)
Assets pledged as collateral		(16,106,280)	(5,953,734)
Loans and advances to banks		27,864	13,987
Loans and advances to customers		(130,862,416)	(38,414,657)
Insurance receivables		(910,480)	(362,857)
Other assets		(65,193,050)	477,113
Deposits from banks		11,203,611	(5,160,085)
Deposits from customers		278,342,840	86,166,375
Investment contract liabilities		466,281	707,570
Insurance contract liabilities		1,977,575	1,449,680
Other liabilities		(9,569,271)	(31,076,389)
		44,951,372	(6,098,282)
Interest received		125,027,749	114,005,446
Interest paid		(24,728,912)	(30,152,104)
		135,424,802	57,779,694
Income tax paid		(11,140,514)	(3,499,600)
<b>Net cash from/(used in) operating activities</b>		<b>124,284,288</b>	<b>54,280,094</b>

**Consolidated statement of cash flows***For the year ended 31 December 2011**In thousands of Nigerian Naira***Notes**                      **2011**                      **2010****Cash flows from investing activities**

Net sale/(purchase) of investment securities		(148,146,229)	(14,366,934)
Dividends received		245,956	192,331
Purchase of property and equipment	31	(17,389,166)	(10,932,744)
Proceeds from the sale of property and equipment		1,634,338	757,735
Purchase of intangible assets	32	(122,460)	(401,315)
Purchase of investment properties	30	(1,042,217)	(2,750,120)
Proceeds from disposal of investment properties		886,498	645,740
Proceeds on disposal of interest in subsidiaries		9,544,375	-
<b>Net cash from/(used in) investing activities</b>		<b>(154,388,905)</b>	<b>(26,855,307)</b>

**Cash flows from financing activities**

Increase in debt securities issued		74,777,917	(1,454,189)
Repayment of long term borrowings		(5,689,989)	(2,927,936)
Increase in long term borrowings		73,859,945	12,952,606
Finance lease repayments		(446,612)	(363,501)
Inflow for improvement in leased asset		2,297,739	-
Proceeds from share issue		4,536,897	-
Purchase of treasury shares		(531,491)	-
Sale of treasury shares		47,380	1,018,467
Dividends paid to owners	42	(23,991,737)	(19,819,610)
Dividends paid to non-controlling interest	42	(389,669)	(115,040)
Increase in non-controlling interest		-	638,203
<b>Net cash from/(used in) financing activities</b>		<b>124,470,380</b>	<b>(10,071,000)</b>

**Net (decrease) /increase in cash and cash equivalents**

Cash and cash equivalents at beginning of period		273,074,591	255,944,975
Effect of exchange rate fluctuations on cash held		1,664,866	(224,171)
<b>Cash and cash equivalents at end of period</b>	24	<b>369,105,220</b>	<b>273,074,591</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

## 1. Reporting entity

Guaranty Trust Bank Plc (“the Bank”) is a company domiciled in Nigeria. The address of the Bank’s registered office is Plot 635, Akin Adesola Street, Victoria Island, Lagos. These consolidated financial statements for the year ended 31 December 2011 are prepared for the Bank and its subsidiaries (together referred to as “the Group” and separately referred to as “Group entities”). The Group is primarily involved in investment, corporate and retail banking, mortgage finance, insurance and asset management services.

## 2. Statement of compliance with International Financial Reporting Standards

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). They have been prepared in addition to the Group’s statutory financial statements (not included herein), which were prepared in accordance with Statements of Accounting Standards applicable in Nigeria and with the requirements of the Nigeria Companies and Allied Matters Act (Nigerian GAAP).

These financial statements were authorized for issue by the directors on **13 April 2012**.

## 3. Significant Accounting Policies

### Basis of preparation

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

#### (a) Functional and presentation currency

These consolidated financial statements are presented in Nigerian Naira, which is the Bank’s functional currency. Except where indicated, financial information presented in Naira has been rounded to the nearest thousand.

#### (b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value.
- Non-derivative financial instruments at fair value through profit or loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value.
- Liabilities for cash-settled share-based payment arrangements are measured at fair value.
- The liability for defined benefit obligations is recognized as the present value of the defined benefit obligation less the total of the plan assets, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.
- The plan assets for defined benefit obligations are measured at fair value.
- Investment Property is measured at fair value.
- Assets and liabilities held for trading are measured at fair value

**(c) Use of estimates and judgements**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainties and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in notes 5 and 6.

**(d) Changes to accounting policies****New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year.

- **Standards and interpretations effective during the reporting period**

Amendments to the following standards which became effective in 2011 did not have any material impact on the accounting policies, financial position or performance of the Group during the financial year:

- Amendment to IAS 24 – Related Party Disclosure (Disclosure on Entities that are controlled, jointly controlled or significantly influenced by Government). The Group is neither controlled nor significantly influenced by Government.
- Amendment to IFRS 7 - Financial Instruments Disclosure (Transfer of Financial Assets). The Group did not transfer any financial asset during the financial year.
- Amendment to IFRS 1 – First Time Adoption of International Financial Reporting Standards (Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters). The Group is not a First Time Adopter.

- **Standards and interpretations issued but not yet effective**

Standard	Content	Effective Year
IAS 12	Income Taxes	1 January 2012
IAS 1	Presentation of Financial Statements	1 July 2012
IAS 27	Separate Financial Statements (2011)	1 January 2013
IAS 28	Investments in Associates and Joint Ventures (2011)	1 January 2013
IAS 19	Employee Benefits	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013



IFRS 12	Disclosure of Interest in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IAS 32	Financial Instruments: Presentation	1 January 2014
IFRS 9	Financial Instruments	1 January 2015

Standards which were issued but will become effective after 2011 will not have material impact on the Group.

### Other Accounting Policies

Other accounting policies that have been applied are:

#### (a) Consolidation

The financial statements of the consolidated subsidiaries used to prepare the consolidated financial statements were prepared as of the parent company's reporting date. The consolidation principles are unchanged as against prior year

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that, presently, are exercisable are taken into account.

The Group has adopted IFRS 3 Business Combinations (2008). Its adoption though prospectively applied had no material impact on earnings per share. The new accounting policy in respect to business combinations is presented as follows:

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

#### *Acquisitions on or after 1 January 2009*

For acquisitions on or after 1 January 2009, the Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Group elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, as at acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the group incurs in connection with a business combination are expensed as incurred.

*Acquisitions between 1 January 2003 and 1 January 2009*

For acquisitions between 1 January 2003 and 1 January 2009, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition

*Acquisitions prior to 1 January 2003*

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group's previous accounting framework, (Nigerian GAAP).

**(ii) Special purpose entities**

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

- The activities of the SPE are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from the SPE's operation.
- The Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE.
- The Group has the rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE.
- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The Group established GTB Finance B.V., Netherlands as a special purpose entity to issue its \$850 million Eurobond Guaranteed Notes. Accordingly the financial statements of GTB Finance B.V. have been consolidated.

**(iii) Accounting method of consolidation**

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated financial statement from the effective acquisition date and or up to the effective date on which control ceases, as appropriate. The integration of the subsidiaries into the consolidated financial statements is based on consistent accounting and valuation methods for similar transactions and other occurrences under similar circumstances. Subsidiaries are not consolidated from the date on which control ceases.

**(iv) Transactions eliminated on consolidation**

Intra-group balances, and income and expenses (except for foreign currency translation gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(iv) Non-controlling Interest**

The group applies IAS 27 Consolidated and Separate Financial Statements (2008) in accounting for acquisitions of non-controlling interests. Under this accounting policy acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on the proportionate amount of the net assets of the subsidiary.

**(b) Foreign currency translation****(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The consolidated financial statements are presented in Naira, which is the Group's presentation currency.

**(ii) Transactions and balances**

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as gains or losses from qualifying cash flow hedging instruments or qualifying net investment

hedging instruments.

All foreign exchange gains and losses recognised in the income statement are presented net in the consolidated income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in equity.

### (iii) Foreign operations

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- All resulting exchange differences are recognised in other comprehensive income.

Exchange differences arising from the above process are reported in shareholders' equity as 'Foreign currency translation differences'.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to 'Other comprehensive income'. When a foreign operation is disposed of, or partially disposed of, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### (c) Interest

Interest income and expense are recognised in profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, the next repricing date) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instruments but not future credit losses.

The calculation of the effective interest rate includes contractual fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the Consolidated Income statement include:

- Interest on financial assets and liabilities measured at amortised cost calculated on an effective interest rate basis.
- Interest on financial assets measured at fair value through profit or loss calculated on an effective interest rate basis

**(d) Fees and commission**

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including loan account servicing fees, investment management and other fiduciary activity fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

**(e) Insurance premium**

Insurance premiums are recognised as revenue when they become payable by the contract holder, proportionally over the period of coverage.

**(f) Net trading income**

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, dividends and foreign exchange differences.

**(g) Net income from other financial instruments at fair value through profit or loss**

Net income from other financial instruments at fair value through profit or loss relates to derivatives held for risk management purposes that do not form part of qualifying hedge relationships.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in *Other operating income – Mark to market gain/(loss) on trading investments* in the Consolidated Income statement.

**(h) Dividend income**

Dividend income is recognised when the right to receive income is established. Dividends on trading equities are reflected as a component of net trading income. Dividend income on long term equity investments is recognised as a component of other operating income.

**(i) Leases**

Leases are accounted for in accordance with IAS 17 and IFRIC 4. They are divided into finance leases and operating leases.

**(a) The Group is the lessee****i. Operating lease**

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

**ii. Finance lease**

Leases, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers or other liabilities depending on the counter party. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are measured subsequently at their fair value.

**(b) The Group is the lessor**

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

**(j) Income Tax****(a) Current income tax**

Income tax payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credit to other comprehensive income or to equity (for example, current tax on of available-for-sale investment).

Where the Group has tax losses that can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the consolidated statement of financial position.

The Group evaluates positions stated in tax returns; ensuring information disclosed are in agreement

with the underlying tax liability, which has been adequately provided for in the financial statement.

**(b) Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the consolidated statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and carry-forwards; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

However, the deferred income tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which these temporary differences can be utilised. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised. Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are recognised in other comprehensive income, is also recognised in the other comprehensive income and subsequently in the consolidated income statement together with the deferred gain or loss.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

**(k) Financial assets and liabilities**

**(i) Recognition**

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss. Subsequent recognition of financial assets and liabilities is at amortised cost or fair value.

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data observable from markets, the bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net gains/(losses) on financial instruments classified as held for trading'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

**(ii) Classification**

The classification of financial instruments depends on the purpose and management's intention for which the financial instruments were acquired and their characteristics. See accounting policies 4(l), (m), (o) and (p).

**(iii) De-recognition**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by extent to which it is exposed to changes in the value of the transferred asset.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Group writes off certain loans and investment securities when they are deemed to be uncollectible (see notes 25, 26 and 28).

**(iv) Offsetting**

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to



settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

**(v) Sale and repurchase agreements**

Securities sold under repurchase agreements ('repos') remain on the statement of financial position; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (reverse repos') are recorded as money market placement. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income.

**(vi) Amortised cost measurement**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

**(vii) Fair value measurement**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges (for example, NSE, LSE) and broker quotes from Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, NIBOR, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the dates of the consolidated statement of financial position.

The Group uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

For more complex instruments, the Group uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in Note 6.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data observable from markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the instrument is closed out.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

#### **(viii) Identification and measurement of impairment**

##### **(A) Assets carried at amortised cost**

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
- (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

- (d) it becomes probable that the borrower will enter bankruptcy or other financial re-organisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio; and
  - (ii) national economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss

experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in loan impairment charges whilst impairment charges relating to investment securities (held to maturity and loans and receivables categories) are classified in 'Net gains/(losses) on investment securities'.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated income statement.

#### (B) Assets classified as available for sale

The Group assesses at each date of the consolidated statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

Assets classified as available for sale are assessed for impairment in the same manner as assets carried at amortised cost (see k.viii(a) above for impairment assessment for available for sale debt instruments).

#### (I) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of

financial position.

**(m) Financial assets and liabilities at fair value through profit or loss**

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

Financial liabilities for which the fair value option is applied are recognised in the consolidated statement of financial position as 'Financial liabilities designated at fair value'. Fair value changes relating to financial liabilities designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss'.

**(i) Financial assets and liabilities classified as held for trading**

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss.

**(ii) Designation at fair value through profit or loss**

The Group designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. According to IAS 39, the fair value option is only applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
- the financial assets consists of debt host and an embedded derivative that must be separated.

To reduce accounting mismatch, the fair value option is applied to certain loans and receivables that are hedged with credit derivatives or interest rate swaps but for which the hedge accounting conditions of IAS 39 are not fulfilled. The loans would have been otherwise accounted for at amortised cost, whereas the derivatives are measured at fair value through profit or loss.

The fair value option is also applied to investment funds that are part of a portfolio managed on a fair value basis. Furthermore, the fair value option is applied to structured instruments that include embedded derivatives.

Financial assets for which the fair value option is applied are recognised in the consolidated statement of financial position as 'Financial assets designated at fair value'. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss'.

**(iii) Reclassification of financial assets and liabilities**

The Group may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading

category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

**(n) Assets pledged as collateral**

Financial assets transferred to external parties that do not qualify for de-recognition (see K(iii)) are reclassified in the statement of financial position from Financial assets held for trading to assets pledged as collateral, if the transferee has received the right to sell or re-pledge them in the event of default from agreed terms. Initial and subsequent measurement of assets pledged as collateral is at fair value.

**(o) Loans and advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (“reverse repo or stock borrowing”), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group’s financial statements. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

**(p) Investment securities**

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs and subsequently accounted for depending on their classification as either held for trading, held-to-maturity, fair value through profit or loss or available-for-sale.

**(i) Held-to-maturity**

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a significant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from

classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value.
- Sales or reclassifications after the Group has collected substantially all the asset's original principal.
- Sales or reclassification attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

**(ii) Fair value through profit or loss**

The Group designates some investment securities at fair value with fair value changes recognised immediately in profit or loss as described in accounting policy (k) (vii).

**(iii) Available-for-sale**

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value (see note k(vii)).

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired whereupon the cumulative gains and losses previously recognised in other comprehensive income are recognised to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivable category if it otherwise would have met the definition of loans and receivables and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

**(q) Derivatives held for risk management purposes**

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value with changes in fair value recognised in profit or loss.

**(r) Investment properties**

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the entities in the consolidated group, are classified as investment properties. Investment properties comprise office buildings and retail parks leased out under operating lease agreements.

Some properties may be partially occupied by the Group, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Group can be sold separately, the

## Notes to the consolidated financial statements

Group accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Group considers the owner-occupied portion as insignificant when it occupies less than 20 per cent. In order to determine the percentage of the portions, the Group uses the size of the property measured in square metre.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the consolidated statement of financial position. Gains or losses arising from changes in the fair value of investment properties are included in the consolidated income statement in the year in which they arise. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred.

The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value is calculated by discounting the expected net rentals at a rate that reflects the current market conditions as of the valuation date adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure. These valuations are performed annually by external appraisers.

The Group states investment properties at cost where their fair value cannot be reliably measured on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value are not available. The Group assumes the residual value of such investment properties as zero and applies IAS 16 until disposal.

Group companies only enter as lessor into lease agreements that are classified as operating leases (IAS 17). A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The properties leased out under operating leases are included in 'Investment properties'. Lease incentives are recognised as a reduction of rental income on a straight-line basis over the lease term. The Group makes payments to agents for services in connection with negotiating lease contracts with the Group's lessees. The letting fees are capitalised within the carrying amount of the related investment property and depreciated over the lease term.

### (s) Property and equipment

#### (i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.



The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognized net within other income in profit or loss.

The assets' carrying values and useful lives are reviewed, and written down if appropriate, at each date of the consolidated statement of financial position. Assets are impaired whenever events or changes in circumstances indicate that the carrying amount is less than the recoverable amount; see note (u) on impairment of non-financial assets.

**(ii) Subsequent costs**

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

**(iii) Depreciation**

Depreciation is recognised in profit or loss on a straight-line basis to write down the cost of each asset, to their residual values over the estimated useful lives of each part of an item of property and equipment. Leased assets under finance lease are depreciated over the shorter of the lease term and their useful lives.

Depreciation begins when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with IFRS 5. A non-current asset or disposal group is not depreciated while it is classified as held for sale.

The estimated useful lives for the current and comparative periods are as follows:

Leasehold improvements over the shorter of the useful life of the item or lease term

Buildings	50 years
Computer hardware	3 years
Furniture and equipment	5 years
Motor vehicles	4 years
Other transportation equipment	10 years

Capital work in progress is not depreciated. Upon completion it is transferred to the relevant asset category. Depreciation methods, useful lives and residual values are reassessed at each reporting date.

**(iv) De-recognition**

An item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset)

is included in profit or loss in the year the asset is derecognised.

#### **(t) Intangible assets**

##### **(i) Goodwill**

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiaries at the date of acquisition. When the excess is negative, it is recognised immediately in profit or loss; Goodwill on acquisition of subsidiaries is included in intangible assets.

##### *Subsequent measurement*

Goodwill is allocated to cash-generating units or groups of cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified in accordance with IFRS 8. Goodwill is tested annually as well as whenever a trigger event has been observed for impairment by comparing the present value of the expected future cash flows from a cash generating unit with the carrying value of its net assets, including attributable goodwill and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

##### **(ii) Software**

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. Development costs previously expensed cannot be capitalised. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The maximum useful life of software is five years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

#### **(u) Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are available for use, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **(v) Deposits, debt securities issued**

Deposits and debt securities issued are the Group's sources of debt funding. When the Group sells a financial asset and simultaneously enters into a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits and debt securities issued are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group chooses to carry the liabilities at fair value through profit or loss.

#### **(w) Provisions**

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. The Group recognizes no provision for future operating losses.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract

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and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

### (x) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

### (y) Employee benefits

#### (i) Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension fund administrators (PFA) on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense in comprehensive income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### (ii) Defined benefit plans

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the date of the consolidated statement of financial position, as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the plan assets or of the defined benefit obligation are charged or credited to consolidated income statement in the financial year in which they arise. Past-service costs are recognised immediately in consolidated income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

#### (iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before

the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

**(iv) Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**(v) Share-based payment transactions**

The Bank operates a cash-settled share based compensation plan (i.e. share appreciation rights - SARs) for its management personnel. The management personnel are entitled to the share appreciation rights at a pre-determined price after spending five years in the Bank.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

**(z) Discontinued operations**

The Group presents discontinued operations in a separate line in the consolidated income statement if an entity or a component of an entity has been disposed of or is classified as held for sale and:

- (a) Represents a separate major line of business or geographical area of operations;
- (b) Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- (c) Is a subsidiary acquired exclusively with a view to resale

Net profit from discontinued operations includes the net total of operating profit and loss before tax from operations, including net gain or loss on sale before tax or measurement to fair value less costs to sell and discontinued operations tax expense. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group's operations and cash flows. If an entity or a component of an entity is classified as a discontinued operation, the Group restates prior periods in the consolidated income statement.

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets.

**(aa) Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred

**(ab) Insurance contracts and investment contracts**

The Group offers wealth management, term assurance, annuity, property and payment protection insurance products to customers that take the form of long- and short-term insurance contracts. The Group classifies its wealth management and other products as insurance contracts where these transfer significant insurance risk, generally where the benefits payable on the occurrence of an insured event are more significant than the benefits that would be payable if the insured event does not occur. Contracts that do not contain significant insurance risk or discretionary participation features are classified as investment contracts. Financial assets and liabilities relating to investment contracts, and assets backing insurance contracts are classified and measured as appropriate under IAS 39 'Financial Instruments: Recognition and Measurement'.

**Long-term insurance contracts**

These contracts insure events associated with human life (for example, death or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Claims and surrenders are accounted for when notified. Maturities on the policy maturity date and regular withdrawals are accounted for when due. A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised, based on the expected discounted value of the benefit payments and directly related administration costs, less the expected discounted value of the future premiums that would be required to meet the benefits and other expenses. The calculation of the liability contains assumptions regarding mortality, maintenance expenses and investment income. Liabilities under unit-linked life insurance contracts (such as endowment policies) in addition reflect the value of assets held within unitised investment pools.

**Short-term insurance contracts**

Under its payment protection insurance products the Group is committed to paying benefits to the policyholder rather than forgiving interest or principal on the occurrence of an insured event, such as unemployment, sickness, or injury. Property insurance contracts mainly compensate the policyholders for damage to their property or for the value of property lost.

Premiums are recognised as revenue proportionally over the period of the coverage. Claims and claims handling costs are charged to income as incurred, based on the estimated liability for compensation owed to policyholders arising from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group, based on assessments of individual cases reported to the Group and statistical analyses for the claims incurred but not reported.

**Deferred acquisition costs (DAC)**

Commissions and other costs that are related to securing new insurance and investment contracts are capitalised and amortised over the estimated lives of the relevant contracts.

**Deferred income liability**

Fees that are designed to recover commissions and other costs related to either securing new insurance and investment contracts or renewing existing investment contracts are included as a liability and amortised over the estimated life of the contract.

**Liability adequacy test**

Liability adequacy tests are performed at each balance sheet date to ensure the adequacy of contract liabilities net of DAC. Current best estimates of future contractual cash flows, claims handling and administration costs, and investment returns from the assets backing the liabilities are taken into account in the tests. Any deficiency is immediately recognised in the income statement.

**Reinsurance**

Short- and long-term insurance business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, investment and expenses. All such contracts are dealt with as insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts are recognised as reinsurance assets. The Group assesses reinsurance assets at each balance sheet date. If there is objective evidence of impairment, the carrying amount of the reinsurance asset is reduced accordingly, resulting in a charge to the income statement.

**(ac) Share capital and reserves****(i) Share issue costs**

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instrument.

**(ii) Dividend on the Bank's ordinary shares**

Dividends on the Bank's ordinary shares are recognised in equity when approved by the Bank's shareholders.

**(iii) Treasury shares**

Where the Bank or any member of the Group purchases the Bank's shares, the consideration paid is deducted from shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

**(ad) Earnings per share**

The Group presents basic earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

**(ae) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it can earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Executive Management Committee to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. All costs that are directly traceable to the operating segments are allocated to the segment concerned, while indirect cost are allocated based on the benefits derived from such costs.

## Notes to the consolidated financial statements

### (af) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011, and have not been applied in preparing these consolidated financial statements:

- IFRS 9 *Financial Instruments*, published on 12 November 2009 as part of phase 1 of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of *held to maturity*, *available for sale* and *loans and receivables*. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

The Group is evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

## 4. Financial risk management

### (a) Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks
- Operational risks

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.



## Notes to the consolidated financial statements

### Risk management philosophy

The risk management philosophy of the Guaranty Trust Bank Plc Group is drawn from its mission and vision statements and seeks to achieve maximum optimization of the risk – return trade off, while ensuring strong commitment to the following key indices:

- Excellent service delivery across business segments
- Sound performance reporting (financial and non-financial)
- Sound corporate governance
- Consistent appreciation in shareholders' value.

### Risk management framework

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, to monitor risks and adherence to limits. This policy is subject to review at least once a year. More frequent reviews may be conducted in the opinion of the Board, when changes in laws, market conditions or the Group's activities are material enough to impact on the continued adoption of existing policies. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework via its committees – The Board Risk Committee, Board Credit Committee, and Board Audit Committee. These committees are responsible for developing and monitoring risk policies in their specified areas and report regularly to the Board of Directors on their activities. All Board committees have both executive and non-executive members.

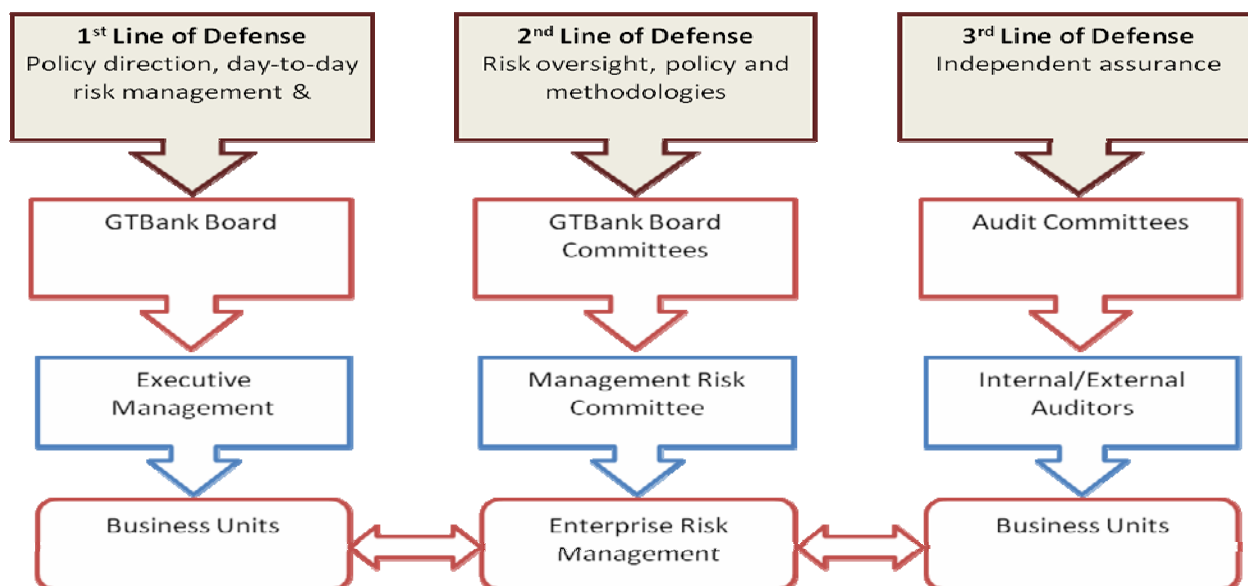
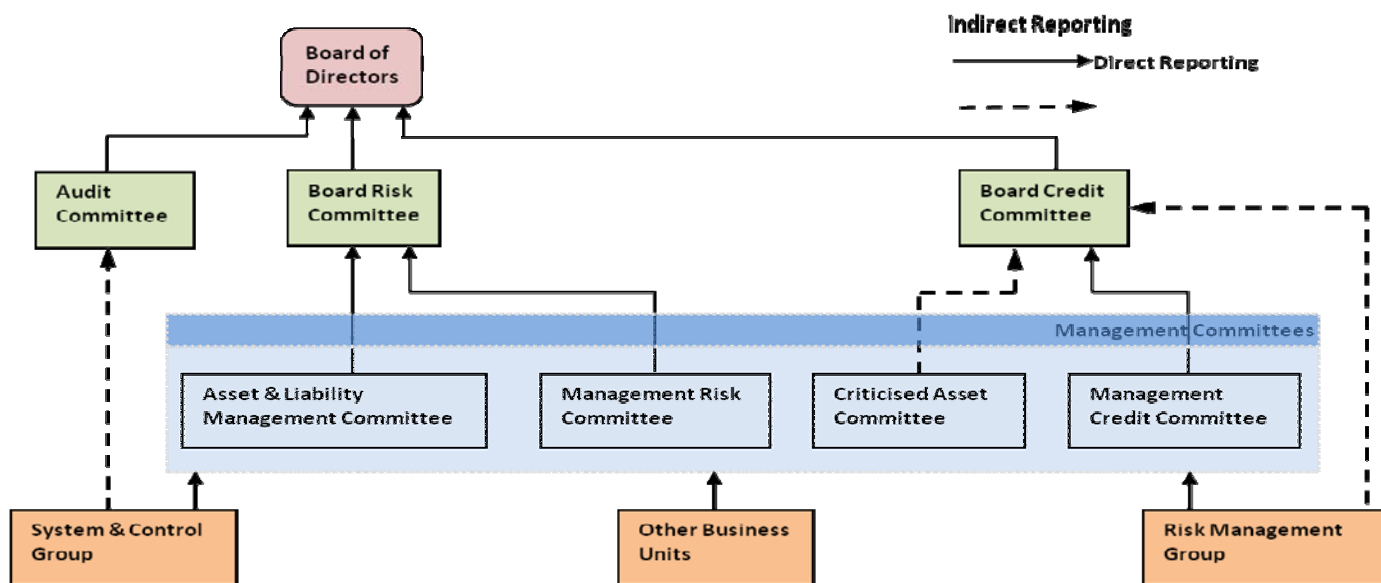
The Board Committees are assisted by the various Management Committees in identifying and assessing risks arising from day to day activities of the Group. These committees are:

- The Management Credit Committee
- Criticized Assets Committee
- Asset and Liability Management Committee (ALMAC)
- Management Risk Committee
- IT Steering Committee
- Other Ad-hoc Committee

These committees meet on a regular basis while others are set up on an ad-hoc basis as dictated by the circumstances.

The **Group's Audit Committee** is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to risks faced by the Group. The Audit Committee is assisted by the Internal Audit department, in carrying out these functions. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Risk Management Organogram of the Group is as follows:



The **Risk Committee** at the board and management levels is responsible for reviewing and recommending risk management policies, procedures and profiles including risk philosophy, risk appetite and risk tolerance of the Group. The oversight functions cut across all risk areas. The committee monitors the Bank’s plans and progress towards meeting regulatory Risk-Based Supervision requirements and migration to Basel II compliance as well as the overall Regulatory and Economic Capital Adequacy.

## Notes to the consolidated financial statements

The Group's Board of Directors has delegated responsibility for the management of credit risk to the **Board Credit Committee**. The Board Credit Committee considers and approves all lending exposures, including treasury investment exposures, as well as insider-related credits in excess of limits assigned to the **Management Credit Committee** by the Board. Management Credit Committee formulates credit policies in consultation with business units, covering credit assessment, risk grading and reporting, collateral, regulatory and statutory requirements. The committee also assesses and approves all credit exposures in excess of the Managing Director's limit as approved by the Board.

The **Asset & Liability Management Committee** establishes the Group's standards and policies covering the various components of Market Risk. This includes issues on Interest Rate Risk, Liquidity Risk, Investment Risk and Trading Risk. It ensures that the authority delegated by the Board and Management Risk Committees with regard to Market Risk is exercised, and that Market Risk exposures are monitored and managed. Furthermore, the Committee limits and monitors the potential impact of specific pre-defined market movements on the comprehensive income of the Bank through stress tests and simulations.

The Credit Risk Management Group is responsible for identifying, controlling, monitoring and reporting credit risk related issues. The Group also serves as the secretariat for the **Management Credit Committee**. Credit risk is the most critical risk for the Group as credit exposures, arising from lending activities account for the major portion of the Group's assets and source of its revenue. Thus, the Group ensures that credit risk related exposures are properly monitored, managed and controlled. The Credit Risk Management Group is responsible for managing the credit exposures, which arise as a result of the lending and investment activities as well other unfunded credit exposures that have default probabilities; such as contingent liabilities.

### Risk management methodology

The Group recognizes that it is in the business of managing risks to derive optimal satisfaction for all stakeholders. It has therefore, over the years detailed its approach to risk through various policies and procedures, which include the following:

- Credit Policy Guide
- ERM Policy
- Human Resources Policy Manual
- Quality Manual
- Standard Operating Procedures.

To ensure adherence to the policies and procedures, several exception reports on customers and activities of the Group are generated by the various audit control units for management's decision making. These include:

- Monthly Management Profitability Reports (MPR) for the marketing teams
- Monthly Operations Performance Reports (OPR) for the support teams
- Quarterly Business Profitability Review
- Annual Bank-wide performance appraisal systems

### Risk management overview

The Group operates a functional Enterprise-wide Risk Management (ERM) Division that manages all aspects of risk – including threats and opportunities. The risk management infrastructure therefore encompasses a

## Notes to the consolidated financial statements

comprehensive and integrated approach to identifying, managing and reporting (i) the 3 main inherent risk groups – Credit, Market and Operational; (ii) residual risks such as Settlement and Legal risks; (iii) additional core risks being Reputation and Strategy risks; and (iv) monitoring of the Bank's subsidiaries' risks. In addition to this, in compliance with the Central Bank of Nigeria's 'Risk-based Supervision' guidelines, and also to align with Basel II Capital Accord / best global practices, we are in the process of incorporating a strategic framework for efficient measurement and management of the bank's risks and capital. We have commenced the implementation of Basel II recommended capital measurement approaches (and the modelling and data collation required for this), economic capital to cope with unexpected losses, and other qualitative and quantitative measures that will assist us with enhancing our risk management workflows and creating a platform for more risk-adjusted decision-making based on our aggregate exposures.

### **(b) Credit risk**

Lending and other financial activities form the core business of the Group. The Group recognises this and has laid great emphasis on effective management of its exposure to credit risk. The Group defines credit risk as the risk of counterparty's failure to meet the terms of any lending contracts with the Group or otherwise to perform as agreed. Credit risk arises anytime the Group's funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements.

The Group's specific credit risk objectives, as contained in the designed Credit Risk Management Framework, are:

- maintenance of an efficient loan portfolio
- institutionalization of sound credit culture in the Bank
- adoption of international best practices in credit risk management
- development of Credit Risk Management professionals.

Each business unit is required to implement credit policies and procedures in line with the credit approval authorities granted by the Board. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolio, including those subject to Management Credit Committee's approval.

The Internal Audit and Credit Administration units respectively undertake regular audits of business units and credit quality reviews.

The Group continues to focus attention on intrinsic and concentration risks inherent in its business to manage the Group's portfolio risk. It sets portfolio concentration limits that are measured under the following parameters: concentration limits per obligor, industry, sector, rating grade and geographical area. Sector limits reflect the risk appetite of the Group.

The Group drives the credit risk management processes using appropriate technology to achieve global best practices.

For Credit Risk Capital Adequacy computation under Basel II Pillar I, the Group will commence with the use of the Standardized Approach for Credit Risk Measurement, while collating relevant data required for migration to the Internal Rating Based (Foundation) Approach.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

## Notes to the consolidated financial statements

### Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Board Credit Committee. A separate Management Credit Committee reporting to the Board Credit Committee is responsible for oversight of the Group's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Heads. Larger facilities require approval by the Management Credit Committee, Deputy Managing Director, Managing Director and the Board Credit Committee/Board of Directors as appropriate.
- *Reviewing and assessing credit risk.* Management Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Developing and maintaining the Group's risk grading* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The current risk grading framework consists of six grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for approving the risk grades lies with the Board Credit Committee. The risk grades are subject to regular reviews by the Risk Management Group.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Risk Management Group on the credit quality of local portfolios and appropriate corrective action is taken.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Group in the management of credit risk.

There were no changes in the Group's risk management policies.

Each business unit is required to implement Group credit policies and procedures, with credit approval authorities authorised by the Board Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and credit quality reviews are undertaken by the Internal Audit and Credit Administration units respectively.

### Credit risk measurement

Guaranty Trust Bank Group undertakes lending activities after careful analysis of the borrowers' character, capacity to repay, cash flow, credit history, industry and other factors. The Group acknowledges that there are diverse intrinsic risks inherent in the vagaries of its business segments and, as a result, applies different

parameters to adequately dimension the risks in each business segments.

The Bank's rating grades reflect the range of parameters developed to predict the default probabilities of each rating class. In line with international best practices and in compliance with BASEL II requirements, the Bank standardized its rating grades, in the last quarter of 2010, by increasing the rating buckets from 6 to 10. Like the previous rating grades, the new rating grades deals with all credit risk counterparties and this covers all the Bank's credit exposure to corporate, commercial, retail and public sectors. However the new grades reflect more granularities.

The rating is handled by Account Officers and Relationship Managers with further check by Credit Risk Analysis Unit in Credit Risk Management Group.

Models have been used to estimate the amount of credit exposures, as the value of a product varies with changes in market variables, expected cash flows and time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between parties.

Ratings and scoring models are in use for all key credit portfolios and form the basis for measuring default risks.

In measuring credit risk of loan and advances at a counterparty level, the Group considers three components:

- (i) The 'probability of default' (PD)
- (ii) Exposures to the counterparty and its likely future development, from which the Group derive the 'exposure at default' (EAD); and
- (iii) The likely recovery ratio on the defaulted obligations (the 'loss given default') (LGD).

The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

These credit risk measurements, which reflect expected loss (the 'expected loss model'), are required by the Basel Committee on Banking Regulations and the Supervisory Practices (the Basel Committee) and are embedded in the Group's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the date of the consolidated statement of financial position (the 'incurred loss model') rather than expected losses (IFRS 9 expected losses model is to take effect in 2015 with early adoption permitted).

### **(i) Probability of default**

The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combined statistical analysis with credit officer judgment.

The rating template combines both qualitative and quantitative factors to arrive at a rating which is comparable to internationally available standards.

## Notes to the consolidated financial statements

The rating methods are subject to an semi - annual validation and recalibration so that they reflect the latest projection in the light of all actually observed defaults.

The Rating Grid with description is as follows:

Rating Grade	Description	Scoring	Group Description
1	Exceptional Capacity	AAA	
2	Very Strong Capacity	AA	
3	Strong Repayment Capacity	A	
4	Good Credit Quality & Adequate Repayment Capacity	BBB	
5	Possibility that Credit Risk May Occur	BB	
6	Significant Credit Risk May Occur but meet all obligations	B	
7	Default is a real possibility.	CCC	<b>Watchlist</b>
8	Default is probable	CC	<b>Non-Performing</b>
9	Default is imminent	C	
10	Default/Lost	D	

The first six ratings apply to active credits or newly proposed credits while the last four ratings apply to watch-list and delinquent credits, which are due to be called in or already handed over to solicitors for collection.

**Performing (Rating 1–6)** – Facility has strong tendency of repayment within approved tenor; interest and principal are being repaid as and when due.

**Watch-list (Rating 7)** – Facility demonstrates some early warning signal of delinquency and has tendency of default either in respect of the principal or accrued interest. The overdrawn business account has no significant movement for up to 2-month or the account that is permanently in excess of the approved facility.

**Substandard & Doubtful (Rating 8 & 9)** – This rating is applied where a strong doubt exists that full repayment of principal and interest will occur. The exact extent of the potential loss is not however certain at the time of classification. Interest and principal are past due for 90 days and up to 365 days.

**Lost (Rating 10)** - Facility is actually in default and principal and or interest overdue remain unpaid for more than 365 days. Legal process does not guarantee full recovery of outstanding debt and borrower might be under receivership or in the process of liquidation.

### ii. Exposure at Default (EAD)

EAD is the amounts the Group expects to be owed at the time of default or reporting date. For example, for a loan this is the face value (principal plus interest). For a commitment, the Group includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

### iii Loss Given Default (LGD)

Loss given default represents the Group's expectation of the extent of loss on a claim should default occur. It is

## Notes to the consolidated financial statements

expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

The measurement of exposure at default and loss given default is based on the risk parameters standard under Basel II.

### Risk Limit Control and Mitigation Policies

Guaranty Trust Bank applies limits to control credit risk concentration and ensure proper diversification of its risk assets portfolio. The Bank maintains limits for individual borrowers and groups of related borrowers, as well as industries.

Obligor limits are set by the regulators and it is currently at 20% of the Bank's shareholders' funds. The obligor limit covers exposures to counterparties and related parties.

Although the Bank is guided by this regulatory limit, we apply additional parameters internally in determining the suitable limits that an individual borrower should have.

These include: obligor rating, position in the industry and perceived requirements of key players (e.g. import finance limit may be determined by the customer's import cycle and volume during each cycle), financial analysis, etc.

The Bank imposes industry/economic sector limits to guide against concentration risk as a result of exposures to sets of counterparties operating in a particular industry. The industry limits are arrived at after rigorous analysis of the risks inherent in the industry.

The limits are usually recommended by the Bank's Portfolio Management Unit under Credit Risk Management Group. The limits set for each industry or economic sector depend on the historical performance of the sector as well as the intelligence report on the outlook of the sector.

During the year, limits can be realigned (outright removal, reduction or increase) to meet the exigencies of the prevailing macroeconomic events.

The Bank also sets internal credit approval limits for various levels of officers in the credit process. Approval decisions are guided by the Bank's strategic focus as well as the stated risk appetite and the other limits established by the board or regulatory authorities such as Aggregate Large Exposure Limits, Single Obligor Limits, Geographical Limits, Industry/ Sectoral limits etc.

The lending authority in the Bank flows through the management hierarchy with the final authority residing with the Board of Directors as indicated below:

Board of Directors	Up to the single obligor limit as advised by the regulatory authorities from time to time but currently put at 20% of shareholders' funds (total equity)
Management Credit Committee	Up to N500 Million
Managing Director	Up to N200 Million
Deputy Managing Director	Up to N150 Million
Other Approving Officers	as delegated by the managing director



The above limits are subject to the following overriding approvals:

- Except where a facility is cash collateralized, all new facilities below N10million require the approval of the Credit Committee.
- The deposit required for all cash collateralized facilities (with the exception of bonds, guarantees and indemnities) must be 125% of the facility amount to provide a cushion for interest and other charges.
- Totally new facilities require one-up approval i.e. approval at a level higher than that of the person that would ordinarily approve it.

### **Master Netting Arrangements**

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. The right to set off is triggered at default. By so doing, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

**Maximum exposure to credit risk before collateral held or other credit enhancements**

Credit risk exposures relating to on-balance sheet assets are as follows:

**December 2011**

<i>In thousands of Nigerian naira</i>	<b>Maximum exposure</b>	
<b>Classification</b>	2011	2010
Cash and cash equivalents		
- Money market placements	221,014,466	175,384,349
Loans and advances to banks	198,141	222,643
Loans and advances to customers:		
<i>Loans to individuals:</i>		
Overdraft	3,154,445	2,712,266
Loans	38,499,831	15,964,160
Others	844,524	3,715,328
<i>Loans to corporate entities:</i>		
Large corporate customers	569,800,878	542,343,637
SMEs	51,885,260	50,231,254
Other	68,567,743	21,332,056
Financial assets held for trading		
- Debt securities	173,297,556	148,872,254
Investment securities:		
- Debt securities	161,196,356	22,896,774
Assets pledged as collateral	45,588,084	29,481,804
Other assets	65,108,941	10,327,183
<b>Total</b>	<b>1,399,156,225</b>	<b>1,023,483,708</b>

<sup>1</sup> 95% (Dec 2010, 65%) of the balances in Other Assets relate to restricted deposits with Central bank. These balances are only subject to the sovereign risk of Nigeria and Other West African countries in which the

Group has operations.

Credit risk exposures relating to off-balance sheet items are as follows:

<i>In thousands of Nigerian naira</i> <b>Off balance sheet items</b>	<b>Maximum exposure</b>	
	2011	2010
Financial Guarantees	334,324,535	319,570,825
Other Loan Commitments	192,497,264	105,417,380
<b>Total</b>	<b>526,821,799</b>	<b>424,988,205</b>

The table above shows a worse-case scenario of credit risk exposure to the Group at 31 December 2011 and 2010, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on gross amounts as reported in the consolidated statement of financial position.

As shown above, 52% of the total maximum exposure is derived from loans and advances to banks and customers (2010: 62%); while 24% represents exposure to investments in debt securities (2010: 17%). Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loan and advances portfolio and debt securities based on the following:

#### **Concentration of risks of financial assets with credit risk exposure**

##### **(a) Geographical sectors**

The following table breaks down the Group's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as of 31 December 2011. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties.

## Notes to the consolidated financial statements

## December 2011

In thousands of Nigerian naira

Classification	Nigeria	Africa	Europe	Total
Cash and cash equivalents				
- Money market placements	49,800,000	871,852	170,342,614	221,014,466
Loans and advances to banks	198,141	-	-	198,141
Loans and advances to customers:				
<i>Loans to individuals:</i>				
Overdraft	3,154,445	-	-	3,154,445
Loans	38,499,831	-	-	38,499,831
Others	844,524	-	-	844,524
<i>Loans to corporate entities:</i>				
Large corporate customers	537,993,038	23,409,279	8,398,561	569,800,878
SMEs	51,885,260	-	-	51,885,260
Other	68,567,743	-	-	68,567,743
Financial assets held for trading				
- Debt securities	173,297,556	-	-	173,297,556
Investment securities:				
- Debt securities	158,071,258	2,966,376	158,722	161,196,356
Assets pledged as collateral	45,588,084	-	-	45,588,084
Other assets	65,108,941	-	-	65,108,941
	<b>1,193,008,821</b>	<b>27,247,507</b>	<b>178,899,897</b>	<b>1,399,156,225</b>

Credit risk exposures relating to off-balance sheet items are as follows:

## December 2011

In thousands of Nigerian naira

Off balance sheet items	Nigeria	Africa	Europe	Total
Financial Guarantees	330,449,318	3,836,067	39,150	334,324,535
Other Loan Commitments	162,331,166	24,894,565	5,271,533	192,497,264
	<b>492,780,484</b>	<b>28,730,632</b>	<b>5,310,683</b>	<b>526,821,799</b>

## Notes to the consolidated financial statements

## December 2010

In thousands of Nigerian naira

Classification	Nigeria	Africa	Europe	Total
Cash and cash equivalents				
- Money market placements	107,820,390	40,421,295	27,142,664	175,384,349
Loans and advances to banks	222,643	-	-	222,643
Loans and advances to customers:				
<i>Loans to individuals:</i>				
Overdraft	2,712,266	-	-	2,712,266
Loans	15,964,160	-	-	15,964,160
Others	3,715,328	-	-	3,715,328
<i>Loans to corporate entities:</i>				
Large corporate customers	514,996,397	23,394,400	3,952,840	542,343,637
SMEs	50,231,254	-	-	50,231,254
Other	21,332,056	-	-	21,332,056
Financial assets held for trading				
- Debt securities	148,872,254	-	-	148,872,254
Investment securities				
- Debt securities	22,896,774	-	-	22,896,774
Assets pledged as collateral	29,481,804	-	-	29,481,804
Other assets	10,327,183	-	-	10,327,183
	<b>928,572,509</b>	<b>63,815,695</b>	<b>31,095,504</b>	<b>1,023,483,708</b>

Credit risk exposures relating to off-balance sheet items are as follows:

## December 2010

In thousands of Nigerian naira

Off balance sheet items	Nigeria	Africa	Europe	Total
Financial Guarantees	317,312,516	2,005,707	252,602	319,570,825
Other Loan Commitments	84,433,310	7,234,792	13,749,278	105,417,380
	<b>401,745,826</b>	<b>9,240,499</b>	<b>14,001,880</b>	<b>424,988,205</b>

**(a) Industry sectors**

The following table breaks down the Group's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the Group's counterparties.

## Notes to the consolidated financial statements

### Group's credit exposure by Industry Sector

December 2011

In thousands of Nigerian naira

Classification	Agriculture	Capital market	Construction / real estate	Education	Financial institution	Government	Manufacturing	Mining, oil & gas	Others	Total
Cash and cash equivalents										
- Money market placements	-	-	-	-	221,014,466	-	-	-	-	221,014,466
Loans and advances to banks	-	-	-	-	198,140	-	-	-	1	198,141
Loans and advances to customers:										
<i>Loans to individuals:</i>										
Overdraft	-	3,852	-	15,227	-	-	9,518	-	3,125,848	3,154,445
Loans	-	7,181	-	687,020	-	113,683	-	16,743	37,675,204	38,499,831
Others	-	33,010	11,853	-	-	12,088	-	-	787,573	844,524
<i>Loans to corporate entities:</i>										
Large corporate customers	696,999	8,921,258	50,488,543	7,070,249	33,814,778	1,049,636	155,728,584	139,926,586	172,104,245	569,800,878
SMEs	2,217,987	22,707	4,599,278	12,033,093	1,691,737	5,034,392	3,385,103	4,600,761	18,300,202	51,885,260
Other	-	-	684,975	1,673,578	1,991,374	62,885,951	-	5,069	1,326,796	68,567,743
Financial assets held for trading										
- Debt securities	-	-	-	-	-	173,297,556	-	-	-	173,297,556
Investment securities:										
- Debt securities	-	-	-	-	62,562,532	93,571,239	5,062,585	-	-	161,196,356
Assets pledged as collateral	-	-	-	-	-	45,588,084	-	-	-	45,588,084
Other assets	-	-	-	-	-	61,768,606	-	-	3,340,335	65,108,941
	<b>2,914,986</b>	<b>8,988,008</b>	<b>55,784,649</b>	<b>21,479,167</b>	<b>321,273,027</b>	<b>445,436,664</b>	<b>164,185,790</b>	<b>144,549,159</b>	<b>234,544,775</b>	<b>1,399,156,225</b>

Credit risk exposures relating to off-balance sheet items are as follows:

December 2011

In thousands of Nigerian naira

Classification	Agriculture	Capital market	Construction / real estate	Education	Financial institution	Government	Manufacturing	Mining, oil & gas	Others	Total
Financial Guarantees	-	-	225,207,972	200,000	5,826,675	3,860,862	10,049,868	16,402,003	72,777,155	334,324,535
Other Loan Commitments	791,900	-	771,747	225,000	88,925,771	2,632,982	12,440,630	7,987,278	78,721,956	192,497,264
<b>Total</b>	<b>791,900</b>	<b>-</b>	<b>225,979,719</b>	<b>425,000</b>	<b>94,752,446</b>	<b>6,493,844</b>	<b>22,490,498</b>	<b>24,389,281</b>	<b>151,499,111</b>	<b>526,821,799</b>

## Notes to the consolidated financial statements

### Group's credit exposure by Industry Sector

December 2010

In thousands of Nigerian naira

Classification	Agriculture	Capital market	Construction / real estate	Education	Financial institution	Government	Manufacturing	Mining, oil & gas	Others	Total
Cash and cash equivalents										
- Money market placements	-	-	-	-	175,384,349	-	-	-	-	175,384,349
Loans and advances to banks	-	-	-	-	222,643	-	-	-	-	222,643
Loans and advances to customers:										
<i>Loans to individuals:</i>										
Overdraft	-	17,080	9,059	24890	-	5,807	40365	2,622	2,612,443	2,712,266
Loans	-	207,283	6,964	272826	2,915	-	11,308	26632	15436232	15,964,160
Others	262,942	388,179	14561	-	-	1,814	27,120	92,697	2,928,015	3,715,328
<i>Loans to corporate entities:</i>										
Large corporate customers	1,230,135	22,853,255	66,816,267	7,559,008	35,132,730	4,643,246	114,307,194	126,328,885	163,472,917	542,343,637
SMEs	1,474,703	207,068	3,953,931	12,582,345	2,774,660	6,997,764	2,377,235	1,890,897	17,972,651	50,231,254
Other	35,179	1,273,941	3,212,385	2,528,145	2,921,123	1,557,803	-2,250,932	6,340,862	5,713,550	21,332,056
Financial assets held for trading										
- Debt securities	-	-	-	-	-	148,872,254	-	-	-	148,872,254
Investment securities:										
- Debt securities	-	-	-	-	1,727,278	17,965,195	3,204,301	-	-	22,896,774
Assets pledged as collateral	-	-	-	-	-	29,481,804	-	-	-	29,481,804
Other assets	-	-	-	-	-	6,689,758	-	-	3,637,425	10,327,183
	<b>3,002,959</b>	<b>24,946,806</b>	<b>74,013,167</b>	<b>22,967,214</b>	<b>218,165,698</b>	<b>216,215,445</b>	<b>117,716,591</b>	<b>134,682,595</b>	<b>211,773,233</b>	<b>1,023,483,708</b>

Credit risk exposures relating to off-balance sheet items are as follows:

December 2010

In thousands of Nigerian naira

Classification	Agriculture	Capital market	Construction / real estate	Education	Financial institution	Government	Manufacturing	Mining, oil & gas	Others	Total
Financial Guarantees	150,075	-	228,084,730	-	3,485,232	4,082,324	5,153,071	18,983,630	59,631,763	319,570,825
Other Loan Commitments	3,992	-	420,517	-	22,199,519	8,707,929	25,574,489	10,606,413	37,904,521	105,417,380
<b>Total</b>	<b>154,067</b>	<b>-</b>	<b>228,505,247</b>	<b>-</b>	<b>25,684,751</b>	<b>12,790,253</b>	<b>30,727,560</b>	<b>29,590,043</b>	<b>97,536,284</b>	<b>424,988,205</b>



## Notes to the consolidated financial statements

### (iv) Impairment and provisioning policies

#### Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These are loans and securities specifically impaired and are graded 8 to 10 in the Group's internal credit risk grading system.

#### Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

#### Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

#### Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance, established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

#### Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Group Management Credit Committee determines that the loans / securities are uncollectible.

This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions are generally based on a product specific past due status.

#### Loans and advances

All loans and advances are categorized as either:

- Neither past due nor impaired
- Past due but not impaired
- Individually impaired

# Notes to the consolidated financial statements

## Credit Risk (Continued)

The impairment allowance includes allowances against financial assets that have been individually impaired and those subject to collective impairment.

2011		Cash and cash equivalents - Money market placements	Loans and advances to customers	Loans and advances to banks	Financial assets held for trading - Debt	Investment securities - Debt	Assets pledged as collateral	Other assets
<i>In thousands of Nigerian Naira</i>	<i>Note</i>							
	24, 25, 26,							
Carrying amount	28, 29, 34	221,014,466	706,893,133	158,616	173,297,556	161,196,356	45,588,084	62,032,841
Assets at amortised cost								
Individually impaired								
Grade 10: Impaired		-	22,904,237	90,213	-	-	-	960,671
Gross amount		-	22,904,237	90,213	-	-	-	960,671
Allowance for impairment		-	(16,747,717)	(39,365)	-	-	-	(960,671)
Carrying amount		-	6,156,520	50,848	-	-	-	-
Collectively impaired								
Grade 1-6: Low-fair risk		-	324,811,708	72,926	-	-	-	-
Grade 7-9: Watch list		-	126,001	-	-	-	-	-
Gross amount		-	324,937,709	72,926	-	-	-	-
Allowance for impairment		-	(9,111,831)	-160	-	-	-	-
Carrying amount		-	315,825,878	72,766	-	-	-	-
Past due but not impaired								
Grade 1-6: Low-fair risk		-	2,325,802	-	-	-	-	-
Carrying amount		-	2,325,802	-	-	-	-	-
<i>Past due comprises:</i>								
90 -180 days		-	2,325,802	-	-	-	-	-
Carrying amount		-	2,325,802	-	-	-	-	-
Neither past due nor impaired								
Grade 1-3: Low-fair risk		-	382,584,933	35,002	-	-	-	64,148,270
Carrying amount		-	382,584,933	35,002	-	-	-	64,148,270
Cash and cash equivalents								
Grade 1-6: Low-fair risk		221,014,466	-	-	-	-	-	-
Held to maturity assets (HTM)								
Grade 1-6: Low-fair risk		-	-	-	-	161,196,356	45,588,084	-
Financial assets held for trading								
Grade 1-6: Low-fair risk		-	-	-	173,297,556	-	-	-
Total carrying amount		221,014,466	706,893,133	158,616	173,297,556	161,196,356	45,588,084	64,148,270

# Notes to the consolidated financial statements

2010		Cash and cash equivalents - Money market placements	Loans and advances to customers	Loans and advances to banks	Financial assets held for trading - Debt	Investment securities - Debt	Assets pledged as collateral	Other assets
	Note							
<i>In thousands of Nigerian Naira</i>								
Carrying amount	24, 25, 26, 28, 29, 34	175,384,349	603,906,669	186,480	148,872,254	22,896,774	29,481,804	9,049,949
Assets at amortised cost								
Individually impaired								
Grade 10: Impaired		-	39,030,866	90,213	-	-	-	1,277,234
Gross amount		-	39,030,866	90,213	-	-	-	1,277,234
Allowance for impairment		-	(29,968,840)	(36,085)	-	-	-	(1,277,234)
Carrying amount		-	9,062,026	54,128	-	-	-	-
Collectively impaired								
Grade 1-6: Low-fair risk		-	234,126,164	1,203	-	-	-	-
Grade 7-9: Watch list		-	94,802	-	-	-	-	-
Gross amount		-	234,220,966	1,203	-	-	-	-
Allowance for impairment		-	(2,423,192)	78	-	-	-	-
Carrying amount		-	231,797,774	1,125	-	-	-	-
Past due but not impaired								
Grade 1-6: Low-fair risk		-	3,839,543	-	-	-	-	-
Carrying amount		-	3,839,543	-	-	-	-	-
<i>Past due comprises:</i>								
90 -180 days		-	3,839,543	-	-	-	-	-
Carrying amount		-	3,839,543	-	-	-	-	-
Neither past due nor impaired								
Grade 1-3: Low-fair risk		-	359,207,326	131,227	-	-	-	9,049,949
Carrying amount		-	359,207,326	131,227	-	-	-	9,049,949
Cash and cash equivalents								
Grade 1-6: Low-fair risk		175,384,349	-	-	-	-	-	-
Held to maturity assets (HTM)								
Grade 1-6: Low-fair risk		-	-	-	-	22,896,774	29,481,804	-
Financial assets held for trading								
Grade 1-6: Low-fair risk		-	-	-	148,872,254	-	-	-
<b>Total carrying amount</b>		<b>175,384,349</b>	<b>603,906,669</b>	<b>186,480</b>	<b>148,872,254</b>	<b>22,896,774</b>	<b>29,481,804</b>	<b>9,049,949</b>

Loans and advances are summarised as follows:

Loans and advances	2011			2010		
	Loans to Individual	Loans to Corporate	Loans to Banks	Loans to Individual	Loans to Corporate	Loans to Banks
Neither past due nor impaired	15,685,350	366,899,583	35,002	8,688,040	350,519,286	131,227
Past due but not impaired	55,762	2,270,040	-	274,821	3,564,722	-
Individually impaired	741,149	22,163,088	90,213	3,373,008	35,657,858	90,213
Collectively Impaired	26,016,539	298,921,170	72,926	10,055,885	224,165,081	1,203
<b>Gross</b>	<b>42,498,800</b>	<b>690,253,881</b>	<b>198,141</b>	<b>22,391,754</b>	<b>613,906,947</b>	<b>222,643</b>
<i>Less allowances for impairment:</i>						
Individually impaired	556,597	16,191,120	39,365	1,856,951	28,111,889	36,085
Portfolio allowance	59,788	9,052,043	160	41,815	2,381,377	78
<b>Total allowance</b>	<b>616,385</b>	<b>25,243,163</b>	<b>39,525</b>	<b>1,898,766</b>	<b>30,493,266</b>	<b>36,163</b>
<b>Net Loans and Advances</b>	<b>41,882,415</b>	<b>665,010,718</b>	<b>158,616</b>	<b>20,492,988</b>	<b>583,413,681</b>	<b>186,480</b>

The total impairment for loans and advances is N25,899,073,000 (2010: N32,428,195,000) of which N16,787,082,000 (2010: N30,004,925,000) represents the individually impaired loans and the remaining amount of N9,111,991,000 (2010: N2,423,270,000) represents the portfolio allowance. Further information of the impairment allowance for loans and advances to banks and to customers is provided in Notes 25 and 26.

## Notes to the consolidated financial statements

(a) Loans and advances neither past due nor impaired.

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

### December 2011

In thousands of Nigerian naira

Rating	Loans and advances to customers						Loans and advances to banks	
	Individuals			Corporate			Bank	Total
	Overdraft	Loans	Others	Large Corp.	SMEs	Others		
Exceptional Capacity	-	-	-	71,998,793	-	-	-	71,998,793
Very Strong Capacity	3,625	603,000	-	75,361,446	5,598,047	61,681,322	-	143,247,440
Strong Repayment Capacity	574,136	14,504,589	-	137,231,708	14,707,864	320,403	35,002	167,373,702
<b>Total</b>	<b>577,761</b>	<b>15,107,589</b>	<b>-</b>	<b>284,591,947</b>	<b>20,305,911</b>	<b>62,001,725</b>	<b>35,002</b>	<b>382,619,935</b>

### December 2010

In thousands of Nigerian naira

Rating	Loans and advances to customers						Loans and advances to banks	
	Individuals			Corporate			Bank	Total
	Overdraft	Loans	Others	Large Corp.	SMEs	Others		
Exceptional Capacity	-	-	-	27,987,183	-	-	-	27,987,183
Very Strong Capacity	-	-	-	26,497,367	2,362,256	10,100	-	28,869,723
Strong Repayment Capacity	1,784,601	6,835,939	67,500	250,432,646	33,773,608	9,456,126	131,227	302,481,647
<b>Total</b>	<b>1,784,601</b>	<b>6,835,939</b>	<b>67,500</b>	<b>304,917,196</b>	<b>36,135,864</b>	<b>9,466,226</b>	<b>131,227</b>	<b>359,338,553</b>

**(b) Loans and advances past due but not impaired**

Clearing cheques, late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

**December 2011**

*In thousands of Nigerian naira*

<b>Age</b>	<b>Loans to Individual</b>	<b>Loans to Corporate</b>	<b>Loans to Banks</b>	<b>Total</b>
0 - 30 days	4,526	1,732,558	-	1,737,084
31 - 60 days	45,101	502,611	-	547,712
60 - 90 days	6,135	34,871	-	41,006
	<b>55,762</b>	<b>2,270,040</b>	-	<b>2,325,802</b>
<b>FV of Collateral</b>	151,779	6,383,400	-	6,535,179
<b>Amount of under collateralisation</b>	-	-	-	-

**December 2010**

*In thousands of Nigerian naira*

<b>Age</b>	<b>Loans to Individual</b>	<b>Loans to Corporate</b>	<b>Loans to Banks</b>	<b>Total</b>
0 - 30 days	16,036	670,429	-	686,465
31 - 60 days	-	135,206	-	135,206
60 - 90 days	258,785	2,759,087	-	3,017,872
	<b>274,821</b>	<b>3,564,722</b>	-	<b>3,839,543</b>
<b>FV of Collateral</b>	1,307,531	200	-	1,307,731
<b>Amount of under collateralisation</b>	-	3,564,522	-	2,531,812

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is assessed by reference to market price or indexes of similar assets.

**(c) Loans and advances individually impaired**

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

**December 2011**

*In thousands of Nigerian naira*

	<b>Loans to Individual</b>	<b>Loans to Corporate</b>	<b>Loans to Banks</b>	<b>Total</b>
Gross amount	741,149	22,163,088	90,213	22,994,450
Impairment	556,597	16,191,120	39,365	16,787,082
FV of collateral	784,106	31,097,323	150,000	32,031,429

**December 2010**

*In thousands of Nigerian naira*

	<b>Loans to Individual</b>	<b>Loans to Corporate</b>	<b>Loans to Banks</b>	<b>Total</b>
Gross amount	3,373,008	35,657,858	90,213	39,121,079
Impairment	1,856,951	28,111,889	36,085	30,004,925
FV of collateral	2,991,379	47,865,198	90,212	50,946,789

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is assessed by reference to market price or indexes of similar assets.

**Renegotiated Loans****December 2011***In thousands of Nigerian naira*

<b>Renegotiated Loans</b>	<b>Loans to Individual</b>	<b>Loans to Corporate</b>	<b>Loans to Banks</b>	<b>Total</b>
Impaired after restructuring	-	12,060,985	-	12,060,985
Non-Impaired after restructuring	-	4,967,188	-	4,967,188
<b>Total</b>	-	<b>17,028,173</b>	-	<b>17,028,173</b>

**December 2010***In thousands of Nigerian naira*

<b>Renegotiated Loans</b>	<b>Loans to Individual</b>	<b>Loans to Corporate</b>	<b>Loans to Banks</b>	<b>Total</b>
Impaired after restructuring	-	9,281,492	-	9,281,492
Non-Impaired after restructuring	-	18,575,461	-	18,575,461
<b>Total</b>	-	<b>27,856,953</b>	-	<b>27,856,953</b>

**Repossessed collateral**

The Group obtained assets by taking possession of collateral held as security as follows:

<b>Nature of assets</b>	<b>Carrying amount</b>	
	<b>2011</b>	<b>2010</b>
<i>In thousands of Nigerian naira</i>		
Property	992,500	130,000
<b>Total</b>	<b>992,500</b>	<b>130,000</b>

Repossessed properties have been sold as at the reporting date with the proceeds used to reduce the outstanding indebtedness of the customer's concerned.

**(v) Credit collateral**

The Group ensures that each credit is reviewed and granted based on the strength of the borrowers' cash flow. However, the Group also ensures its credit facilities are well secured as a second way out. The policies that guide collateral for facilities are embedded within the Group's credit policy guide. These include the following



policy statements amongst others:

Loans to individuals or sole proprietors must be secured by tangible, marketable collateral that has a market value that is supported by a valuation report from a registered estate valuer who is acceptable to the Group. The collateral must also be easy to check and easy to dispose of. This collateral must be in the possession of, or pledged to, the Group. Client's account balances must be within the scope of cover provided by its collateral.

All collateral offered must have the following attributes:

- There must be good legal title
- The title must be easy to transfer
- It should be easy and relatively cheap to value
- The value should be appreciating or at least stable
- The security must be easy to sell.

All collateral must be protected by insurance. Exceptions include cash collateral, securities in safe keeping, indemnity or guarantees, or where our interest is general (for instance in a negative pledge). The insurance policy has to be issued by an insurer acceptable to the Bank. All cash collateralized facilities shall have a 20% margin to provide cushion for interest and other charges i.e. only 80% of the deposit or cash collateral may be availed to an obligor.

The main collateral types acceptable to the Bank for loans and advances include:

- Mortgages over residential Properties
- Charges over business premises, fixed and floating assets as well as the inventory.
- Charges over financial instruments such as equities, treasury bills etc.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2011.

An estimate of the fair value of any collateral and other security enhancements held against loans and advances to customers and banks is shown below:

<i>In thousands of Nigerian Naira</i>	Loans and advances to customers		Loans and advances to Banks	
	2011	2010	2011	2010
Against individually impaired	31,881,429	50,856,577	150,000	90,212
Against collectively impaired	132,293,859	122,280,503	-	-
Against past due but not impaired	6,535,179	19,305,947	-	-
Against neither past due nor impaired	1,206,356,145	895,540,172	442,000	503,000
<b>Total</b>	<b>1,377,066,612</b>	<b>1,087,983,199</b>	<b>592,000</b>	<b>593,212</b>

\*ISPO: Irrevocable standing payment order;

\*ATC: Authority to collect

<i>In thousands of Nigerian Naira</i>	Loans and advances to customers		Loans and advances to banks	
	2011	2010	2011	2010
Against individually impaired:				
Property	9,132,449	5,927,406	-	-
Debt securities	19,832,640	2,243,800	-	-
Equities	1,165,305	648,650	-	-
Cash	138,622	208,000	-	-
Guarantees	18,456	55,000	-	-
Negative pledge	-	2,500,000	-	-
ATC, stock hypothecation and ISPO*	192,543	440,000	-	-
Others	1,401,414	38,833,721	150,000	90,212
Against collectively impaired:				
Property	29,668,205	60,930,439	-	-
Debt securities	2,368,985	7,029,910	-	-
Equities	6,877,185	12,854,549	-	-
Treasury Bills	-	-	-	-
Cash	496,028	2,826,374	-	-
Guarantees	496,596	2,852,597	-	-
Negative pledge	-	2,000,026	-	-
ATC, stock hypothecation and ISPO*	103,346	91,518	-	-
Others	92,283,514	33,695,090	-	-
Against past due but not impaired:				
Property	6,131,600	5,367,936	-	-
Equities	13,579	-	-	-
Cash	-	13,938,011	-	-
Others	390,000	-	-	-
Against neither past due nor impaired:				
Property	711,232,254	480,139,814	442,000	430,000
Debt securities	334,532,599	162,573,986	-	-
Equities	15,438,939	3,396,252	-	-
Treasury Bills	140,000	-	-	-
Cash	8,730,751	10,699,119	-	3,000
Guarantees	1,004,153	10,011,165	-	-
Negative pledge	-	87,955,165	-	-
ATC, stock hypothecation and ISPO*	393,325	1,746,160	-	-
Others	134,884,124	139,018,511	-	70,000
	<b>1,377,066,612</b>	<b>1,087,983,199</b>	<b>592,000</b>	<b>593,212</b>

## Notes to the consolidated financial statements

### (vi) Credit risk (continued)

#### Credit concentration

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

December 2011		Cash and cash equivalents - Money market placements	Loans and advances to customers	Loans and advances to Banks	Financial assets held for trading - Debt	Investment securities - Debt	Assets pledged as collateral	Other assets
<i>In thousands of Nigerian Naira</i>	<i>Note</i>							
	24, 25, 26,							
Carrying amount	28, 29, 34	221,014,466	706,893,133	158,616	173,297,556	161,196,356	45,588,084	64,148,270
Concentration by sector								
Corporate		-	380,636,654	-	-	-	-	-
Commercial		-	167,743,861	-	-	5,062,585	-	-
Bank		221,014,466	-	158,616	-	62,562,532	-	-
Retail		-	85,487,179	-	-	-	-	-
Government		-	73,025,439	-	173,297,556	93,571,239	45,588,084	60,807,935
Others		-	-	-	-	-	-	3,340,335
		221,014,466	706,893,133	158,616	173,297,556	161,196,356	45,588,084	64,148,270
Concentration by location								
Nigeria		49,800,000	677,621,978	158,616	173,297,556	158,071,258	45,588,084	64,148,270
Rest of West Africa		871,852	20,872,594	-	-	2,966,376	-	-
Europe		170,342,614	8,398,561	-	-	158,722	-	-
		221,014,466	706,893,133	158,616	173,297,556	161,196,356	45,588,084	64,148,270

## Notes to the consolidated financial statements

December 2010		Cash and cash equivalents - Money market placements	Loans and advances to customers	Loans and advances to Banks	Financial assets held for trading - Debt	Investment securities - Debt	Assets pledged as collateral	Other assets
<i>In thousands of Nigerian Naira</i>	<i>Note</i>							
	24, 25, 26,							
Carrying amount	28, 29, 34	175,384,349	603,906,669	186,480	148,872,254	22,896,774	29,481,804	9,049,949
Concentration by sector								
Corporate		-	326,401,693	-	-	-	-	-
Commercial		-	188,042,864	-	-	3,204,301	-	-
Bank		175,384,349	-	186,480	-	1,727,278	-	-
Retail		-	65,165,430	-	-	-	-	-
Government		-	24,296,682	-	148,872,254	17,965,195	29,481,804	5,412,524
Others		-	-	-	-	-	-	3,637,425
		175,384,349	603,906,669	186,480	148,872,254	22,896,774	29,481,804	9,049,949
Concentration by location								
Nigeria		107,820,390	577,974,299	186,480	148,872,254	22,896,774	29,481,804	9,049,949
Rest of West Africa		40,421,295	21,979,530	-	-	-	-	-
Europe		27,142,664	3,952,840	-	-	-	-	-
		175,384,349	603,906,669	186,480	148,872,254	22,896,774	29,481,804	9,049,949

## Concentration by location

Concentration by location for loans and advances is measured based on the location of the Group entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

## Notes to the consolidated financial statements

### Debt securities

The table below analyses the Group's investment in debt instrument:

#### December 2011

<i>In thousands of Nigerian Naira</i>	<b>Financial assets held for trading</b>	<b>Investment securities</b>	<b>Assets pledged as collateral</b>	<b>Total</b>
Federal Govt. bonds	4,510,813	5,232,402	15,731,363	25,474,578
State Government bonds	-	13,096,294	-	13,096,294
Corporate Bonds	-	5,084,284	-	5,084,284
AMCON Bonds <sup>1</sup>	-	62,562,532	-	62,562,532
Treasury Bills	168,786,743	75,220,844	29,856,721	273,864,308
	<b>173,297,556</b>	<b>161,196,356</b>	<b>45,588,084</b>	<b>380,081,996</b>

<sup>1</sup> AMCON Bonds are issued by Asset Management Corporation of Nigeria fully guaranteed by Federal Government of Nigeria.

#### December 2010

<i>In thousands of Nigerian Naira</i>	<b>Financial assets held for trading</b>	<b>Investment securities</b>	<b>Assets pledged as collateral</b>	<b>Total</b>
Federal Govt. bonds	3,215,100	10,713,743	16,420,863	30,349,706
State Government bonds	-	7,228,767	-	7,228,767
Corporate Bonds	-	3,226,986	-	3,226,986
AMCON Bonds	-	1,727,278	-	1,727,278
Treasury Bills	144,237,491	-	13,060,941	157,298,432
	<b>147,452,591</b>	<b>22,896,774</b>	<b>29,481,804</b>	<b>199,831,169</b>

The Group's investment in risk free Government securities constitutes 99% of the debt instruments portfolio (December 2010: 98%). Investment in corporate bond accounted for the outstanding 1% (December 2010: 2%).

## Notes to the consolidated financial statements

### 5 (c) Liquidity risk

Liquidity risk is the current and future risk to the Group's earnings and capital arising from its inability to meet its financial obligations and commitments as and when due and at a reasonable price.

#### Management of liquidity risk

A brief overview of the bank's liquidity management processes includes the following:

- Maintenance of minimum levels of liquid and marketable assets above the regulatory requirement of 5%. The Group has set for itself more stringent in-house limit of 35%, to which it adheres.
- Monitoring of its cash flow and financial position trends. The Bank also makes forecasts of anticipated deposits and withdrawals to determine their potential effect on the Bank.
- Regular measurement & monitoring of its liquidity position/ratios in line with regulatory requirements and in-house limits
- Regular monitoring of non-earning assets
- Monitoring of deposit concentration
- Ensure diversification of funding sources
- Monitoring of level of un-drawn commitments
- Maintaining a contingency funding plan.

The Group's Asset and Liability Management Committee (ALMAC) is charged with the responsibility of managing the Group's daily liquidity position. A daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALMAC. The Risk Management Group sets limits which are in conformity with the regulatory limits. The limits are monitored regularly and exceptions are reported to ALMAC as appropriate. In addition gap reports are prepared monthly to measure the maturity mismatches between assets and liabilities. The cumulative gap over total assets is not expected to exceed 20%.

#### (ii) Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar calculation is used to measure the Group's compliance with the liquidity limit established by the Bank's lead regulator (The Central Bank of Nigeria).

Details of the reported Group ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

	<b>2011</b>	<b>2010</b>
At end of period	52.65%	56.11%
Average for the period	54.17%	50.42%
Maximum for the period	61.28%	56.11%
Minimum for the period	42.77%	48.08%

## Notes to the consolidated financial statements

### Financial risk management (continued)

Table (iii) below shows the undiscounted cash flows on the Group's financial assets and liabilities and on the basis of their earliest possible contractual maturity. The Gross nominal inflow / outflow disclosed in the table relates to the contractual, undiscounted cash flow on the financial assets and liabilities.

#### (iii) Gross nominal (undiscounted) maturities of financial assets and liabilities

<i>In thousands of Nigerian Naira</i>	<i>Note</i>	<b>Carrying amount</b>	<b>Gross nominal inflow/outflow</b>	<b>Less than<sup>1</sup> 3 months</b>	<b>3 to 6 months</b>	<b>6 to 12 months</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>
<b>December 2011</b>								
<i>Financial assets</i>								
Cash and cash equivalents	24	368,282,477	368,349,007	361,766,391	6,582,617	-	-	-
Loans and advances to banks	25	158,616	210,195	151,774	9,781	19,563	29,077	-
Loans and advances to customers	26	706,893,133	803,390,021	403,139,693	47,356,371	73,606,682	238,314,341	40,972,933
Financial assets held for trading	27	173,297,556	207,149,487	51,170,479	94,335,746	55,075,450	6,422,544	145,268
Hedging derivatives	12	-	-	-	-	-	-	-
Investment Securities:								
– Available for sale	28	3,744,970	3,744,970	-	-	-	-	3,744,970
– Loans and receivables	23	-	-	-	-	-	-	-
– Held to maturity	28	161,196,356	187,292,636	53,448,880	11,875,988	15,436,463	99,031,477	7,499,828
Assets pledged as collateral	29	45,588,084	58,441,801	17,300,000	18,155,473	11,493,164	11,493,164	-
Other Assets	34	87,006,691	87,006,691	62,593,791	4,455,556	11,256,409	1,861,085	6,839,850
		1,546,167,883	1,715,584,808	949,571,008	182,771,532	166,887,731	357,151,688	59,202,849
<i>Financial liabilities</i>								
Deposits from banks	36	37,229,029	37,242,939	32,961,927	867,728	551,807	120,094	2,741,383
Deposits from customers	37	1,026,119,419	1,032,653,036	1,007,550,836	19,097,136	6,005,064	-	-
Debt securities issued	38	145,767,516	184,006,028	58,425,609	3,890,981	3,890,981	117,798,456	-
Other borrowed funds	41	93,230,139	97,004,606	1,976,309	5,417,797	7,359,643	65,855,549	16,395,307
Other Liabilities	39	48,708,157	48,708,157	29,946,085	9,504,609	5,364,155	3,893,308	-
		1,351,054,260	1,399,614,766	1,130,860,766	38,778,251	23,171,650	187,667,407	19,136,690
Gap (asset - liabilities)				(181,289,758)	143,993,281	143,716,081	169,484,281	40,066,159
Cumulative liquidity gap				(181,289,758)	(37,296,477)	106,419,604	275,903,885	315,970,044

<sup>1</sup>Includes balances with no specific contractual maturities

## Notes to the consolidated financial statements

### Gross nominal (undiscounted) maturities of financial assets and liabilities

<i>In thousands of Nigerian Naira</i>	<i>Note</i>	<b>Carrying amount</b>	<b>Gross nominal inflow/outflow</b>	<b>Less than 3 months</b>	<b>3 to 6 months</b>	<b>6 to 12 months</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>
<b>December 2010</b>								
<i>Financial assets</i>								
Cash and cash equivalents	24	273,074,591	273,444,983	272,344,165	-	1,100,818	-	-
Loans and advances to banks	25	186,480	235,192	155,279	32,216	47,698	-	-
Loans and advances to customers	26	603,906,669	758,444,850	295,980,343	106,541,488	92,347,714	227,789,667	35,785,638
Financial assets held for trading	27	148,872,254	151,734,066	151,734,066	-	-	-	-
Hedging derivatives	12	-	-	-	-	-	-	-
<i>Investment Securities:</i>								
– Available for sale	28	10,629,568	10,629,568	-	-	-	-	10,629,568
– Loans and receivables	23	-	-	-	-	-	-	-
– Held to maturity	28	22,896,774	25,643,725	762,112	402,837	1,069,071	23,409,704	-
Assets pledged as collateral	29	29,481,804	32,041,026	14,569,433	1,618,936	690,630	15,162,027	-
Other Assets	34	25,631,621	25,631,621	8,774,952	1,728,297	3,173,939	1,907,531	10,046,902
		<b>1,114,679,761</b>	<b>1,277,805,031</b>	<b>744,320,349</b>	<b>110,323,774</b>	<b>98,429,870</b>	<b>268,268,930</b>	<b>56,462,108</b>
<i>Financial liabilities</i>								
Deposits from banks	36	26,026,980	26,140,512	26,140,512	-	-	-	-
Deposits from customers	37	753,088,230	792,472,900	782,811,856	7,636,748	2,004,211	20,086	-
Debt securities issued	38	66,886,763	77,131,767	-	315,0589.5	563,72989.5	17,608,188	-
Other borrowed funds	41	23,033,947	23,878,795	598,083	133,262,182	190,188,369	20,046,198	-
Other Liabilities	39	60,869,620	60,869,620	48,131,698	6,315,570	2,671,760	3,631,123	119,469
		<b>929,905,540</b>	<b>980,493,593</b>	<b>857,682,149</b>	<b>18,435,535</b>	<b>62,950,846</b>	<b>41,305,594</b>	<b>119,469</b>
Gap (asset - liabilities)				<b>(113,361,800)</b>	<b>91,888,239</b>	<b>35,479,024</b>	<b>226,963,336</b>	<b>56,342,639</b>
Cumulative liquidity gap				<b>(113,361,800)</b>	<b>(21,473,561)</b>	<b>14,005,463</b>	<b>240,968,799</b>	<b>297,311,438</b>

<sup>1</sup>Includes balances with no specific contractual maturities



## Notes to the consolidated financial statements

### Financial risk management (continued)

Table (iv) following table shows the contractual maturities at year end of the Group's financial assets and liabilities. It represents actual and in some cases assumed obligation expected on the date the assets or liability are to be recovered or settled. These figures do not include elements of future incomes or costs which are included in the table for Gross Nominal inflow/outflow.

#### (iv) Residual contractual maturities of financial assets and liabilities

<i>In thousands of Nigerian Naira</i>	<i>Note</i>	<b>Carrying amount</b>	<b>Less than<sup>1</sup> 3 months</b>	<b>3 to 6 months</b>	<b>6 to 12 months</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>
<b>December 2011</b>							
<i>Financial assets</i>							
Cash and cash equivalents	24	368,282,477	361,712,894	6,569,583	-	-	-
Loans and advances to banks	25	158,616	102,017	-	-	56,599	-
Loans and advances to customers	26	706,893,133	278,030,923	68,129,233	38,151,947	230,362,989	92,218,041
Financial assets held for trading	27	173,297,556	38,681,425	80,583,198	49,522,122	4,419,145	91,666
Hedging derivatives	12	-	-	-	-	-	-
Investment Securities:							
– Available for sale	28	3,744,970	-	-	-	-	3,744,970
– Loans and receivables	23	-	-	-	-	-	-
– Held to maturity	28	161,196,356	53,436,963	11,588,080	15,428,203	75,679,374	5,063,736
Assets pledged as collateral	29	45,588,084	17,296,537	17,443,042	10,848,505	-	-
Other Assets	34	87,006,691	62,593,791	4,455,556	11,256,409	1,861,085	6,839,850
		1,546,167,883	811,854,550	188,768,692	125,207,186	312,379,192	107,958,263
<i>Financial liabilities</i>							
Deposits from banks	36	37,229,029	32,948,017	867,728	551,807	120,094	2,741,383
Deposits from customers	37	1,026,119,419	916,101,706	47,490,287	62,527,426	-	-
Debt securities issued	38	145,767,516	55,331,337	2,892,819	-	87,543,360	-
Other borrowed funds	41	93,230,139	-	74,092	-	78,308,092	14,847,955
Other Liabilities	39	48,708,157	29,946,085	9,504,609	5,364,155	3,893,308	-
		1,351,054,260	1,034,327,145	60,829,535	68,443,388	169,864,854	17,589,338
Gap (asset - liabilities)			(222,472,595)	127,939,157	56,763,798	142,514,338	90,368,925
Cumulative liquidity gap			(222,472,595)	(94,533,438)	(37,769,640)	104,744,698	195,113,623

<sup>1</sup>Includes balances with no specific contractual maturities

## Notes to the consolidated financial statements

### Residual contractual maturities of financial assets and liabilities

<i>In thousands of Nigerian Naira</i>	<i>Note</i>	<b>Carrying amount</b>	<b>Less than 1 3 months</b>	<b>3 to 6 months</b>	<b>6 to 12 months</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>
<b>December 2010</b>							
<i>Financial assets</i>							
Cash and cash equivalents	24	273,074,591	272,010,143	-	1,064,448	-	-
Loans and advances to banks	25	186,480	114,163	29,366	42,951	-	-
Loans and advances to customers	26	603,906,669	191,329,115	45,670,826	90,573,411	199,107,918	77,225,399
Financial assets held for trading	27	148,872,254	148,872,254	-	-	-	-
Hedging derivatives	12	-	-	-	-	-	-
<i>Investment Securities:</i>							
– Available for sale	28	10,629,568	-	-	-	-	10,629,568
– Loans and receivables	23	-	-	-	-	-	-
– Held to maturity	28	22,896,774	608,071	171,452	-	22,117,251	-
Assets pledged as collateral	29	29,481,804	14,071,142	1,410,662	-	14,000,000	-
Other Assets	34	25,631,621	8,774,952	1,728,297	3,173,939	1,907,531	10,046,902
		<b>1,114,679,761</b>	<b>635,779,840</b>	<b>49,010,604</b>	<b>94,854,749</b>	<b>237,132,700</b>	<b>97,901,869</b>
<i>Financial liabilities</i>							
Deposits from banks	36	26,026,980	26,026,980	-	-	-	-
Deposits from customers	37	753,088,230	743,477,430	7,587,211	2,003,563	20,026	-
Debt securities issued	38	66,886,763	-	2,041,094	-	64,845,669	-
Other borrowed funds	41	23,033,947	-	97,680	-	22,936,267	-
Other Liabilities	39	60,869,620	48,131,698	6,315,570	2,671,760	3,631,123	119,469
		<b>929,905,540</b>	<b>817,636,108</b>	<b>16,041,555</b>	<b>4,675,323</b>	<b>91,433,084</b>	<b>119,469</b>
<b>Gap (asset - liabilities)</b>			<b>(181,856,268)</b>	<b>32,969,048</b>	<b>90,179,426</b>	<b>145,699,616</b>	<b>97,782,400</b>
<b>Cumulative liquidity gap</b>			<b>(181,856,268)</b>	<b>(148,887,220)</b>	<b>(58,707,794)</b>	<b>86,991,822</b>	<b>184,774,222</b>

<sup>1</sup> Includes balances with no specific contractual maturities

## Notes to the consolidated financial statements

### Financial risk management (continued)

#### 5(d) Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trade. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Group mitigates this risk by conducting settlements through a settlement clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trade requires transaction specific or counterparty specific approvals from Group Risk.

#### 5(e) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

##### Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Treasury Group, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis. With the exception of translation risk arising on the Group's net investment in its foreign operations, all foreign exchange risks within the Group are monitored by the Treasury Group. Accordingly, the foreign exchange position is treated as part of the Group's trading portfolios for risk management purposes.

Overall authority for market risk is vested in Market Risk Management Committee. However, the Market Risk Management group within the Enterprise-wide Risk Management Division is responsible for the development of detailed risk management policies (subject to review and approval by the Committee) and for the day-to-day review of their implementation.

##### Exposure to market risks – trading portfolios

The principal tool used to measure and control market risk exposure within the Group's trading portfolios is the open position limits using the Earnings at Risk approach. Specified limits have been set for open positions limits, which are the expected maximum exposure the Group is to be exposed.

##### Exposure to interest rate risk – Trading and non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. The ALMAC is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Group's interest rate gap position on trading and non-trading portfolios is as follows:

## Notes to the consolidated financial statements

### Market risks

#### Repricing period

<i>In thousands of Nigerian Naira</i>	<i>Note</i>	<b>Carrying amount</b>	<b>Less than 3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>1-5 years</b>	<b>More than 5 years</b>
<b>December 2011</b>							
Cash and cash equivalents	24	368,282,477	361,712,894	6,569,583	-	-	-
Loans and advances to banks	25	158,616	158,616	-	-	-	-
Loans and advances to customers	26	706,893,133	579,271,504	14,145,024	19,350,804	74,862,186	19,263,615
Financial assets held for trading	27	175,412,985	40,796,854	80,583,198	49,522,122	4,419,145	91,666
Hedging derivatives	12	-	-	-	-	-	-
Investment Securities:		164,941,326	53,436,963	11,588,080	15,428,203	75,679,374	8,808,706
– Available for sale	28	3,744,970	-	-	-	-	3,744,970
– Loans and receivables	23	-	-	-	-	-	-
– Held to maturity	28	161,196,356	53,436,963	11,588,080	15,428,203	75,679,374	5,063,736
Assets pledged as collateral	29	45,588,084	17,296,537	17,443,042	10,848,505	-	-
Other Assets	34	87,006,691	62,593,791	4,455,556	11,256,409	1,861,085	6,839,850
		<b>1,713,224,638</b>	<b>1,168,704,122</b>	<b>146,372,563</b>	<b>121,834,246</b>	<b>232,501,164</b>	<b>43,812,543</b>
Deposits from banks	36	37,229,029	32,948,017	867,728	551,807	120,094	2,741,383
Deposits from customers	37	1,026,119,419	916,101,706	47,490,287	62,527,426	-	-
Debt securities issued	38	145,767,516	55,331,337	2,892,819	-	87,543,360	-
Other borrowed funds	41	93,230,139	-	74,092	-	78,308,092	14,847,955
Other Liabilities	39	48,708,157	29,946,085	9,504,609	5,364,155	3,893,308	-
		<b>1,351,054,260</b>	<b>1,034,327,145</b>	<b>60,829,535</b>	<b>68,443,388</b>	<b>169,864,854</b>	<b>17,589,338</b>
		<b>362,170,378</b>	<b>134,376,977</b>	<b>85,543,028</b>	<b>53,390,858</b>	<b>62,636,310</b>	<b>26,223,205</b>

## Notes to the consolidated financial statements

<i>In thousands of Nigerian Naira</i>	<i>Note</i>	<b>Carrying amount</b>	<b>Less than 3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>1-5 years</b>	<b>More than 5 years</b>
<b>December 2010</b>							
Cash and cash equivalents	24	273,074,591	272,010,143	-	1,064,448	-	-
Loans and advances to banks	25	186,480	186,480	-	-	-	-
Loans and advances to customers	26	603,906,669	603,906,669	-	-	-	-
Financial assets held for trading	27	148,872,254	148,872,254	-	-	-	-
Hedging derivatives	12	-	-	-	-	-	-
Investment Securities:		-	-	-	-	-	-
– Available for sale	28	10,629,568	-	-	-	-	10,629,568
– Loans and receivables	23	-	-	-	-	-	-
– Held to maturity	28	22,896,774	608,071	171,452	-	22,117,251	-
Assets pledged as collateral	29	29,481,804	14,071,142	1,410,662	-	14,000,000	-
Other Assets	34	25,631,621	8,774,952	1,728,297	3,173,939	1,907,531	10,046,902
		<b>1,114,679,761</b>	<b>1,048,429,711</b>	<b>3,310,412</b>	<b>4,238,387</b>	<b>38,024,782</b>	<b>20,676,470</b>
Deposits from banks	36	26,026,980	26,026,980	-	-	-	-
Deposits from customers	37	753,088,230	743,477,429	7,587,211	2,003,563	20,026	-
Debt securities issued	38	66,886,763	-	2,041,094	-	64,845,669	-
Other borrowed funds	41	23,033,947	-	97,680	-	22,936,267	-
Other Liabilities	39	60,869,620	48,131,698	6,315,570	2,671,760	3,631,123	119,469
		<b>929,905,539</b>	<b>817,636,107</b>	<b>16,041,555</b>	<b>4,675,323</b>	<b>91,433,084</b>	<b>119,469</b>
		<b>184,774,222</b>	<b>230,793,603</b>	<b>(12,731,144)</b>	<b>(436,936)</b>	<b>(53,408,302)</b>	<b>20,557,001</b>

## Notes to the consolidated financial statements

### Exposure to other market risks – non-trading portfolios (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various scenarios. Credit spread risk (not relating to changes in the obligor / issuer's credit standing) on debt securities held by the Group and equity price risk is subject to regular monitoring by Group Management Risk committee, but is not currently significant in relation to the overall results and financial position of the Group.

Interest rate movement affect reported equity in the following ways:

- Retained earnings arising from increase or decrease in net interest income and the fair value changes reported in profit or loss.
- Fair value reserves arising from increases or decreases in fair value of available-for-sale financial instruments reported directly in other comprehensive income.

Overall non-trading interest rate risk positions are managed by Treasury, which uses investment securities, advances to banks and deposits from banks to manage the overall position arising from the Group's non-trading activities.

At 31 December 2011, if interest rates on:

- floating rate assets and liabilities held at amortised cost; and
- Assets and liabilities accounted at fair value through profit or loss had increased or decreased by 200 basis points with all other variables held constant, the impact on profit or loss would have been as set out in the table below:

	2011		2010	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Decrease	(3,136,302)	(2,415,022)	(4,580,085)	(3,741,647)
Increase	3,136,302	2,415,022	4,580,085	3,741,647

At 31 December 2011, if price of Bonds designated as Financial assets held for trading increased or decreased by one naira and discount rates on treasury bills increased or reduced by 100 basis points with all variables held constant, the impact on mark to market profit or loss would have been as set out in the tables below:

#### Bond

	2011		2010	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Decrease	(4,010,000)	(3,087,789)	(7,315,000)	(6,103,057)
Increase	4,010,000	3,087,789	7,315,000	6,103,057

## Notes to the consolidated financial statements

### Treasury bills

	2011		2010	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Decrease	(445,152,178)	(342,777,068)	(327,228,850)	(273,013,842)
Increase	445,152,178	342,777,068	327,228,850	273,013,842

At 31 December 2011, if price of Equities with readily determinable fair value designated as Available for Sale (AFS) investment securities increased or decreased by one naira with all variables held constant, the impact on Other Comprehensive Income would have been as set out in the table below:

	2011		2010	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Decrease	(5,102)	(3,955)	(119,796)	(83,857)
Increase	5,102	3,955	119,796	83,857

### Exposure to foreign currency risk

Foreign exchange risk represents exposures to changes in the values of current holdings and future cash flows denominated in other currencies. The types of instruments exposed to this risk include investments in foreign subsidiaries, foreign currency-denominated loans and securities, future cash flows in foreign currencies arising from foreign exchange transactions, foreign currency-denominated debt and various foreign exchange derivative instruments whose values fluctuate with changes in the level or volatility of currency exchange rates or foreign interest rates. The Group deploys foreign currency debts to foreign currency loans and advances to eliminate exchange exposures on such borrowings.

At 31 December 2011, if foreign exchange rate increased or decreased by one naira with all variables held constant, the impact on Foreign exchange revaluation profit contribution by the bank's foreign currency position would have been as set out in the table below:

	2011		2010	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Decrease	(321,880)	(247,855)	(98,504)	(82,184)
Increase	321,880	247,855	98,504	82,184

## Notes to the consolidated financial statements

At 31 December 2011, if foreign exchange rate increased or decreased by one naira with all variables held constant, the impact on Foreign exchange revaluation profit contribution by the bank's dollar currency position would have been as set out in the table below:

	2011		2010	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Decrease	(298,516)	(229,864)	(228,691)	(190,802)
Increase	298,516	229,864	228,691	190,802

At 31 December 2011, if foreign exchange rate increased or decreased by one naira with all variables held constant, the impact on Foreign exchange revaluation profit contribution by the bank's pound currency position would have been as set out in the table below:

	2011		2010	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Decrease	(10,197)	(7,852)	(6,015)	(5,018)
Increase	10,197	7,852	6,015	5,018

At 31 December 2011, if foreign exchange rate increased or decreased by one naira with all variables held constant, the impact on Foreign exchange revaluation profit contribution by the bank's euro currency position would have been as set out in the table below:

	2011		2010	
	Pre-tax	Post-tax	Pre-tax	Post-tax
Decrease	(9,219)	(7,099)	(7,217)	(6,021)
Increase	9,219	7,099	7,217	6,021



## Notes to the consolidated financial statements

The table below summarise the Group's assets and liabilities at carrying amount, categorised by currency:

Financial instruments by currency <i>In thousands of Nigerian Naira</i>	Note	Total	Naira	US \$	GBP	Euro	Others
<b>December 2011</b>							
Cash and cash equivalents	24	368,282,477	118,179,154	219,593,698	17,735,148	11,114,078	1,660,399
Loans and advances to banks	25	158,616	158,616	-	-	-	-
Loans and advances to customers	26	706,893,133	529,173,245	168,544,337	5,351,890	184,429	3,639,232
Financial assets held for trading	27	173,297,556	169,873,837	489,318	747,650	-	2,186,751
Hedging derivatives	12	-	-	-	-	-	-
Investment Securities:							
– Available for sale	28	3,744,970	3,744,970	-	-	-	-
– Loans and receivables	23	-	-	-	-	-	-
– Held to maturity	28	161,196,356	158,975,049	2,221,307	-	-	-
Assets pledged as collateral	29	45,588,084	45,588,084	-	-	-	-
Other assets	34	87,006,691	82,598,215	3,223,309	260,888	21	924,258
		<b>1,546,167,883</b>	<b>1,108,291,170</b>	<b>394,071,969</b>	<b>24,095,576</b>	<b>11,298,528</b>	<b>8,410,640</b>
Deposits from banks	36	37,229,029	26,085,807	6,888,126	3,793,576	460,802	718
Deposits from customers	37	1,026,119,419	816,128,102	178,945,566	16,986,103	8,693,348	5,366,300
Debt securities issued	38	145,767,516	20,693,625	125,073,891	-	-	-
Other borrowed funds	41	93,230,139	34,881,870	58,348,269	-	-	-
Other liabilities	39	48,708,157	27,322,287	16,513,354	1,748,769	2,534,059	589,688
		<b>1,351,054,260</b>	<b>925,111,691</b>	<b>385,769,206</b>	<b>22,528,448</b>	<b>11,688,209</b>	<b>5,956,706</b>

## Notes to the consolidated financial statements

Financial instruments by currency <i>In thousands of Nigerian Naira</i>	Note	Total	Naira	US \$	GBP	Euro	Others
<b>December 2010</b>							
Cash and cash equivalents	24	273,074,591	117,843,914	107,741,280	20,217,205	17,216,638	10,055,554
Loans and advances to banks	25	186,480	186,480	-	-	-	-
Loans and advances to customers	26	603,906,669	445,374,611	85,785,309	2,864,139	6,541	69,876,069
Financial assets held for trading	27	148,872,254	133,356,489	-	-	-	15,515,765
Hedging derivatives	12	-	-	-	-	-	-
Investment Securities:							
– Available for sale	28	10,629,568	10,629,568	-	-	-	-
– Loans and receivables	23	-	-	-	-	-	-
– Held to maturity	28	22,896,774	22,754,123	142,651	-	-	-
Assets pledged as collateral	29	29,481,804	29,481,804	-	-	-	-
Other assets	34	25,631,621	23,513,705	705,441	192,095	853	1,219,527
		<b>1,114,679,761</b>	<b>783,140,694</b>	<b>194,374,681</b>	<b>23,273,439</b>	<b>17,224,032</b>	<b>96,666,915</b>
Deposits from banks	36	26,026,980	11,414,798	10,319,969	1,979,585	2,200,908	111,720
Deposits from customers	37	753,088,230	602,900,437	110,483,894	10,205,390	4,740,587	24,757,922
Debt securities issued	38	66,886,763	11,768,663	53,222,400	1,895,700	-	-
Other borrowed funds	41	23,033,947	10,947,680	12,086,267	-	-	-
Other liabilities	39	60,869,620	19,999,875	20,576,996	6,447,063	8,449,071	5,396,615
		<b>929,905,540</b>	<b>657,031,453</b>	<b>206,689,526</b>	<b>20,527,738</b>	<b>15,390,566</b>	<b>30,266,257</b>

## Notes to the consolidated financial statements

### (f) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for reconciliations and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for reporting operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

## 5. Capital management

### Regulatory capital

The Group's lead regulator, the Central Bank of Nigeria, sets and monitors capital requirements for the Bank. The parent company and individual banking operations are directly supervised by the Central Bank of Nigeria and the respective regulatory authorities in the countries in which the subsidiary banking operations are domiciled. Other subsidiaries are supervised by relevant regulatory authorities

In implementing current capital requirements, Central Bank of Nigeria requires the Bank to maintain a

## Notes to the consolidated financial statements

prescribed ratio of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into two tiers:

Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, translation reserve and non-controlling interests after deductions for goodwill and intangible assets, and other regulatory

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Bank's management of capital during the period.

### Capital adequacy ratio

The capital adequacy ratio is the quotient of the capital base of the Group and the Group's risk weighted asset base. In accordance with Central Bank of Nigeria regulations, a minimum ratio of 10% is to be maintained.

<i>In thousands of Nigerian Naira</i>	<i>Note</i>	<b>2011</b>	<b>2010</b>
<b>Tier 1 capital</b>			
Ordinary share capital	42	14,715,590	11,658,594
Share premium	42	123,471,114	119,076,565
Retained earnings	42	28,745,522	16,944,102
Treasury shares	42	(2,046,714)	(1,562,603)
Other reserves	42	67,121,430	68,106,873
Non-controlling interests	42	2,001,217	6,030,685
<b>Shareholders' funds</b>		<b>234,008,159</b>	<b>220,254,216</b>
<b>Add/(Less):</b>			
Fair value reserve for available-for-sale securities	42	854,621	(2,231,233)
Intangible assets	32	(1,006,470)	(1,956,459)
<b>Shareholders' funds</b>		<b>233,856,310</b>	<b>216,066,524</b>
<b>Tier 2 capital</b>			
Fair value reserve for available-for-sale securities		(854,621)	2,231,233
Collective allowances for impairment	25, 26	9,111,991	2,423,270
<b>Total</b>		<b>8,257,370</b>	<b>4,654,503</b>
<b>Total regulatory capital</b>		<b>242,113,680</b>	<b>220,721,027</b>
<b>Risk-weighted assets</b>		<b>1,170,740,630</b>	<b>949,871,787</b>

## Notes to the consolidated financial statements

### Capital ratios

Total regulatory capital expressed as a percentage

of total risk-weighted assets	20.68%	23.24%
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Total tier 1 capital expressed as a percentage of

risk-weighted assets	19.98%	22.75%
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### Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by the Group Risk and Group Credit, and is subject to review by the Group Credit Committee or ALMAC as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

## 6. Use of estimates and judgments

These disclosures supplement the commentary on financial risk management (see note 5).

### Key sources of estimation uncertainty

#### *Allowances for credit losses*

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 4(k)(viii).

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counter party's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held to maturity investment securities with similar economic characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held to maturity investment securities, but the individual impaired items cannot yet be identified. A component of collectively assessed

## Notes to the consolidated financial statements

allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances are estimated.

### *Determining fair values*

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 4(k)(vii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

### **Critical accounting judgements in applying the Group's accounting policies**

Critical accounting judgements made in applying the Group's accounting policies include:

#### *Financial asset and liability classification*

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

1. In classifying financial assets or liabilities as "trading", the Group has determined that it meets the description of trading assets and liabilities set out in accounting policy 4(m).
2. In designating financial assets or liabilities as available for sale, the Group has determined that it has met one of the criteria for this designation set out in accounting policy 4(k).
3. In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 4(o)(i).

Details of the Group's classification of financial assets and liabilities are given in note 8.

#### *Depreciation and carrying value of property and equipment*

The estimation of the useful lives of assets is based on management's judgement. Any material adjustment to the estimated useful lives of items of property and equipment will have an impact on the carrying value of these items.

#### *Determination of impairment of property and equipment, and intangible assets*

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. The Group applies the impairment assessment to its separate cash generating units. This requires management to make significant judgements and estimates concerning the existence of impairment indicators, separate cash generating units, remaining useful lives of assets, projected cash flows and net realisable values. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

## Notes to the consolidated financial statements

### *Defined benefits plan*

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.

### *Impairment of available-for-sale equity investments*

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

### *Valuation of financial instruments*

The Group's accounting policy on fair value measurements is discussed under note 4(k)(vii)

The Group measures fair values using the following hierarchy of methods.

Level 1: Quoted market price in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: This includes financial instruments, the valuation of which incorporate significant inputs for the asset or liability that is not based on observable market data (unobservable inputs). Unobservable inputs are those not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on inputs of a similar nature, historic observations on the level of the input or analytical techniques. This category includes loans and advances to banks and customers, investment securities, deposits from banks and customers, debt securities and other borrowed funds.

## Notes to the consolidated financial statements

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

### December 2011

<i>In thousands of Nigerian Naira</i>	<b>Note</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets held for Trading</b>					
-Debt Securities	27	173,297,556	-	-	173,297,556
-Equity Securities	27	-	-	-	-
<b>Available-for-sale financial assets:</b>					
-Investment securities-equity	28	59,186	-	-	59,186
Assets pledged as collateral	29	45,588,084	-	-	45,588,084
		<b>218,944,826</b>	<b>-</b>	<b>-</b>	<b>218,944,826</b>

### December 2010

<i>In thousands of Nigerian Naira</i>	<b>Note</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets held for Trading</b>					
-Debt Securities	27	147,452,591	-	-	147,452,591
-Equity Securities	27	1,419,663	-	-	1,419,663
<b>Available-for-sale financial assets:</b>					
-Investment securities-equity	28	-	-	10,564,195	10,564,195
Assets pledged as collateral	29	29,481,804	-	-	29,481,804
		<b>178,354,058</b>	<b>-</b>	<b>10,564,195</b>	<b>188,918,253</b>

### Reconciliation of Level 3 Items

*In thousands of Nigerian Naira*

	<b>Available-for-sale financial assets -Investment securities-equity</b>	
	<b>2011</b>	<b>2010</b>
At 1 January 2011	10,564,195	10,368,224
Fair value changes	-	1,415,413
Transfers out of Level 3	(10,564,195)	(1,219,442)
	<b>-</b>	<b>10,564,195</b>

Of the transfers out of Level 3, N1.28 billion were attributable to changes in observable market data, the related impairment for these have been included in N3.45 billion reported in OCI.

The balance of N9.28 billion was transferred out of level 3 to unquoted equity Investments as a result of lack of observable market data. Unquoted investments are disclosed in note 28. The related impairment has been recognised before arriving at net portfolio gain on SMEEIS investment disclosed in Note 16.



## Notes to the consolidated financial statements

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free interest rates, credit spreads and other premia used in estimating discount rates, bonds and equity prices. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with the determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

### 7. Operating segments

The Group has five reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Executive Management Committee reviews internal management reports on at least a quarterly basis. The Group presents segment information to its Executive Management Committee, which is the Group's Chief Operating Decision Maker, based on Nigerian Generally Acceptable Accounting Practice (GAAP) whose requirements differ from those of International Financial Reporting Standards in certain respects. Some of the key differences include:

1. Interest income on impaired assets is not recognised under Nigerian GAAP while IFRS requires that such interest income be recognised in the income statement.
2. Provision for loan loss is determined based on Central Bank of Nigeria Prudential Guidelines under Nigerian GAAP while an incurred loss model is used in determining the impairment loss under IFRS.
3. Credit related fees are recognised in the profit and loss account at the time of occurrence under Nigeria GAAP while under IFRS, credit related fees are recognised as part of effective interest or over the period of the contract depending on the nature of the contract.

The following summary describes the operations in each of the Group's reportable segments:

- **Retail banking** – Incorporates private banking services, private customer current accounts, savings deposits, investment savings products, custody, credit and debit cards, customer loans and mortgages.

## Notes to the consolidated financial statements

- **Corporate banking** – Incorporates current accounts, deposits, overdrafts, loans and other credit facilities, foreign currency and derivative products offered to large corporate customers.
- **Commercial banking** – Incorporates current accounts, deposits, overdrafts, loans and other credit facilities, foreign currency and derivative products for small and medium-sized companies.
- **Insurance** – Includes insurance transactions with individuals and corporate customers.
- **Asset management** – Includes portfolio and asset management transactions with individuals and corporate customers.

The Insurance and Asset management segments of the Group were discontinued during the period. Details have been included in Note 35.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Executive Management Committee. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

No single external customer accounts for 10% or more of the Group's revenue.

## Notes to the consolidated financial statements

### 7. Information about operating segments

December 2011

<i>In thousands of Nigerian Naira</i>	Corporate Banking	Retail Banking	Commercial Banking	Total Continuing Operations	Discontinued Operations	Total
<b>Revenue:</b>						
Derived from external customers	88,357,438	46,239,415	35,976,986	170,573,839	7,593,962	178,167,801
Derived from other business segments	(6,597,475)	7,407,918	(810,443)	-	-	-
<b>Total Revenue</b>	<b>81,759,963</b>	<b>53,647,333</b>	<b>35,166,543</b>	<b>170,573,839</b>	<b>7,593,962</b>	<b>178,167,801</b>
Interest expenses	(22,834,147)	(1,356,650)	(3,730,127)	(27,920,924)	(538,059)	(28,458,983)
Fee and commission expenses	(1,090,099)	(638,523)	(459,345)	(2,187,966)	(20,006)	(2,207,972)
<b>Net operating income</b>	<b>57,835,717</b>	<b>51,652,161</b>	<b>30,977,071</b>	<b>140,464,949</b>	<b>7,035,897</b>	<b>147,500,846</b>
<b>Expense:</b>						
Operating expenses	(14,158,604)	(34,299,610)	(13,513,132)	(61,971,346)	(5,098,186)	(67,069,532)
Net impairment loss on financial assets	(11,459,957)	(2,559,579)	(5,483,876)	(19,503,412)	(150,072)	(19,653,484)
Depreciation and amortization	(1,811,942)	(3,970,777)	(1,673,212)	(7,455,930)	(189,848)	(7,645,778)
<b>Total Cost</b>	<b>(27,430,503)</b>	<b>(40,829,966)</b>	<b>(20,670,219)</b>	<b>(88,930,688)</b>	<b>(5,438,106)</b>	<b>(94,368,794)</b>
<b>Profit or loss from reportable segments</b>	<b>30,405,214</b>	<b>10,822,195</b>	<b>10,306,852</b>	<b>51,534,261</b>	<b>1,597,791</b>	<b>53,132,052</b>
<b>Tax</b>	<b>(8,423,470)</b>	<b>(2,998,184)</b>	<b>(2,855,414)</b>	<b>(14,277,068)</b>	<b>(426,021)</b>	<b>(14,703,089)</b>
<b>Profit after income tax</b>	<b>21,981,744</b>	<b>7,824,011</b>	<b>7,451,439</b>	<b>37,257,193</b>	<b>1,171,770</b>	<b>38,428,963</b>
<b>Assets and liabilities:</b>						
Total assets	1,003,043,881	238,328,023	359,238,482	1,600,610,386	9,779,201	1,610,389,587
Total liabilities	(353,822,424)	(749,887,043)	(259,866,420)	(1,363,575,887)	(6,119,979)	(1,369,695,866)
<b>Net Assets/ (Liabilities)</b>	<b>649,221,457</b>	<b>(511,559,020)</b>	<b>99,372,062</b>	<b>237,034,499</b>	<b>3,659,222</b>	<b>240,693,721</b>

<sup>1</sup>Derived from other business segments are inter-segment transactions which have no effect on the group

The reconciliation of operating reporting segments to the figures reported in consolidated financial statement is shown on pages 108 – 110.

## Notes to the consolidated financial statements

December 2010

<i>In thousands of Nigerian Naira</i>	Corporate Banking	Retail Banking	Commercial Banking	Total Continuing Operations	Discontinued Operations	Total
<b>Revenue:</b>						
Derived from external customers	80,698,278	29,778,607	35,779,492	146,256,376	7,039,037	153,295,413
Derived from other business segments	(16,608,486)	22,838,076	(6,229,590)	-	-	-
<b>Total Revenue</b>	<b>64,089,792</b>	<b>52,616,683</b>	<b>29,549,902</b>	<b>146,256,376</b>	<b>7,039,037</b>	<b>153,295,413</b>
Interest expenses	(14,547,908)	(9,598,499)	(5,628,563)	(29,774,970)	(377,134)	(30,152,104)
Fee and commission expenses	(3,185,306)	(13,513)	-	(3,198,819)	(13,513)	(3,212,332)
<b>Net operating income</b>	<b>46,356,578</b>	<b>43,004,671</b>	<b>23,921,339</b>	<b>113,282,587</b>	<b>6,648,390</b>	<b>119,930,977</b>
<b>Expense:</b>						
Operating expenses	(5,322,894)	(35,430,960)	(13,676,706)	(54,430,559)	(5,153,740)	(59,584,299)
Net impairment loss on financial assets	(6,683,450)	(2,178,703)	(1,735,083)	(10,597,236)	-	(10,597,236)
Depreciation and amortization	(1,661,200)	(3,436,824)	(1,441,147)	(6,539,171)	(201,384)	(6,740,555)
<b>Total Cost</b>	<b>(13,667,543)</b>	<b>(41,046,487)</b>	<b>(16,852,935)</b>	<b>(71,566,966)</b>	<b>(5,355,124)</b>	<b>(76,922,090)</b>
<b>Profit or loss from reportable segments</b>	<b>32,689,034</b>	<b>1,958,184</b>	<b>7,068,403</b>	<b>41,715,621</b>	<b>1,293,266</b>	<b>43,008,887</b>
<b>Tax</b>	<b>(6,007,856)</b>	<b>(359,891)</b>	<b>(1,299,089)</b>	<b>(7,666,836)</b>	<b>(297,598)</b>	<b>(7,964,434)</b>
<b>Profit after income tax</b>	<b>26,681,178</b>	<b>1,598,293</b>	<b>5,769,315</b>	<b>34,048,785</b>	<b>995,668</b>	<b>35,044,453</b>
<b>Assets and liabilities:</b>						
Total assets	698,609,714	183,885,556	285,996,599	1,168,491,868	-	1,168,491,868
Total liabilities	(320,322,230)	(439,788,090)	(182,714,859)	(942,825,179)	-	(942,825,179)
<b>Net Assets/ (Liabilities)</b>	<b>378,287,483</b>	<b>(255,902,534)</b>	<b>103,281,740</b>	<b>225,666,689</b>	<b>-</b>	<b>225,666,689</b>

The reconciliation of operating reporting segments to the figures reported in consolidated financial statement is shown on pages 108 - 110

## Notes to the consolidated financial statements

### 7 Information about Operating segments (Continued)

#### Reconciliation of reportable segment revenues, profit or loss and assets and liabilities

##### Reconciliation of revenues

*In thousands of Nigerian Naira*

**2011**

**2010**

##### *Continuing Operations:*

Total revenue from reportable segments	170,573,839	146,256,376
Consolidation and adjustments:		
- Interest income	(46,857)	(32,931)
Consolidated revenue from continuing operations	170,526,982	146,223,445

##### *Discontinued Operations:*

Total revenue from reportable segments (See note 35)	7,593,962	7,039,037
Consolidated revenue from discontinued operations	7,593,962	7,039,037

Total Revenue from Reportable Segment as shown above is made up of:

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Interest income	126,471,509	112,396,831
Dividend income	245,956	192,331
Fee and commission income	43,809,517	33,634,283
	170,526,982	146,223,445

## Notes to the consolidated financial statements

### Reconciliation of profit or loss

*In thousands of Nigerian Naira* **2011** **2010**

#### *Continuing Operations:*

Total profit or loss for reportable segments	51,534,261	41,715,621
Consolidation and adjustments:		
- Interest income	(46,857)	(32,931)
- Personnel expenses	(1,579,773)	(888,746)
Other income:		
- Net gains/(losses) on financial instruments classified as held for trading	6,843,478	7,935,040
- Other operating income	5,329,097	(2,453,792)
<b>Profit before income tax from continuing operations</b>	<b>62,080,206</b>	<b>46,275,192</b>

#### *Discontinued Operations:*

Total profit or loss for reportable segments (See note 35)	1,597,791	1,293,266
Gains on disposal of disposal group (See note 35)	2,766,712	-
Tax (See note 35)	(426,021)	(297,598)
<b>Profit for the year from discontinued operations</b>	<b>3,938,482</b>	<b>995,668</b>

### Reconciliation of assets

*In thousands of Nigerian Naira* **2011** **2010**

#### *Continuing Operations:*

Total assets for reportable segments	1,600,610,386	1,168,491,868
Consolidation and adjustments	(1,736,941)	(438,971)
<b>Consolidated total assets</b>	<b>1,598,873,445</b>	<b>1,168,052,897</b>

#### *Discontinued Operations:*

Total assets for reportable segments (See note )	9,779,201	-
Consolidation and adjustments	-	-
<b>Consolidated total assets</b>	<b>9,779,201</b>	<b>-</b>

**Notes to the consolidated financial statements****Reconciliation of liabilities**

*In thousands of Nigerian Naira* **2011** **2010**

*Continuing Operations:*

Total liabilities for reportable segments	1,363,575,887	942,825,179
Consolidation and adjustments	4,948,621	4,973,502
<b>Consolidated total liabilities</b>	<b>1,368,524,508</b>	<b>947,798,681</b>

*Discontinued Operations:*

Total liabilities for reportable segments (See note )	6,119,979	-
Consolidation and adjustments	-	-
<b>Consolidated total liabilities</b>	<b>6,119,979</b>	<b>-</b>

**Geographical segments**

The Group operates in three geographic regions, being:

- Nigeria
- Rest of West Africa (comprising Ghana, Gambia, Sierra Leone and Liberia)
- Europe (UK and the Netherlands)

## Notes to the consolidated financial statements

<b>December 2011</b>		<b>Rest of</b>		<b>Total Continuing</b>	<b>Discontinued</b>	
<i>In thousands of Nigerian Naira</i>	<b>Nigeria</b>	<b>West Africa</b>	<b>Europe</b>	<b>Operations</b>	<b>Operations</b>	<b>Total</b>
Derived from external customers	157,183,656	11,625,157	1,718,169	170,526,982	7,593,962	178,120,944
Derived from other segments	-	-	-	-	-	-
<b>Total Revenue</b>	<b>157,183,656</b>	<b>11,625,157</b>	<b>1,718,169</b>	<b>170,526,982</b>	<b>7,593,962</b>	<b>178,120,944</b>
Interest expense	(25,429,757)	(2,472,237)	(18,930)	(27,920,924)	(538,059)	(28,458,983)
Fee and commission expenses	(2,172,077)	(15,889)	-	(2,187,966)	(20,006)	(2,207,972)
<b>Net interest margin</b>	<b>129,581,822</b>	<b>9,137,031</b>	<b>1,699,239</b>	<b>140,418,092</b>	<b>7,035,897</b>	<b>147,453,989</b>
<b>Profit before income tax</b>	<b>58,697,774</b>	<b>3,180,272</b>	<b>202,160</b>	<b>62,080,206</b>	<b>1,597,791</b>	<b>63,677,997</b>
<b>Assets and liabilities:</b>						
Total assets	1,485,392,854	72,013,419	41,467,172	1,598,873,445	9,779,201	1,608,652,646
Total liabilities	(1,145,756,107)	(56,366,461)	(166,401,940)	(1,368,524,508)	(6,119,979)	(1,374,644,487)
<b>Net assets/(liabilities)</b>	<b>339,636,747</b>	<b>15,646,958</b>	<b>(124,934,768)</b>	<b>230,348,937</b>	<b>3,659,222</b>	<b>234,008,159</b>
<b>December 2010</b>						
<i>In thousands of Nigerian Naira</i>	<b>Nigeria</b>	<b>Rest of</b>		<b>Total Continuing</b>	<b>Discontinued</b>	
		<b>West Africa</b>	<b>Europe</b>	<b>Operations</b>	<b>Operations</b>	<b>Total</b>
Derived from external customers	134,420,109	10,458,457	1,344,879	146,223,445	7,039,037	153,262,482
Derived from other segments	-	-	-	-	-	-
<b>Total Revenue</b>	<b>134,420,109</b>	<b>10,458,457</b>	<b>1,344,879</b>	<b>146,223,445</b>	<b>7,039,037</b>	<b>153,262,482</b>
Interest expense	(26,517,345)	(2,954,305)	(303,320)	(29,774,970)	(377,134)	(30,152,104)
Fee and commission expenses	(3,198,819)	-	-	(3,198,819)	(13,513)	(3,212,332)
<b>Net interest margin</b>	<b>104,703,945</b>	<b>7,504,152</b>	<b>1,041,559</b>	<b>113,249,656</b>	<b>6,648,390</b>	<b>119,898,046</b>
<b>Profit before income tax</b>	<b>44,395,554</b>	<b>2,095,968</b>	<b>(216,330)</b>	<b>46,275,192</b>	<b>1,293,266</b>	<b>47,568,458</b>
<b>Assets and liabilities:</b>						
Total assets	1,092,967,048	51,860,794	23,225,055	1,168,052,897	-	1,168,052,897
Total liabilities	(873,870,497)	(48,672,133)	(25,256,051)	(947,798,681)	-	(947,798,681)
<b>Net assets/(liabilities)</b>	<b>219,096,551</b>	<b>3,188,661</b>	<b>(2,030,996)</b>	<b>220,254,216</b>	<b>-</b>	<b>220,254,216</b>



## Notes to the consolidated financial statements

### 8 Financial assets and liabilities

Accounting classification measurement basis and fair values

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values.

<i>In thousands of Nigerian Naira</i>	<i>Note</i>	<b>Trading</b>	<b>Designated at fair value</b>	<b>Held-to- maturity</b>	<b>Loans at amortised cost</b>	<b>Available- for-sale</b>	<b>Other amortized cost</b>	<b>Total carrying amount</b>	<b>Fair value</b>
<b>December 2011</b>									
Cash and cash equivalents	24	-	-	-	-	-	368,282,477	368,282,477	147,268,011
Loans and advances to banks	25	-	-	-	158,616	-	-	158,616	193,456
Loans and advances to customers	26	-	-	-	706,893,133	-	-	706,893,133	683,396,557
Financial assets held for trading	27	173,297,556	-	-	-	-	-	173,297,556	173,297,556
Assets pledged as collateral	29	-	-	-	-	45,588,084	-	45,588,084	45,588,084
Investment securities	28	-	-	161,196,356	-	3,744,970	-	164,941,326	151,913,446
		<b>173,297,556</b>	<b>-</b>	<b>161,196,356</b>	<b>707,051,749</b>	<b>49,333,054</b>	<b>368,282,477</b>	<b>1,459,161,192</b>	<b>1,201,657,110</b>
Deposits from banks	36	-	-	-	-	-	37,229,029	37,229,029	37,229,029
Deposits from customers	37	-	-	-	-	-	1,026,119,419	1,026,119,419	1,026,814,547
Debt securities in issue	38	-	-	-	-	-	145,767,516	145,767,516	141,683,849
Other borrowed funds	41	-	-	-	-	-	93,230,139	93,230,139	90,024,380
		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,302,346,103</b>	<b>1,302,346,103</b>	<b>1,295,751,805</b>

## Notes to the consolidated financial statements

<i>In thousands of Nigerian Naira</i>	<i>Note</i>	<i>Trading</i>	<i>Designated at fair value</i>	<i>Held-to- maturity</i>	<i>Loans at amortised cost</i>	<i>Available- for-sale</i>	<i>Other amortized cost</i>	<i>Total carrying amount</i>	<i>Fair value</i>
<b>December 2010</b>									
Cash and cash equivalents	24	-	-	-	-	-	273,074,591	273,074,591	272,420,625
Loans and advances to banks	25	-	-	-	186,480	-	-	186,480	226,390
Loans and advances to customers	26	-	-	-	603,906,669	-	-	603,906,669	608,147,912
Financial assets held for trading	27	148,872,254	-	-	-	-	-	148,872,254	148,872,254
Assets pledged as collateral	29	-	-	-	-	29,481,804	-	29,481,804	29,481,804
Investment securities	28	-	-	22,896,774	-	10,629,568	-	33,526,342	33,526,342
		<b>148,872,254</b>	<b>-</b>	<b>22,896,774</b>	<b>604,093,149</b>	<b>40,111,372</b>	<b>273,074,591</b>	<b>1,089,048,140</b>	<b>1,092,675,327</b>
Deposits from banks	36	-	-	-	-	-	26,026,980	26,026,980	26,026,980
Deposits from customers	37	-	-	-	-	-	753,088,230	753,088,230	753,111,734
Debt securities in issue	38	-	-	-	-	-	66,886,763	66,886,763	66,876,136
Other borrowed funds	41	-	-	-	-	-	23,033,947	23,033,947	23,521,825
		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>869,035,920</b>	<b>869,035,920</b>	<b>869,536,675</b>

## Notes to the consolidated financial statements

### Accounting classification measurement basis and fair values (continued)

Financial instruments at fair value (including those held for trading, designated at fair value, derivatives and available-for-sale) are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using a valuation model, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial markets pricing models. Wherever possible these models use as their basis observable market prices and rates including, for example, interest rate yield curves, equities and prices.

## 9 Interest income

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Loans and Advances to Banks	3,076	13,202
Loans and advances to Customers	88,486,780	86,244,136
	88,489,856	86,257,338
Cash and Cash equivalents	10,310,115	8,217,285
Financial assets held for trading	23,073,110	15,460,429
Investment securities:		
– Held to maturity	2,841,797	1,601,079
Assets pledged as collateral	1,756,631	860,700
	126,471,509	112,396,831

Interest income for the period ended 31 December 2011 includes N1,563,831,000 (December 2010: N956,999,000) accrued on impaired financial assets.

## 10 Dividend income

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Dividends on available for sale equity securities	245,956	192,331
	245,956	192,331

## Notes to the consolidated financial statements

## 11 Interest expense

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Deposit from banks	589,194	380,917
Deposit from customers	16,533,794	21,741,603
	17,122,988	22,122,520
Other Borrowed Funds	417,650	1,200,640
Debt Securities	10,380,286	6,451,810
Total interest expense	27,920,924	29,774,970

## 12 Loan impairment charges

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
<b>Loans and advances to banks (Note 25)</b>	-	<b>(54,465)</b>
Increase in collective impairment	-	-
Increase in specific impairment	-	36,085
Reversal of collective impairment	-	(338)
Reversal of specific impairment	-	(90,212)
Amounts written off during the year as uncollectible	-	-
Income received on claims previously written off	-	-
<b>Loans and advances to customers (Note 26)</b>	<b>19,503,412</b>	<b>10,422,791</b>
Increase in collective impairment	6,960,891	-
Increase in specific impairment	15,094,896	10,723,976
Reversal of collective impairment	-	(301,185)
Reversal of specific impairment	-	-
Amounts written off during the year as uncollectible	715,425	-
Income received on claims previously written off	(3,258,295)	-
Impairment Charges on Loans and Advances transferred to discontinued operations	(9,505)	-
	<b>19,503,412</b>	<b>10,368,326</b>

## Notes to the consolidated financial statements

## 13 Fee and commission income

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Credit related fees and commissions	18,181,965	17,579,186
Commission on turnover	14,695,736	11,090,485
Corporate finance fees	910,821	905,693
Income from Financial guarantee contracts issued	6,089,428	3,246,472
Other fees and commissions	3,931,567	812,447
	<b>43,809,517</b>	<b>33,634,283</b>

## 14 Fee and commission expense

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Credit card expenses	270,989	1,658,259
Other fees and commission expense	1,916,977	1,540,560
	<b>2,187,966</b>	<b>3,198,819</b>

## 15 Net gains/(losses) on financial instruments classified as held for trading

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Bonds Trading	359,941	3,184,623
Treasury bills Trading	258,344	187,368
Equities/Properties Trading	11,122	230,378
Foreign exchange	6,214,071	4,332,671
Net trading income	<b>6,843,478</b>	<b>7,935,040</b>

## Notes to the consolidated financial statements

### 16 Other operating income

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Mark to Market Gains on Trading Investments	(11,475)	(3,137,308)
Foreign exchange gain/Loss	2,594,672	245,344
Gain on Disposal of Fixed Assets	446,386	118,603
Profit on part-disposal of subsidiaries	-	314,822
Net portfolio gain on SMEEIS investments	2,299,514	-
Other Income	-	4,747
	<b>5,329,097</b>	<b>(2,453,792)</b>

### 17 Net impairment loss on other financial assets

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Impairment Charges on Other Assets	-	51,442
Impairment Charges on Insurance Receivable	140,567	177,468
Impairment Charges on Insurance Receivable transferred to discontinued operations	(140,567)	-
	<b>-</b>	<b>228,910</b>

### 18 Personnel expenses

<b>(a)</b> <i>In thousands of Nigerian Naira</i>	<b>Note</b>	<b>2011</b>	<b>2010</b>
Wages and Salaries		18,319,173	16,204,722
Contributions to defined contribution plans		643,554	618,081
Defined benefit costs	40	(297,413)	(778,622)
Cash-settled share-based payments (see 18(b) below)		1,579,705	888,746
Other staff cost		238,988	-
		<b>20,484,007</b>	<b>16,932,927</b>

## Notes to the consolidated financial statements

### Cash-settled share-based payments

The Group operates a cash-settled share based compensation plan (share appreciation rights (SARs)) for its management personnel. The management personnel are entitled to the share appreciation rights after spending five years in the Bank. The amount of cash payment is determined based on the fair value of the shares of the Bank. The details of SARs granted at the financial position date are provided below:

In thousands	Number of shares
SARs granted to senior management employees at 31 December 2011	427,280
SARs granted to senior management employees at 31 December 2010	396,452

### (b) Employee expenses for share-based payments

<i>In thousands of Nigerian Naira</i>	<b>Note</b>	<b>2011</b>	<b>2010</b>
Effect of changes in the fair value of SARs		(121,772)	201,763
Expense from rights exercised during the year		1,151,856	24,590
Dividend payment to members of the scheme		549,621	662,393
<b>Total expense recognized as personnel expenses</b>		<b>1,579,705</b>	<b>888,746</b>
Total carrying amount of liabilities for cash-settled arrangements	39	4,985,189	4,997,014

The carrying amount of liabilities for cash-settled share based payments includes:

<i>In thousands of Nigerian Naira</i>	<b>Note</b>	<b>2011</b>	<b>2010</b>
Balance, beginning of period		4,997,014	4,540,285
Effect of changes in fair value of SAR at year end		1,151,856	201,763
Options exercised during the year		(1,443,296)	(13,014)
Share rights granted during the year		279,615	267,980
<b>Balance, end of period</b>	<b>39</b>	<b>4,985,189</b>	<b>4,997,014</b>

## Notes to the consolidated financial statements

### 19 General and administrative expenses

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Stationery and postage	2,285,874	2,071,744
Business travel expenses	927,521	1,298,587
Advert, promotion and corporate gifts	4,994,580	6,142,960
Other premises and equipment costs	7,244,762	7,197,231
Directors' emoluments	466,955	459,118
Underwriting expenses	-	630,598
Contract Services	5,701,418	4,991,757
	<b>21,621,110</b>	<b>22,791,994</b>

### 20 Depreciation and Amortisation

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Amortisation of Intangibles	743,080	782,777
Depreciation of Property, Plant and Equipment	6,902,698	5,957,778
Depreciation and amortisation transferred to discontinued operation	(189,848)	(201,384)
	<b>7,455,930</b>	<b>6,539,171</b>

### 21 Other operating expenses

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Lease expenses	280,164	512,761
Insurance Premium Paid	4,580,967	4,529,420
Consulting and auditing costs	1,073,741	864,573
Claims and benefits incurred on insurance contracts	-	23,036
AMCON Expenses <sup>1</sup>	3,200,288	-
Others	11,480,671	9,070,322
	<b>20,615,831</b>	<b>15,000,112</b>

<sup>1</sup> AMCON Expenses are payable to Asset Management Corporation of Nigeria (AMCON). This is accrued based on 0.3 per cent of prior year's Total assets, which is based on Financial Statements prepared under Nigerian GAAP.



## Notes to the consolidated financial statements

**22 Income tax expense  
recognised in income statement**

*In thousands of Nigerian Naira*

	<b>2011</b>	<b>2010</b>
<b>Current tax expense:</b>		
Current year	14,724,760	9,463,367
Prior year's under provision	455,077	635,190
Current year tax expense transferred to discontinued operations	(391,384)	(495,796)
	<u>14,788,453</u>	<u>9,602,761</u>
<b>Deferred tax expense:</b>		
Reversal of temporary differences	(476,748)	(2,134,123)
Deferred tax expense transferred to disposal group	(34,637)	198,198
	<u>14,277,068</u>	<u>7,666,836</u>

**Reconciliation of effective tax rate**

*In thousands of Nigerian Naira*

	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>
Profit before income tax	62,080,206		47,568,458	
Income tax using the domestic corporation tax rate	18,624,062	30.00%	14,270,537	30.00%
Effect of tax rates in foreign jurisdictions	-	0.00%	-	0.00%
Net Capital Allowance	(4,292,427)	-6.91%	(2,331,116)	-4.90%
Non-deductible expenses	4,375,336	7.05%	4,086,727	8.59%
Education/NITDEF tax levy	1,608,355	2.59%	989,903	2.08%
Tax exempt income	(6,903,242)	-11.12%	(7,552,685)	-15.88%
Current year deferred tax	(476,748)	-0.77%	(2,134,123)	-4.49%
Under provided in prior years	455,077	0.73%	635,190	1.34%
NGAAP Impact	1,312,676	2.11%	-	0.00%
Income taxes for discontinued operations	(426,021)	-0.69%	(297,598)	-0.63%
Total income tax expense in income statement	<u>14,277,068</u>	<u>23.00%</u>	<u>7,666,836</u>	<u>16.12%</u>

<sup>1</sup> NGAAP Impact arose from the difference in taxable income items under IFRS and Nigeria Generally Accepted Principles (NGAAP).

## Notes to the consolidated financial statements

### Income tax recognised in other comprehensive income

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Available-for-sale investment securities	731,072	(283,769)
	<u>731,072</u>	<u>(283,769)</u>

The income tax recognised in Other Comprehensive income relates to deferred tax for current year.

### 24 Basic and Diluted earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares.

The calculation of basic earnings per share for 2011 was based on the profit attributable to ordinary shareholders of N47,516,359,000 (2010: N38,438,363,000) and a weighted average number of ordinary shares outstanding of 28,155,755,696 (2010: 28,297,922,928) and it is calculated as follows for both Continued and Discontinued Operations for both years:

#### Basis Earnings per Share (Basic EPS) – Continued Operations

##### Number of ordinary shares

<i>In millions of shares</i>	<b>2011</b>	<b>2010</b>
Weighted average number of ordinary shares in issue	28,156	28,298
Basic earnings per share (expressed in naira per share)	<u>1.69</u>	<u>1.36</u>

The Group does not have any dilutive potential ordinary shares. Therefore, Basic EPS and Diluted EPS for continuing operations are the same for the Group.

#### Basis Earnings per Share (Basic EPS) – Discontinued Operations

##### Number of ordinary shares

<i>In millions of shares</i>	<b>2011</b>	<b>2010</b>
Weighted average number of ordinary shares in issue	28,156	28,298
Basic earnings per share (expressed in naira per share)	<u>0.14</u>	<u>0.04</u>

## Notes to the consolidated financial statements

## Profit attributable to:

<i>In millions of shares</i>	<b>2011</b>	<b>2010</b>
Equity holders of the parent entity (total)	51,203,738	39,173,722
– Profit for the year from continuing operations	47,516,359	38,438,363
– Profit for the year from discontinued operations	3,687,379	735,359

## 24 Cash and cash equivalents

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Cash and balances with banks	126,211,653	87,202,984
Unrestricted balances with Central banks	21,056,358	10,487,258
Money market placements	221,014,466	175,384,349
	<b>368,282,477</b>	<b>273,074,591</b>

Cash and cash equivalent of the Group in cash flow statement includes:

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Cash and cash equivalents of continuing operations	368,282,477	273,074,591
Cash and cash equivalents classified as held for sale	822,743	-
	<b>369,105,220</b>	<b>273,074,591</b>

## Notes to the consolidated financial statements

## 25 Loans and advances to banks

<i>In thousands of Nigerian Naira</i>	2011	2010
Loans and advances to banks	198,141	222,643
Less specific allowances for impairment	(39,365)	(36,085)
Less collective allowances for impairment	(160)	(78)
	158,616	186,480
Current	102,017	186,480
Non-current	56,599	-

## Reconciliation of allowance account for losses on loans and advances to banks

	2011			2010		
	Specific allowance for impairment	Collective allowance for impairment	Total allowance for impairment	Specific allowance for impairment	Collective allowance for impairment	Total allowance for impairment
Balance at 1 January	36,085	78	36,163	90,212	416	90,628
Reversal of impairment	-	-	-	(90,212)	(338)	(90,550)
Increase in impairment allowances	-	-	-	36,085	-	36,085
Write offs	3,280	82	3,362	-	-	-
Foreign currency translation and other adjustments	-	-	-	-	-	-
	39,365	160	39,525	36,085	78	36,163

## Notes to the consolidated financial statements

## 26 Loans and advances to customers

<b>2011</b>	<b>Gross</b>	<b>Specific</b>	<b>Portfolio</b>	<b>Total</b>	<b>Carrying</b>
<i>In thousands of Nigerian Naira</i>	<b>amount</b>	<b>impairment</b>	<b>impairment</b>	<b>impairment</b>	<b>amount</b>
Loans to individuals	42,498,800	(556,597)	(59,788)	(616,385)	41,882,415
Loans to corporate entities and other organizations	690,253,881	(16,191,120)	(9,052,043)	(25,243,163)	665,010,718
	732,752,681	(16,747,717)	(9,111,831)	(25,859,548)	706,893,133

<b>2010</b>	<b>Gross</b>	<b>Specific</b>	<b>Portfolio</b>	<b>Total</b>	<b>Carrying</b>
<i>In thousands of Nigerian Naira</i>	<b>amount</b>	<b>impairment</b>	<b>impairment</b>	<b>impairment</b>	<b>amount</b>
Loans to individuals	22,391,754	(1,856,951)	(41,815)	(1,898,766)	15,941,096
Loans to corporate entities and other organizations	613,906,947	(28,111,889)	(2,381,377)	(30,493,266)	587,965,573
	636,298,701	(29,968,840)	(2,423,192)	(32,392,032)	603,906,669

*In thousands of Nigerian Naira***2011**      **2010**

Current	384,312,103	327,573,352
Non-current	322,581,030	276,333,317

## Loans to individuals

	<b>2011</b>			<b>2010</b>		
	<b>Specific allowance for impairment</b>	<b>Collective allowance for impairment</b>	<b>Total allowance for impairment</b>	<b>Specific allowance for impairment</b>	<b>Collective allowance for impairment</b>	<b>Total allowance for impairment</b>
Balance at 1 January	1,856,951	41,815	1,898,766	1,027,333	64,857	1,092,190
Reversal of impairment	-	-	-	-	(23,042)	(23,042)
Increase in impairment allowances	1,455,498	19,655	1,475,152	829,618		829,618
Write offs	(2,755,040)	-2,105	(2,757,145)	-	-	-
Foreign currency translation and other adjustments	(812)	423	(388)	-	-	-
	556,597	59,788	616,385	1,856,951	41,815	1,898,766

## Notes to the consolidated financial statements

## Loans to corporate entities and other organizations

	2011			2010		
	Specific allowance for impairment	Collective allowance for impairment	Total allowance for impairment	Specific allowance for impairment	Collective allowance for impairment	Total allowance for impairment
Balance at 1 January	28,111,889	2,381,377	30,493,266	18,469,894	2,665,241	21,135,135
Reversal of impairment	-	-	-	-	(278,143)	(278,143)
Increase in impairment allowances	13,639,398	6,941,236	20,580,635	9,894,358	-	9,894,358
Write offs	(25,480,787)	(243,476)	(25,724,263)	(196,563)	-	(196,563)
Foreign currency translation and other adjustments	(12,285)	24,094	11,808	(55,800)	(5,721)	(61,521)
Impairment transferred to discontinued operations	(67,095)	(51,188)	(118,283)	-	-	-
	16,191,120	9,052,043	25,243,163	28,111,889	2,381,377	30,493,266

## 27 Financial assets held for trading

<i>In thousands of Nigerian Naira</i>	2011	2010
Trading bonds	4,510,813	3,215,100
Trading Treasury bills	168,786,743	144,237,491
Equities	-	1,419,663
	173,297,556	148,872,254
Current	168,786,745	148,872,254
Non-current	4,510,811	-

## Notes to the consolidated financial statements

## 28 Investment Securities

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
<b>Available for sale investment securities</b>		
Equity securities	59,186	10,564,195
Unquoted Equity securities at cost	6,380,410	1,395,000
	6,439,596	11,959,195
Specific impairment for equities	(2,694,626)	(1,329,627)
<b>Total available for sale investment securities</b>	<b>3,744,970</b>	<b>10,629,568</b>
<b>Held to maturity investment securities</b>		
Bonds	18,328,696	17,942,510
Treasury Bills	75,220,844	-
Corporate bond	67,646,816	4,954,264
<b>Total held to maturity investment securities</b>	<b>161,196,356</b>	<b>22,896,774</b>
<b>Total investment securities</b>	<b>164,941,326</b>	<b>33,526,342</b>
Current	80,453,246	779,523
Non-current	84,488,080	32,746,819

**Specific impairment for equities**

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Balance at 1 January	1,329,627	1,329,627
- Charge for the year	1,364,999	-
Balance at 31 December	2,694,626	1,329,627

All debt securities have fixed coupons.

Included in Corporate Bond is carrying value of bonds totalling N62,562,532,000 (2010: 1,727,278,000) issued by Asset Management Corporation of Nigeria (AMCON) fully guaranteed by Federal Government of Nigeria. The bonds were issued to banks in exchange for impaired loans.

## Notes to the consolidated financial statements

### 29 Assets pledged as collateral

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Treasury bills	29,856,721	13,060,941
Bonds	15,731,363	16,420,863
Equities	-	-
	<hr/>	<hr/>
	45,588,084	29,481,804
Current	45,588,084	15,481,804
Non-current	-	14,000,000

Included in Assets pledged as collateral are treasury bills of N17,000,000,000 (31 December 2010: nil) on repurchase agreements to secure inter-bank takings – money market deposits (N17,000,000,000) from other banks which have been included in deposits from banks in Note 36. These transactions have been conducted under terms that are usual and customary to standard lending and repurchase activities.

As at 31 December 2011, the Bank held no collateral, which it was permitted to sell or re-pledge in the absence of default by the owner of the collateral (31 December 2010: nil).

### 30 Investment properties

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Balance, beginning of year	7,349,815	5,070,666
Additions	1,042,217	2,750,120
Disposals	(561,460)	(470,971)
Assets classified as held for sale	(2,837,454)	-
Assets of subsidiaries disposed	(4,993,118)	-
	<hr/>	<hr/>
	-	7,349,815

Investment properties relate to 30 units of 3 bed room flats, 2 plots of land (2000 sq.m. each), 9 terrace houses and 2 pent houses.

Investment properties classified as held for sale have been stated at cost because of the inability of the Group to reliably determine the fair value of these properties. However, the possible fair value is about N3 billion.

There were no direct operating expenses recognised in the consolidated income statement during the period (2010: nil).



## Notes to the consolidated financial statements

## 31 Property and equipment

<i>In thousands of Nigerian Naira</i>	<b>Leasehold improvement and buildings</b>	<b>Furniture &amp; equipment</b>	<b>Motor vehicle</b>	<b>Other transport equipment</b>	<b>Capital work-in - progress</b>	<b>Total</b>
<b>Cost</b>						
Balance at 1 January 2011	20,509,793	21,658,211	6,827,006	2,545,136	13,348,437	64,888,583
Exchange difference	49,374	15,930	256	-	1,523	67,083
Additions	578,816	6,912,595	1,335,868	1,568,637	6,993,250	17,389,166
Disposals	(96,063)	(228,540)	(863,349)	-	-	(1,187,952)
Transfers	8,499,711	2,277,965	3,214	-	(10,780,890)	-
Reclassifications	-	-	-	-	(1,586,728)	(1,586,728)
Assets classified as held for sale	(42,307)	(66,827)	(31,021)	-	-	(140,155)
Assets of subsidiaries disposed	(120,061)	(532,832)	(440,680)	-	-	(1,093,573)
<b>Balance at 31 December 2011</b>	<b>29,379,263</b>	<b>30,036,502</b>	<b>6,831,294</b>	<b>4,113,773</b>	<b>7,975,592</b>	<b>78,336,424</b>
Balance at 1 January 2010	17,926,144	18,439,152	5,849,263	2,545,136	11,236,406	55,996,101
Exchange difference	(32,243)	(50,291)	(23,844)	-	(172,404)	(278,782)
Additions	1,557,916	3,177,982	1,877,131	-	4,319,715	10,932,744
Disposals	(595,697)	(271,990)	(893,793)	-	-	(1,761,480)
Transfers	1,653,673	363,358	18,249	-	(2,035,280)	-
<b>Balance at 31 December 2010</b>	<b>20,509,793</b>	<b>21,658,211</b>	<b>6,827,006</b>	<b>2,545,136</b>	<b>13,348,437</b>	<b>64,888,583</b>

## Notes to the consolidated financial statements

<b>Depreciation</b> <i>In thousands of Nigerian Naira</i>	<b>Leasehold improvement and buildings</b>	<b>Furniture &amp; equipment</b>	<b>Motor vehicle</b>	<b>Other transport equipment</b>	<b>Capital work-in - progress</b>	<b>Total</b>
Balance at 1 January 2011	3,043,407	13,961,647	3,450,122	954,426	-	21,409,602
Exchange difference	1,469	2,059	(414)	-	-	3,114
Charge for the year	842,757	4,148,780	1,560,875	350,286	-	6,902,698
Disposal	(62,559)	(179,360)	(664,117)	-	-	(906,036)
Assets classified as held for sale	(15,852)	(48,379)	(27,022)	-	-	(91,253)
Assets of subsidiaries disposed	(40,595)	(289,324)	(254,054)	-	-	(583,973)
<b>Balance at 31 December 2011</b>	<b>3,768,627</b>	<b>17,595,423</b>	<b>4,065,390</b>	<b>1,304,712</b>	<b>-</b>	<b>26,734,152</b>
Balance at 1 January 2010	2,299,406	10,739,146	2,878,443	699,912	-	16,616,907
Exchange difference translation of opening balances	(14,553)	2,900	(31,082)	-	-	(42,735)
Charge for the year	804,711	3,480,385	1,418,168	254,514	-	5,957,778
Disposal	(46,157)	(260,784)	(815,407)	-	-	(1,122,348)
<b>Balance at 31 December 2010</b>	<b>3,043,407</b>	<b>13,961,647</b>	<b>3,450,122</b>	<b>954,426</b>	<b>-</b>	<b>21,409,602</b>
Carrying amounts:						
Balance at 31 December 2011	25,610,636	12,441,079	2,765,904	2,809,061	7,975,592	51,602,272
Balance at 31 December 2010	17,466,386	7,696,564	3,376,884	1,590,710	13,348,437	43,478,981

## Notes to the consolidated financial statements

## Intangible assets

<i>In thousands of Nigerian Naira</i>	<b>Goodwill</b>	<b>Purchased Software</b>	<b>Total</b>
<b>Cost</b>			
<b>December 2011</b>			
Balance at 1 January 2011	354,328	4,517,696	4,872,024
Additions	-	122,460	122,460
Exchange translation differences	-	13,183	13,183
Assets classified as held for sale	-	(14,554)	(14,554)
Assets of subsidiaries disposed	(303,405)	(139,390)	(442,795)
Balance at 31 December 2011	50,923	4,499,395	4,550,318
<b>December 2010</b>			
Balance at 1 January 2010	354,328	4,116,381	4,470,709
Additions	-	401,315	401,315
Exchange translation differences	-	-	-
Balance at 31 December 2010	354,328	4,517,696	4,872,024
<b>Amortization and impairment losses</b>			
Balance at 1 January 2011	-	2,915,565	2,915,565
Exchange translation differences	-	4,160	4,160
Amortization for the period	-	743,080	743,080
Reclassifications	-	-	-
Assets classified as held for sale	-	(14,202)	(14,202)
Assets of subsidiaries disposed	-	(104,755)	(104,755)
Balance at 31 December 2011	-	3,543,848	3,543,848
Balance at 1 January 2010	-	2,132,788	2,132,788
Amortization for the period	-	782,777	782,777
Reclassifications	-	-	-
Balance at 31 December 2010	-	2,915,565	2,915,565
<b>Carrying amounts</b>			
Balance at 31 December 2011	50,923	955,547	1,006,470
Balance at 31 December 2010	354,328	1,602,131	1,956,459

Goodwill is revised annually for impairment, or more frequently when there are indications that impairment may have occurred. There was no impairment identified in 2011 (2010: nil).

## Notes to the consolidated financial statements

### 34 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

### 33 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

<i>In thousands of Nigerian Naira</i>	<b>2011</b>			<b>2010</b>		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment, and software	-	(5,904,781)	(5,904,781)	13,737	(5,164,299)	(5,150,562)
Fair Value Reserves	-	790,890	790,890	-	-	-
Allowances for loan losses	-	2,733,598	2,733,598	-	726,981	726,981
Mark to market loss on valuation of securities	(3,443)	-	(3,443)	-	-	-
Defined benefit Obligation	-	(1,315,560)	(1,315,560)	-	(830,336)	(830,336)
Other assets	-	388,464	388,464	-	862,914	862,914
Impairment on Insurance receivable	100,263	(100,263)	-	574,144	(479,744)	94,400
<b>Net tax assets/(liabilities)</b>	<b>96,820</b>	<b>(3,407,652)</b>	<b>(3,310,832)</b>	<b>587,881</b>	<b>(4,884,484)</b>	<b>(4,296,603)</b>

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Deferred tax assets		
-Deferred tax assets to be recovered within 12 months	96,820	574,144
-Deferred tax assets to be recovered after more than 12 months	-	13,737
Deferred tax liabilities		
-Deferred tax liabilities to be recovered within 12 months	100,263	(279,815)
-Deferred tax liabilities to be recovered after more than 12 months	3,307,389	5,164,299

There were no unrecognised deferred tax assets or liabilities as at 31 December 2011 (31 December 2010: nil).

## Notes to the consolidated financial statements

## Deferred tax assets and liabilities

## Movements in temporary differences during the year

Deferred tax assets and liabilities  
Movements in temporary differences during the year

2011 <i>In thousands of Nigerian Naira</i>	Balance at 1-Jan	Exchange Difference	Recognised in		Subsidiaries Disposed of	Asset classified as as held for sale	Balance at 31-Dec
			Profit or loss	Other comprehensive income			
Property and equipment, and software	(5,150,562)	(4,310)	(921,460)	-	173738	(2,187)	(5,904,781)
Fair Value Reserves	-	-	-	790,890	-	-	790,890
Allowances for loan losses	726,981	-	2,006,617	-	-	-	2,733,598
Mark to market loss on valuation of securities	-	-	(3,443)	-	-	-	(3,443)
Defined benefit Obligation	(830,336)	-	(485,224)	-	-	-	(1,315,560)
Other assets	862,914	-	(25,342)	(59,818)	(5,459)	(383,831)	388,464
Impairment on Insurance receivable	94,400	-	(94,400)	-	-	-	-
	(4,296,603)	(4,310)	476,748	731,072	168,279	(386,018)	(3,310,832)

2010 <i>In thousands of Nigerian Naira</i>	Balance at 1-Jan	Recognised in		Balance at 31-Dec
		Profit or loss	Other comprehensive income	
Property and equipment, and software	(4,897,666)	(252,896)	-	(5,150,562)
Fair Value Reserves	424,624	-	(424,624)	-
Allowances for loan losses	(1,968,742)	2,695,723	-	726,981
Mark to market loss on valuation of securities	1,029,607	(1,029,607)	-	-
Defined benefit Obligation	(1,516,732)	686,396	-	(830,336)
Other assets	778,174	(56,115)	140,855	862,914
Impairment on Insurance receivable	3,778	90,622	-	94,400
	(6,146,957)	2,134,123	(283,769)	(4,296,603)

## Notes to the consolidated financial statements

## 34 Other assets

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Due from banks	-	-
Accounts receivable and prepayments	21,813,557	16,262,802
Restricted deposits with central banks	61,768,606	6,689,758
Recognised assets for defined benefit obligations (See note 40)	4,385,199	2,767,786
Insurance receivables	-	1,188,509
	<b>87,967,362</b>	<b>26,908,855</b>
Impairment on other assets	(960,671)	(962,566)
Impairment on insurance receivable	-	(314,668)
	<b>87,006,691</b>	<b>25,631,621</b>
Current	78,108,524	13,677,188
Non-current	8,898,167	11,954,433

Restricted deposits with central banks are not available for use in the Group's day-to-day operations. The Bank had restricted balances of N61,768,606,000 with the Central Bank of Nigeria (CBN) as at 31 December 2011 (December 2010: N6,689,758,000). This balance is made up of CBN cash reserve requirement. The cash reserve ratio represents a mandatory 8% of local deposits which should be held with the Central Bank of Nigeria as a regulatory requirement.

**Insurance receivable comprises:**

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Due from contract holders	-	1,106,190
Due from agents and brokers	-	50,013
Due from reinsurers	-	32,306
	-	<b>1,188,509</b>

**Notes to the consolidated financial statements****Movement in impairment on other assets:**

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Balance at 1 January	962,566	914,045
Charge for the year	-	51,442
Recoveries	(1,895)	(2,921)
Balance at 31 December	960,671	962,566

**Movement in impairment on insurance receivables:**

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Balance at 1 January	314,668	193,574
Charge for the year	140,567	177,468
Recoveries	(73,117)	(56,374)
Allowances on assets of subsidiaries disposed	(382,118)	-
Balance at 31 December	-	314,668

**35. Assets classified as held for sale and discontinued operations**

The assets and liabilities related to GTHomes Limited that is a part of the asset management segment have been presented as held for sale following the approval of the Group's management and shareholders on 1 September 2011 of a proposal for the sale of the company. The transaction is expected to be completed by June 2012.

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Net cash flow from operating activities	(1,133,651)	-
Net cash flow from investing activities	(67,820)	-
Net cash flow from financing activities	(970,000)	-
	(2,171,471)	-

**Notes to the consolidated financial statements****(a) Assets of disposal group classified as held for sale**

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	822,743	-
Financial assets held for trading	-	-
Assets pledged as collateral	-	-
Loans and Advances to Banks	-	-
Loans and Advances to Customers	4,955,854	-
Investment Securities	-	-
Trading properties	2,837,454	-
Property and equipment	48,902	-
Intangible assets	352	-
Deferred tax assets	386,018	-
Other assets	727,878	-
<b>Total assets of disposal group</b>	<b>9,779,201</b>	<b>-</b>

**(b) Liabilities of disposal group classified as held for sale**

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Deposits from banks	1,562	-
Deposits from customers	5,311,651	-
Debt securities issued	-	-
Current tax liabilities	200,171	-
Deferred tax liabilities	-	-
Other liabilities	606,595	-
<b>Total assets of disposal group</b>	<b>6,119,979</b>	<b>-</b>
<b>Net assets of disposal group</b>	<b>3,659,222</b>	<b>-</b>



## Notes to the consolidated financial statements

Analysis of the result of discontinued operations, and the result recognised on the re-measurement of assets or disposal group, is as

### (c) Profit from discontinued operations

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Revenues	7,593,962	7,039,037
Expenses	(5,996,171)	(5,745,771)
Profit before tax of discontinued operations	1,597,791	1,293,266
Tax	(426,021)	(297,598)
<b>Profit from discontinued operations after tax</b>	<b>1,171,770</b>	<b>995,668</b>
Gains on disposal of disposal group	2,766,712	-
<b>Gains from discontinued operations</b>	<b>3,938,482</b>	<b>995,668</b>
Pre-tax loss recognised on the re-measurement of assets of disposal group	-	-
Tax	-	-
<b>After tax loss recognised on the re-measurement of assets of disposal group</b>	<b>-</b>	<b>-</b>
<b>Profit from discontinued operations</b>	<b>3,938,482</b>	<b>995,668</b>
<b>Profit attributable to:</b>		
Equity holders of the parent entity (total)	3,687,379	735,359
Non-controlling interests (total)	251,103	260,309
	<b>3,938,482</b>	<b>995,668</b>

### Disposals of businesses

The Group disposed of its investment in the following non banking subsidiaries in line with the Central Bank of Nigeria Regulation on the Scope of Banking Activities and Ancillary Matters requiring banks to divest from all non-banking businesses and apply for a new type of banking license based on the decision of the Bank's Board of Directors or set up a holding company structure:

- Guaranty Trust Assurance
- GTB Asset management Limited
- GT Registrars Limited

## Notes to the consolidated financial statements

	GT Assurance Sep-2011 N'000	GTB Asset Management Sep-2011 N'000	GT Registrars Dec-2011 N'000	Total Dec-2011 N'000
Cash and cash equivalents	3,483,778	255,003	99,466	3,838,247
Loans and advances to customers	-	84,491	-	84,491
Investment securities:				
– Held to maturity	9,088,230	4,981,785	-	14,070,015
Investment properties	4,993,118	-	-	4,993,118
Property and equipment	453,424	54,378	1,798	509,600
Intangible assets	324,409	10,305	3,326	338,040
Deferred tax assets	5,459	-	-	5,459
Other assets	4,427,209	231,064	23,001	4,681,274
<b>Total Assets</b>	<b>22,775,627</b>	<b>5,617,026</b>	<b>127,591</b>	<b>28,520,244</b>
Deposits from customers	-	3,841,185	-	3,841,185
Current income tax liabilities	584,157	-	1,496	585,653
Deferred tax liabilities	172,707	-	1,031	173,738
Other liabilities	4,135,545	121,443	46,016	4,303,004
Liabilities on Insurance contracts	4,903,898	-	-	4,903,898
<b>Total Liabilities</b>	<b>9,796,307</b>	<b>3,962,628</b>	<b>48,543</b>	<b>13,807,478</b>
<b>Net Assets</b>	<b>12,979,320</b>	<b>1,654,398</b>	<b>79,048</b>	<b>14,712,766</b>
Non controlling interest disposed of	4,096,856	-	-	4,096,856
Net assets and non-controlling interests disposed of	<b>8,882,464</b>	<b>1,654,398</b>	<b>79,048</b>	<b>10,615,910</b>
Net Sale Proceeds on disposal	11,560,374	1,755,000	67,248	13,382,622
Profit On Sale	<b>2,677,910</b>	<b>100,602</b>	<b>(11,800)</b>	<b>2,766,712</b>
<b>Net cash inflow arising on disposal:</b>				
Cash consideration received	11,910,966	1,755,000	67,500	13,733,466
Cash paid to sell subsidiaries	(350,592)	-	(252)	(350,844)
Net Sale Proceeds on disposal	11,560,374	1,755,000	67,248	13,382,622
Cash and cash equivalents disposed	(3,483,778)	(255,003)	(99,466)	(3,838,247)
	<b>8,076,596</b>	<b>1,499,997</b>	<b>(32,218)</b>	<b>9,544,375</b>

## Notes to the consolidated financial statements

## 36 Deposits from banks

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Money market deposits	17,000,008	-
Other deposits from banks	20,229,021	26,026,980
	<b>37,229,029</b>	<b>26,026,980</b>

All deposits from banks mature within 12 months.

Money market deposits are at fixed interest rates.

Included in money market deposits are inter-bank takings of N17,000,000,000 (31 December 2010: nil) secured by treasury bills of N17,000,000,000 which have been included in assets pledged as collateral (see Note 29). These transactions have been conducted under terms that are usual and customary to standard lending and repurchase activities.

## 37 Deposits from customers

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Retail customers:		
Term deposits	122,640,495	116,008,146
Current deposits	214,841,522	145,663,017
Savings	148,674,048	107,124,837
Corporate customers:		
Term deposits	138,378,195	129,327,190
Current deposits	401,585,159	254,965,040
	<b>1,026,119,419</b>	<b>753,088,230</b>
Current	1,026,119,419	753,068,204
Non-current	-	20,026

All deposits from customers are at fixed interest rates.

## Notes to the consolidated financial statements

## 38 Debt securities issued

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Debt securities at amortized cost:		
Eurobond debt security	132,534,347	55,137,783
Corporate bonds	13,233,169	11,748,980
	<hr/> 145,767,516	<hr/> 66,886,763
Current	58,224,156	2,041,094
Non-current	87,543,360	64,845,669

Debt securities of N132,534,347,000 (USD 827,693,000 - amortised cost) represents the outstanding balance on two dollar guaranteed notes issued by GTB B.V., Netherlands. The first note in the sum of USD 350,000,000 (principal), with an outstanding balance of USD 314,502,000 (principal) was issued in January 2007 for a 5 year period at an interest rate of 8.5% per annum payable semi-annually, while the second note of USD 500,000,000 (principal) was issued in May 2011 for a period of 5 years at 7.5% per annum also payable semi-annually.

The amount of N13,233,169,000 represents fixed rate senior unsecured non-convertible bonds issued by the Bank in December 2009. The debt security is redeemable in December 2014 and coupon is payable half yearly at 13.5% per annum. The amount represents the first tranche of a N200 billion debt issuance programme.

## 39 Other liabilities

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Cash settled share based payment liability	4,985,189	4,997,014
Liability for defined contribution obligations	78,671	36,699
Deferred income on financial guarantee contracts	663,611	716,148
Creditors and accruals	166,270	-
Certified cheques	8,373,120	7,589,756
Lease obligation (a)	3,698,756	1,847,629
Customers' deposit for foreign trade (b)	16,927,616	29,635,301
Other current liabilities	13,814,924	14,224,409
Liabilities to customers under investment contracts	-	1,822,664
	<hr/> 48,708,157	<hr/> 60,869,620
Current	44,814,849	57,119,028
Non-current	3,893,308	3,750,592

## Notes to the consolidated financial statements

- (a) As at 31 December 2011, the group was obligated under a non-cancellable finance lease for other transportation equipment for which the future minimum lease payments extend over a number of years. The present value of the minimum lease obligation is analysed as follows:

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Not more than one year	768,515	733,611
Over one year but less than five years	3,970,661	1,650,626
Less future finance charges	(1,040,420)	(536,608)
	<u>3,698,756</u>	<u>1,847,629</u>
Not more than one year	516,069	682,127
Over one year but less than five years	3,182,687	1,165,502
Over five years	-	-
	<u>3,698,756</u>	<u>1,847,629</u>

- (b) This represents the Naira value of foreign currencies held on behalf of customers in various foreign accounts to cover letters of credit transactions. The corresponding balance is included in cash and balances with banks

### 40 Defined benefit obligations

The Bank operates a non-contributory, funded lump sum defined benefit gratuity scheme. Employees are entitled to join the scheme after completing 10 full years of service. Employees' terminal benefits are calculated based on number of years of continuous service, limited to a maximum of 10 years

The amounts recognised in the statement of financial position are as follows:

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Unfunded obligations	-	-
Present value of funded obligations	(1,703,564)	(1,826,248)
Total present value of defined benefit obligations	(1,703,564)	(1,826,248)
Fair value of plan assets	6,088,763	4,594,034
Recognized asset/(liability) for defined benefit obligations	<u>4,385,199</u>	<u>2,767,786</u>

## Notes to the consolidated financial statements

### Movement in the present value of defined benefit obligations:

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
(Deficit)/surplus on defined benefit obligations at 1 January	2,767,786	1,339,164
Interest costs	(255,500)	(234,177)
Current service costs	(137,093)	(220,692)
Expected return on planned assets	642,725	394,766
Net actuarial gain/(loss) for the year - obligations	362,208	574,498
Net actuarial gain/(loss) for the year - plan Assets	(314,927)	264,227
Contributions paid	1,320,000	650,000
(Deficit)/surplus for defined benefit obligations at end 31 December	4,385,199	2,767,786

### Plan assets consist of the following:

<i>In thousands of Nigerian Naira except for percentages</i>	<b>2011</b>		<b>2010</b>	
Equity securities	1,384,682	23%	1,418,274	31%
Government bonds	-	0%	211,201	4%
Offshore investments	1,142,095	19%	1,086,857	24%
Cash and bank balances	3,561,986	58%	1,877,702	41%
	6,088,763	100%	4,594,034	100%

### Movement in plan assets:

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Fair value of plan assets at 1 January	4,594,034	3,291,974
Contributions paid into/(withdrawn from) the plan	1,320,000	650,000
Benefits paid by the plan	(153,069)	(6,933)
Actuarial gain/(loss)	(314,927)	264,227
Expected return on plan assets	642,725	394,766
Fair value of plan assets at 31 December	6,088,763	4,594,034

## Notes to the consolidated financial statements

### Movement in present value of obligations:

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Present Value of Obligation at 1 January	1,826,248	1,952,810
Interest Cost	255,500	234,177
Current service Cost	137,093	220,692
Past Service Cost - Non-Vested Benefits	-	-
Past Service Cost - Vested Benefits	-	-
Benefits Paid	(153,069)	(6,933)
Actuarial (Gain)/Loss on Obligation	(362,207)	(574,498)
Present Value of Obligation at 1 December	1,703,565	1,826,248

### Expense recognised in profit or loss:

#### Expense recognised in profit or loss:

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Current service costs	137,093	220,692
Interest on obligation	255,500	234,177
Expected return on planned assets	(642,725)	(394,766)
Net actuarial (gain)/loss recognised in the year	(47,281)	(838,725)
To profit or loss	18	(778,622)
Actual return on plan assets	(327,798)	(658,993)

## Notes to the consolidated financial statements

### Actuarial assumptions

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2011	2010
Expected return on plan assets at 1 January	14%	14%
Future salary increases	12%	12%
Retirement age for both male and female	60 years	60 years
Retirement Rate: 50 – 59	2.00%	2.00%
Withdrawal Rate: 18 – 29	4.50%	4.50%
Withdrawal Rate: 30 – 44	6.00%	6.00%
Withdrawal Rate: 45 – 49	2.50%	2.50%

Assumptions regarding future mortality before retirement are based on A49/52 ultimate table published by the Institute of Actuaries of United Kingdom.

The overall expected long-term rate of return on assets is 14%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based entirely on current market yields on Nigerian Government Bonds. The component of the rate of remuneration increase based on seniority and promotion is an average of 2% per annum. The inflation component has been worked out at 10% per annum.

For members in active service as at the valuation date, the projected unit credit method of valuation as required under the IFRS has been adopted.

### Historical information

<i>In thousands of Nigerian Naira</i>	December				February
	2011	2010	2009	2008	2008
Present value of the defined benefit obligation <sup>1</sup>	(2,065,771)	(2,400,746)	(2,311,829)	(1,352,836)	(1,122,044)
Fair value of plan assets <sup>1</sup>	6,403,690	4,329,807	3,183,481	2,878,157	2,007,079
Experience adjustments on plan liabilities	362,207	574,498	359,019	(499,024)	(13,179)
Experience adjustments on plan assets	(314,927)	264,227	108,493	(1,436,422)	629,409
Surplus/(deficit)	4,385,199	2,767,786	1,339,164	(410,125)	1,501,265

<sup>1</sup> Present Value of defined benefit obligation and fair value of plan assets are before experience adjustments.

Expected contributions to post-employment benefit plan for the year ending 31 December 2012 is N1,320,000,000.



## Notes to the consolidated financial statements

## 41 Other borrowed funds

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Due to IFC (see note (i) below)	32,385,726	7,207,949
Due to ADB (see note (ii) below)	16,220,052	2,873,392
Due to FMO (see note (iii) below)	1,801,406	2,102,606
Due to BOI (see note (iv) below)	29,557,778	6,600,000
Due to CAC (see note (v) below)	5,250,000	4,250,000
Due to Proparco	8,015,177	-
	<b>93,230,139</b>	<b>23,033,947</b>
Current	74,092	97,680
Non-current	93,156,047	22,936,267

- (i) The amount of N32,385,726,000 (USD 202,253,000) represents the outstanding balances on various facilities granted by the International Finance Corporation (IFC) between May 2005 and December 2011 repayable over 7 to 10 years at interest rates varying from fixed rate of 5.5% and variables rates of 2.75% to 3.5% above LIBOR rate.
- (ii) The amount of N16,220,052,000 (USD101,296,000) represents the outstanding balances on various facilities granted by the African Development Bank (ADB) between May 2006 and December 2011 payable over 7 years at interest rates varying from fixed rate of 5.157% to varying rate determined as the sum of LIBOR or its successor rate for such interest periods plus 245 basis points per annum. Interest is payable half yearly.
- (iii) The amount of N1,801,406,000 (USD11,250,350) represents the outstanding balance on the term loan facility of USD15,000,000 granted by FMO (an entrepreneurial development bank of the Netherlands) in December 2009 for a period of 4 years. The principal is repayable at maturity in January 2014 while the interest is repayable quarterly over the tenure of the facility at 4.5% above LIBOR.
- (iv) The amount of N29,557,778,000 represents the outstanding balance on a naira facility granted by the Bank of the Industry (BOI). The total facility is secured by Nigerian Government securities and has a 15-year tenor. A management fee of 1%, deductible at source, is paid by the bank under the arrangement and the bank is under the obligation to on-lend to customers at an all-in-interest rate of 7% per annum. The bank remains the primary obligor to the BOI and therefore assumes the risk of default by customers.

## Notes to the consolidated financial statements

- (v) The amount of N5,250,000,000 represents the outstanding balance on a facility granted by the Debt Management Office in tranches between April 2010 and December, 2011 for 7 years. It is an initiative of Central Bank of Nigeria and Federal Ministry of Agriculture and Water resources aimed at the growth and development of commercial agriculture enterprise in Nigeria. The funds are made available to participating banks at zero cost, for on lending to commercial agriculture enterprise at a maximum rate of 9.00% per annum.
- (vi) The amount of N8,015,177,000 (USD 50,000,000) represents the outstanding balance on a dollar term loan facility granted by PROPARCO in December, 2011 for a period of 5 years. Interest is payable half yearly at 4.46% over the tenure of the facility.

### 43 Capital and reserves

#### Share capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to vote at meetings of the Group. All ordinary shares and GDR shares rank pari-passu with the same rights and benefits at meetings of the Group

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
(a) Authorised - 50,000,000,000 Ordinary shares of 50k each (31 December 2010: 50,000,000,000 of 50k each)	25,000,000	25,000,000
<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
(b) Issued and fully paid-up - 29,431,179,224 Ordinary shares of 50k each (31 December 2010: 23,317,185,766 of 50k each)	14,715,590	11,658,594

The movement on the issued and fully paid-up share capital account during the year was as follows:

<i>In thousands of units</i>	<b>2011</b>	<b>2010</b>
Balance, beginning of year	23,317,188	18,653,750
Increase in the year	284,696	-
Bonus shares capitalized	5,829,296	4,663,438
Balance, end of year	29,431,180	23,317,188

## Notes to the consolidated financial statements

	Number of shares (thousands)	Ordinary shares	Share premium	Treasury shares
At January 2010	18,653,750	9,326,875	119,076,565	(1,873,920)
Bonus capitalised	4,663,438	2,331,719	-	-
Purchases/(Sales) of treasury shares	-	-	-	311,317
<b>At 31 December 2010/1 January 2011</b>	<b>23,317,188</b>	<b>11,658,594</b>	<b>119,076,565</b>	<b>(1,562,603)</b>
Bonus capitalised	5,829,296	2,914,648	-	-
Proceeds from shares issued	284,696	142,348	4,394,549	-
Purchases/(Sales) of treasury shares	-	-	-	(484,111)
<b>At 31 December 2011</b>	<b>29,431,180</b>	<b>14,715,590</b>	<b>123,471,114</b>	<b>(2,046,714)</b>

**Share premium**

Share premium is the excess paid by shareholders over the nominal value for their shares.

**(i) Other regulatory reserves**

The other regulatory reserve includes movements in the statutory reserves and the small and medium scale industries reserve.

- (a) **Statutory Reserves:** Nigerian banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by S.16(1) of the Banks and Other Financial Institution Act of 1991 (amended), an appropriation of 30% of profit after tax is made if the statutory reserve is less than paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid up share capital. However, the Bank transferred 30% of its profit after tax to statutory reserves as at year end (2010: 30%).
- (b) **Small and Medium Scale Industries Reserve (SMEEIS):** The SMEEIS reserve is maintained to comply with the Central Bank of Nigeria (CBN) requirement that all licensed banks set aside a portion of the profit after tax in a fund to be used to finance equity investment in qualifying small and medium scale enterprises. Under the terms of the guideline (amended by CBN letter dated 11 July 2006), the contributions will be 10% of profit after tax and shall continue after the first 5 years but banks' contributions shall thereafter reduce to 5% of profit after tax. However, this is no longer mandatory. The small and medium scale industries equity investment scheme reserves are non-distributable.

## Notes to the consolidated financial statements

- (ii) **Treasury shares:** Treasury shares represent the Bank's shares of 1,170,674,231 (2010: 929,040,420) held by the Staff Investment Trust as at 31 December 2011.
- (iii) **Bonus reserves:** No transfer from the Group's profit to Bonus reserves was approved by the Board of Directors subsequent to the reporting date (2010: N2,914,648,000). The Group issued 1 new ordinary share for every 4 ordinary shares held in 2010.
- (iv) **Fair value reserve:** The fair value reserve includes the net cumulative change in the fair value of available-for-sale investments until the investment is derecognised or impaired.
- (v) **Regulatory risk reserve:** The regulatory risk reserves warehouses the difference between the impairment on balance on loans and advances under the Nigeria GAAP and based on Central Bank of Nigeria prudential guidelines compared with the loss incurred model used in calculating the impairment balance under IFRS.
- (vi) **Retained earnings:** Retained earnings are the carried forward recognised income net of expenses plus current period profit attributable to shareholders.
- (vii) **Non-controlling interest:** The entities accounting for the non-controlling interest balance is shown below:

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
GTB (Gambia) Limited	337,141	316,668
GTB (Sierra Leone) Limited	234,269	199,125
GT Assurance Plc	-	4,131,396
GTB (Ghana) Limited	443,626	490,069
GT Homes Limited	974,473	893,282
GTB Liberia	11,563	-
	<u>2,001,072</u>	<u>6,030,540</u>

## Notes to the consolidated financial statements

### 44 Dividends

The following dividends were declared and paid by the Group during the year ended 31 December:

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Balance, beginning of period	-	-
Final dividend declared	17,487,889	13,990,313
Interim dividend declared	7,286,621	5,829,297
Payment during the period	(24,774,510)	(19,819,610)
Balance, end of period	-	-

The board of directors has proposed a final dividend of ₦0.85 per share subject to the approval of the shareholders at the next annual general meeting (31 December 2010: ₦0.75 per share). The proposed final dividend of ₦0.85 per share has not been included as a liability in these accounts.

The Group paid a final dividend of ₦0.75 per share and interim dividend of ₦0.25 per share relating to 2010 financial year and 2011 financial year respectively during the year.

### 45 Contingencies, claims and litigation

The Bank, in its ordinary course of business, as at December 31, 2011 was involved in 277 cases as a defendant (31 December 2010: 233) and 98 cases as a plaintiff (31 December 2010: 70). The total amount claimed in the 277 cases against the Bank is estimated at N252,103,083,483 and \$125,889,862 (31 December 2010: N184,245,033,499 and \$124,919,188) while the total amount claimed in the 98 cases instituted by the Bank is N42,393,283,830 (31 December 2010: N24,864,498,703 and \$10,477,341). However, the directors of the Bank, based on legal advice, are of the view that the probable liability arising from the cases pending against the Bank is not likely to exceed N37,290,000 (31 December 2010: N28,734,053 and \$22,000). This amount has been fully provided for in the financial statements.

Based on the legal advice, the Directors of the Bank are also of the opinion that none of the aforementioned cases is likely to have a material adverse effect on the Bank.

#### ***Contingent liabilities and commitments***

In common with other banks, the Group conducts business involving acceptances and issuance of performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. Contingent liabilities and commitments comprise acceptances, endorsements, guarantees and letters of credit.

#### ***Nature of instruments***

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. Endorsements are residual liabilities of the Group in respect of bills of exchange, which have been paid and subsequently rediscounted. Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

## Notes to the consolidated financial statements

Other contingent liabilities include transaction related customs and performances bonds and are, generally, short-term commitments to third parties which are not directly dependent on the customer's creditworthiness. Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity dates but are cancellable by the lender subject to notice requirements. Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers. The following tables summarise the nominal principal amount of contingent liabilities and commitments with off-financial position risk.

### **Acceptances, bonds, guarantees and other obligations for the account of customers:**

a. These comprise:

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Contingent liabilities:		
Acceptances and guaranteed commercial papers	39,150	15,094,945
Transaction related bonds and guarantees	334,324,535	319,570,824
Guaranteed facilities	54,368,784	8,956,030
	<hr/>	<hr/>
	388,732,469	343,621,799
Commitments:		
Short term foreign currency related transactions	64,638,691	6,108,844
Clean line facilities for letters of credit	71,823,443	74,917,884
Other commitments	1,627,196	339,678
	<hr/>	<hr/>
	138,089,330	81,366,406
	<hr/>	<hr/>

b. All the bonds and guarantees are fully collateralised. The cash component of the collateral was N24,648,619,000 (31 December 2010: N19,470,930,805).

c. The Bank granted clean line facilities for letters of credit during the period to guarantee the performance of customers to third parties.

## Notes to the consolidated financial statements

## 46 Group entities

## i. Significant subsidiaries

	Country of incorporation	Ownership interest December 2011	Ownership interest December 2010	
1	Guaranty Trust Bank Gambia Limited	Gambia	77.8%	77.8%
2	Guaranty Trust Bank Sierra Leone Ltd	Sierra Leone	84.2%	84.2%
3	Guaranty Trust Assurance Plc	Nigeria	0.0%	67.7%
4	Guaranty Trust Bank Ghana Limited	Ghana	95.7%	95.7%
5	Guaranty Trust Registrars Limited	Nigeria	0.0%	99.9%
6	Guaranty Trust Homes Limited	Nigeria	75.1%	75.1%
7	Guaranty Trust Bank UK Limited	United Kingdom	100%	100%
8	GTB Asset Management Limited	Nigeria	0.0%	100%
9	Guaranty Trust Bank Liberia Limited	Liberia	99.4%	99.4%
<b>Special purpose entities:</b>				
	Staff Investment Trust	Nigeria	100%	100%
	Guaranty Trust Bank Finance BV	Netherlands	100%	100%

1. GTB Gambia was incorporated in September 2001 and commenced operations in January 2002.
2. GTB Sierra Leone was incorporated in September 2001 and commenced operations in January 2002.
3. Guaranty Trust Assurance Plc was incorporated on 23 June 1989 as Heritage Assurance Limited. The Bank acquired a majority shareholding in the Company in September 2004. The Board of Directors of Guaranty Trust Bank Plc passed a resolution at an extra-ordinary general meeting dated 28 October 2010 to sell the bank's equity interest in the company in compliance with the Central Bank of Nigeria's Regulation on the Scope of Banking Activities and Ancillary Matters issued on 7 September, 2010 requiring banks to divest from all non-banking businesses. The Group disposed its investment in this company during the year.

An analysis of the profit on disposal of equity interest in Guaranty Trust Assurance Plc is shown below:

	N'000
Net Proceeds on disposal	11,560,374
Cost of Investment	(8,082,281)
Profit on disposal of subsidiary per Bank	3,478,093
Less: share of post acquisition reserve of subsidiary to date of disposal	(800,183)
Profit on disposal of subsidiary per Group	2,677,910

## Notes to the consolidated financial statements

Analysis of the share of the post acquisition reserve of Guaranty Trust Assurance Plc to date of disposal is shown below:

	N'000
Share of prior year post acquisition reserve to 31/12/2010	274,357
Share of current year profit to the date of disposal	525,826
	800,183

- Guaranty Trust Bank Ghana was incorporated in October 2004 and commenced operations in March 2006.
- GTB Registrars Limited was incorporated in February 2006 and commenced operations in September 2006. The Board of Directors of Guaranty Trust Bank Plc passed a resolution at an extra-ordinary general meeting dated 28 October 2010 to sell the bank's equity interest in the company in line with the Central Bank of Nigeria's Regulation on the Scope of Banking Activities and Ancillary Matters issued on 7 September, 2010, which requires banks to divest from all non-banking businesses.

An analysis of the profit on disposal of equity interest in GTB Registrars Limited is shown below:

	N'000
Net Proceeds on disposal	67,248
Cost of Investment	(50,000)
Profit on disposal of subsidiary per Bank	17,248
Less: share of post acquisition reserve of subsidiary to date of disposal	(29,048)
Loss on disposal of subsidiary per Group	(11,800)

Analysis of the share of post acquisition reserve of GTB Registrars Limited to date of disposal is shown below:

	N'000
Share of prior year post acquisition reserve to 31/12/2010	13,321
Share of current year profit to the date of disposal	15,727
	29,048

- GT Homes Limited was incorporated in 1992 as Citizens Savings and Loans Limited. Its name was changed to New Patriot Building Society in 1997. However, GTB Plc acquired majority shareholding in August 2007, consequent upon which the name was changed to GT Homes Limited. It commenced operations under this name in January 2008. The bank's equity investment in this company is currently held for sale. Directors expect that the active and ongoing disposal process, which is progressing, will be completed in due course.
- Guaranty Trust Bank (UK) Limited was incorporated in February 2007 and commenced operations in January 2008.



## Notes to the consolidated financial statements

8. GTB Asset Management Company Limited provides security brokerage and asset management services and was incorporated on 14 January 2008 and commenced operations in April 2008. The Board of Directors of Guaranty Trust Bank Plc passed a resolution at an extra-ordinary general meeting dated 28 October 2010 to sell the bank's equity interest in the company in line with the Central Bank of Nigeria's Regulation on the Scope of Banking Activities and Ancillary Matters issued on 7 September, 2010, which requires banks to divest from all non-banking businesses.

An analysis of the profit on disposal of equity interest in GTB Asset Management Company Limited is shown below:

	N'000
Net Proceeds on disposal	1,755,000
Cost of Investment	(2,250,000)
Loss on disposal of subsidiary per Bank	(495,000)
Add: share of post acquisition reserve of subsidiary to date of disposal	595,602
<u>Profit on disposal of subsidiary per Group</u>	<u>100,602</u>

An analysis of the share of post acquisition reserve of GTB Asset Management Company Limited to date of disposal is shown below:

	N'000
Share of prior year negative post acquisition reserve to 31/12/2010	549,736
Share of current year loss to the date of disposal	45,866
<u></u>	<u>595,602</u>

9. Guaranty Trust Bank (Liberia) Limited was incorporated in September 2008 and commenced operations in March 2009.
10. GTB Finance B.V was incorporated in December 2006 and commenced operations in December 2006. An obligation also exists between the Bank and GTB Finance B.V, for which GTB Finance B.V was expected to lend the Bank the sum of N307.87 million (\$2,608,000) as a share premium loan. The loan agreement between both parties however permits that the obligation of GTB Finance B.V. to grant the loan be set-off against the obligation of the Bank to repay the loan such that each party's obligation either as a borrower or lender is discharged. In view of this, no loan payable has been recognised in the Bank's financial statements.

## 47 Related parties

### (i) Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise influence over the other party in making financial and operational decisions, or one other party controls both. The definition includes subsidiaries, associates, joint ventures and the Group's pension schemes, as well as key management personnel.

## Notes to the consolidated financial statements

### (ii) Subsidiaries

Transactions between Guaranty Trust Bank Plc and its subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the consolidated financial statements.

### (iii) Transactions with key management personnel

The Group's key management personnel, and persons connected with them, are also considered to be related parties. The definition of key management includes the close members of family of key personnel and any entity over which key management exercise control. The key management personnel have been identified as the executive and non-executive directors of the Group. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealings with Guaranty Trust Bank Plc and its subsidiaries.

### (iv) Subsidiaries' deposit account balances

*In thousands of Nigerian Naira*

<i>Name of company/Individual</i>	<i>Relationship</i>	<i>Type of Deposit</i>	<i>2011</i>	<i>2010</i>
			<i>₦</i>	<i>₦</i>
Guaranty Trust Assurance Plc	Subsidiaries	Demand Deposit	-	98,270
Guaranty Trust Assurance Plc	Subsidiaries	Domiciliary	-	131,556
Guaranty Trust Assurance Plc	Subsidiaries	Time Deposit	-	303,635
GT Homes Limited	Subsidiaries	Demand Deposit	35,026,255	1,208
GT Homes Limited	Subsidiaries	Time Deposit	226,838,763	72,901
GTB Asset Management Ltd	Subsidiaries	Demand Deposit	-	3,999,530
GTB Asset Management Ltd	Subsidiaries	Domiciliary	-	412,772
GTB Asset Management Ltd	Subsidiaries	Time Deposit	-	638,052
GT Registrars Limited	Subsidiaries	Demand Deposit	-	835,980
GT Registrars Limited	Subsidiaries	Domiciliary	-	11,560
GT Registrars Limited	Subsidiaries	Time Deposit	-	88,177
GTB Sierra Leone	Subsidiaries	Domiciliary	592,629	563
GTB Ghana	Subsidiaries	Demand Deposit	2,172,538	996
GTB Ghana	Subsidiaries	Domiciliary	8,038,474	3,650
GTB Ghana	Subsidiaries	Time Deposit	-	11,027
			272,668,659	6,609,875

## Notes to the consolidated financial statements

- (v) Key management personnel and their immediate relatives engaged in the following transactions with the Group during the year:

*Loans and advances:*

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Secured loans	6,346,350	13,028,752

*Deposits:*

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Total deposits	646,790	1,599,596

Interest rates charged on balances outstanding are at rates that would be charged in the normal course of business. The secured loans granted are secured over real estate, equity and other assets of the respective borrowers. No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the year end.

- (vi) Key management personnel compensation for the period comprises:

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Wages and salaries	2,149,980	1,875,977
Post-employment benefits	78,214	169,270
Increase /(decrease) in share appreciation rights	1,101,792	111,575
	3,329,986	2,156,822

The growth in share appreciation right for 2011 relates to key management personnel with vested shares that exited the scheme during the year.

Directors' remuneration

<i>In thousands of Nigerian Naira</i>	<b>2011</b>	<b>2010</b>
Fees as directors	110,096	144,232
Other allowances	386,092	396,113
	496,188	540,345
Executive compensation	549,219	310,191
	1,045,407	850,536

## Notes to the consolidated financial statements

### 48. Subsequent events

There were no events subsequent to the financial position date which require adjustment to, or disclosure in, these financial statements.

### The Central Bank of Nigeria's Regulation on the Scope of Banking Activities

Section 6(1) of the Central Bank of Nigeria Regulation on the Scope of Banking Activities and Ancillary Matters requires banks to divest from all non-banking businesses and apply for a new type of banking license based on the decision of the Bank's Board of Directors or set up a holding company structure.

At an extra-ordinary general meeting held in October, 2010, the shareholders authorized the divestment of the bank's equity interest in its non-banking subsidiaries. The divestment is in compliance with the new banking model approved by the CBN in September, 2010. The affected subsidiaries are Guaranty Trust Assurance Plc, GTB Asset Management Limited and GTB Registrars Limited (collectively the "Target Companies"). In January 2011, the bank obtained CBN's approval-in-principle ("AiP") of the divestment plan in accordance with the provisions of CBN regulations to this effect.

During the year, the bank disposed the Target Companies, Guaranty Trust Assurance Plc, GTB Asset Management Limited and GTB Registrars Limited (see Note 35).

### 49 Prior period corresponding balances

Certain prior period balances have been reclassified in line with current period presentation due to the following reasons:

- Prepaid Fixed Assets were reclassified from Property and Equipment to Other Assets.
- Income tax on Other Comprehensive Income (OCI) was reclassified from Other Components of Equity to Retained Earnings.
- Treasury Shares were reclassified from Other Components of Equity for proper disclosure.
- Dividend Income was reclassified from Other Operating Income to Dividend Income.
- Loan impairment charges were reclassified from Net impairment loss on financial assets for proper disclosure.
- General administrative expenses were reclassified from Other Operating Expenses for proper disclosure
- Income tax expense on Other Comprehensive Income previously in Income tax expense line was reclassified to Other Comprehensive Income
- Prior period Income statement activities were reclassified in line with IFRS 5

## Notes to the consolidated financial statements

### (a) Property and equipment

<i>In thousands of Nigerian Naira</i>	<b>2010</b>
Balance previously reported	45,381,210
Reclassification to other assets (see note (b) below)	(1,902,229)
<b>Balance as restated</b>	<b>43,478,981</b>

### (b) Other assets

<i>In thousands of Nigerian Naira</i>	<b>2010</b>
Balance previously reported	23,729,392
Reclassification from property and equipment (see note (a) above)	1,902,229
<b>Balance as restated</b>	<b>25,631,621</b>

### (c) Retained earnings

<i>In thousands of Nigerian Naira</i>	<b>2010</b>
Balance previously reported	16,660,333
Reclassification from other components of equity (see note (d) below)	283,769
<b>Balance as restated</b>	<b>16,944,102</b>

### (d) Other components of equity

<i>In thousands of Nigerian Naira</i>	<b>2010</b>
Balance previously reported	66,828,039
Reclassification to retained earnings (see note (c) above)	(283,769)
Reclassified to treasury shares (see note (e) below)	1,562,603
<b>Balance as restated</b>	<b>68,106,873</b>

### (e) Treasury shares

<i>In thousands of Nigerian Naira</i>	<b>2010</b>
Balance previously reported	-
Reclassified from other components of equity (see note (d) below)	(1,562,603)
<b>Balance as restated</b>	<b>(1,562,603)</b>

## Notes to the consolidated financial statements

### (f) Dividend income

*In thousands of Nigerian Naira* **2010**

Balance previously reported	-
Reclassified from other operating income (see note (g) below)	192,331
Balance as restated	192,331

### (g) Other operating income

*In thousands of Nigerian Naira* **2010**

Balance previously reported	(2,261,461)
Reclassified to dividend income (see note (f) above)	(192,331)
Balance as restated	(2,453,792)

### (h) Loan impairment charges

*In thousands of Nigerian Naira* **2010**

Balance previously reported	-
Reclassified from Net impairment loss on financial assets (see note (i) below)	(10,368,326)
Balance as restated	(10,368,326)

### (i) Net impairment loss on financial assets

*In thousands of Nigerian Naira* **2010**

Balance previously reported	(10,597,236)
Reclassified to loan impairment charges (see note (h) above)	10,368,326
Balance as restated	(228,910)

### (j) General and administrative expenses

*In thousands of Nigerian Naira* **2010**

Balance previously reported	-
Reclassified from other operating expenses (see note (k) below)	(22,815,541)
Reclassified to discontinued operations	23,547
Balance as restated	(22,791,994)

**Notes to the consolidated financial statements****(k) Other operating expenses**

<i>In thousands of Nigerian Naira</i>	<b>2010</b>
Balance previously reported	(40,264,790)
Reclassified to general and administrative expenses (see note (j) above)	22,815,541
Reclassified to discontinued operations	2,449,137
<hr/> Balance as restated	<hr/> (15,000,112)

**(l) Income tax expense**

<i>In thousands of Nigerian Naira</i>	<b>2010</b>
Balance previously reported	(8,248,203)
Reclassified to Other comprehensive income (see note (j) above)	283,769
Reclassified to discontinued operations	(297,598)
<hr/> Balance as restated	<hr/> (8,262,032)

## Notes to the consolidated financial statements

## (m) Summary of reclassifications to 2010 figures - Income statement

<i>In thousands of Nigerian Naira</i>	Reported 2010	Reclassified to discontinued operations	Other reclassifications	Restated 2010
Interest income	114,005,446	1,608,615	-	112,396,831
Dividend income (see note f above)	-	-	192,331	192,331
Interest expense	(30,152,104)	(377,134)	-	(29,774,970)
<b>Net interest income</b>	<b>83,853,342</b>	<b>1,231,481</b>	<b>192,331</b>	<b>82,814,192</b>
Loan impairment charges (see note h above)	-	-	(10,368,326)	(10,368,326)
<b>Net interest income after loan impairment charges</b>	<b>83,853,342</b>	<b>1,231,481</b>	<b>(10,175,995)</b>	<b>72,445,866</b>
Fee and commission income	34,155,421	521,138	-	33,634,283
Fee and commission expense	(3,212,332)	(13,513)	-	(3,198,819)
<b>Net fee and commission income</b>	<b>30,943,089</b>	<b>507,625</b>	-	<b>30,435,464</b>
Net gains/(losses) on financial instruments classified as held for trading	7,944,817	9,777	-	7,935,040
Other operating income/(Loss) (see note g above)	(2,261,461)	-	(192,331)	(2,453,792)
<b>Other income</b>	<b>5,683,356</b>	<b>9,777</b>	<b>(192,331)</b>	<b>5,481,248</b>
Premium from insurance contracts	4,899,507	4,899,507	-	-
Premium ceded to re-insurers	(1,959,458)	(1,959,458)	-	-
<b>Net premiums from insurance contracts</b>	<b>2,940,049</b>	<b>2,940,049</b>	-	-
<b>Total Operating income</b>	<b>123,419,836</b>	<b>4,688,932</b>	<b>(10,368,326)</b>	<b>108,362,578</b>
Net impairment loss on financial assets (see note i above)	(10,597,236)	-	10,368,326	(228,910)
<b>Net operating income after net impairment loss on financial assets</b>	<b>112,822,600</b>	<b>4,688,932</b>	-	<b>108,133,668</b>
Personnel expenses	(17,654,525)	(721,598)	-	(16,932,927)
General and administrative expenses (see note j above)	-	23,547	(22,815,541)	(22,791,994)
Operating lease expenses	(594,272)	-	-	(594,272)
Depreciation and amortization	(6,740,555)	201,384	-	(6,539,171)
Other operating expenses (see note k above)	(40,264,790)	2,449,137	22,815,541	(15,000,112)
<b>Total expenses</b>	<b>(65,254,142)</b>	<b>1,952,470</b>	-	<b>(61,858,476)</b>
<b>Profit before income tax</b>	<b>47,568,458</b>	<b>6,641,402</b>	-	<b>46,275,192</b>
Income tax expense (see note l above)	(8,248,203)	297,598	283,769	(7,666,836)
<b>Profit for the year from continuing operations</b>	<b>39,320,255</b>	<b>6,939,000</b>	<b>283,769</b>	<b>38,608,356</b>



## Notes to the consolidated financial statements

### (n) Reclassified 2010 Figures

The reclassifications as shown below are not material enough to impact significantly the results of operations of the Group for 2010, therefore the Group did not prepare a third Statement of Financial Position.

#### Summary of reclassifications to 2010 figures - Statements of financial position

<i>In thousands of Nigerian Naira</i>	December 2010						Restated
	As Previously reported	Investment <sup>1</sup> Securities	Prepaid Capital <sup>2</sup> Work in Progress	Share capital <sup>3</sup> and Share Premium	Fair Value <sup>4</sup> Reserves	Treasury <sup>5</sup> Shares	
<b>Assets</b>							
Cash and cash equivalents	273,074,591						273,074,591
Loans and advances to banks	186,480						186,480
Loans and advances to customers	603,906,669						603,906,669
Financial assets held for trading	148,872,254						148,872,254
Hedging derivatives	-						-
Investment securities <sup>a</sup>	33,526,342	(33,526,342)					-
Investment securities: <sup>a</sup>							
– Available for sale	-	10,629,568					10,629,568
– Held to maturity	-	22,896,774					22,896,774
Assets pledged as collateral	29,481,804						29,481,804
Investment properties	7,349,815						7,349,815
Property and equipment	45,381,210		(1,902,229)				43,478,981
Intangible assets	1,956,459						1,956,459
Deferred tax assets	587,881						587,881
Other assets	23,729,392		1,902,229				25,631,621
	<b>1,168,052,897</b>						<b>1,168,052,897</b>
<b>Assets classified as held for sale and discontinued operations</b>							-
<b>Total assets</b>	<b>1,168,052,897</b>						<b>1,168,052,897</b>

## Notes to the consolidated financial statements

Summary of reclassifications to 2010 figures - Statements of financial position (continued)

<i>In thousands of Nigerian Naira</i>	December 2010					Restated
	As Previously reported	Investment <sup>1</sup> Securities	Prepaid Capital <sup>2</sup> Work in Progress	Share capital <sup>3</sup> and Share Premium	Fair Value <sup>4</sup> Reserves	
<b>Liabilities</b>						
Deposits from banks	26,026,980					26,026,980
Deposits from customers	753,088,230					753,088,230
Debt securities in issue	66,886,763					66,886,763
Current income tax liabilities	10,082,335					10,082,335
Deferred tax liabilities	4,884,484					4,884,484
Other liabilities	60,869,620					60,869,620
Liabilities on insurance contracts	2,926,322					2,926,322
Other borrowed funds	23,033,947					23,033,947
	<b>947,798,681</b>					<b>947,798,681</b>
<b>Liabilities included in assets classified as held for sale and discontinued operations</b>						
<b>Total liabilities</b>	<b>947,798,681</b>					<b>947,798,681</b>

## Notes to the consolidated financial statements

Summary of reclassifications to 2010 figures - Statements of financial position (continued)

<i>In thousands of Nigerian Naira</i>	December 2010						Restated
	As Previously reported	Investment <sup>1</sup> Securities	Prepaid Capital <sup>2</sup> Work in Progress	Share capital <sup>3</sup> and Share Premium	Fair Value <sup>4</sup> Reserves	Treasury <sup>5</sup> Shares	
<b>Equity</b>							
<i>Capital and reserves attributable to equity holders of the parent entity</i>							
Share capital and share premium <sup>a</sup>	130,735,159			(130,735,159)			-
Share capital <sup>a</sup>	-			11,658,594			11,658,594
Share premium <sup>a</sup>	-			119,076,565			119,076,565
Retained earnings	16,660,333				283,769		16,944,102
Other components of equity	66,828,039				(283,769)	1,562,603	68,106,873
Treasury shares	-					(1,562,603)	(1,562,603)
<b>Total equity attributable to owners of the Bank</b>	<b>214,223,531</b>						<b>214,223,531</b>
Non-controlling interests in equity	6,030,685						6,030,685
<b>Total equity</b>	<b>220,254,216</b>						<b>220,254,216</b>
<b>Total equity and liabilities</b>	<b>1,602,530,644</b>						<b>1,602,530,644</b>

<sup>a</sup> Repeated items due to further analysis of these items in the Restated 2010 figures.

<sup>1</sup> Investment securities in the sum of N33,526,342,000 previously reported in the statement of financial position as at December 31, 2010 was further analyzed in the 2010 Restated figures into its key components: Available for sale and Held to Maturity in the sums of N10,629,568,000 and N22,896,774,000 respectively.

<sup>2</sup> Prepaid capital work in progress in the sum of N1,902,229,000 previously reported in the statement of financial position as at December 31, 2010 under Property and equipment (Capital Work in Progress) was reclassified under Other assets (Accounts receivable and prepayment) in the Restated figures.

<sup>3</sup> Share capital and share premium merged figure of N130,735,159,000 previously reported in the statement of financial position as at December 31, 2010 was analyzed separately in the Restated 2010 figure as Share capital and Share premium in the sums of N11,658,594,000 and N119,076,565,000 respectively.

<sup>4</sup> Deferred tax debit on fair value gains in the sum of N283,769,000 previously reported as part of Retained earnings was reclassified to Other components of equity (Fair Value reserves) in the Restated 2010 figures. <sup>5</sup> Treasury shares in the sum of N1,562,603,000 previously reported as part of Other components of equity was separately stated as a line item in the Restated statement of financial position.