GUARANTY TRUST BANK PLC
PILLAR III DISCLOSURES
DECEMBER 2017

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1. INTRODUCTION

1.1 Corporate Overview

Guaranty Trust Bank plc. is a leading African financial institution with vast business interests spanning Anglophone and Francophone West Africa, East Africa and Europe. The Group has an Asset Base of over ₦3.35 trillion, Shareholders' funds of ₦625.17 billion and employs over 10,000 people in Nigeria, Gambia, Ghana, Liberia, Sierra Leone, Cote d'Ivoire, Uganda, Rwanda, Kenya, Tanzania and the United Kingdom.

Established in 1990, on a foundation of excellence, professionalism and best practices, the Bank's consistent delivery of innovative financial solutions and exceptional customer experiences has enabled it to record year on year growth in clientele base and key financial indices since inception. The Bank's operation style, staff conduct and service delivery models are built on 8 core principles; Simplicity, Professionalism, Service, Friendliness, Excellence, Trustworthiness, Social Responsibility and Innovation. These Principles are known as The Orange Rules which reflects the Bank's vibrant Orange corporate colour.

The Bank offers a wide range of bespoke financial products and services through five distinct operating segments:

- Corporate Banking serves multi-nationals and large corporate organisations with annual gross revenue of at least ₦5.0 billion. The products offered include current accounts, deposits (Call and Time), overdrafts, loans and other credit facilities, foreign currency and derivative products.

- Commercial Banking segment is structured to meet the banking needs of medium-sized entities such as manufacturers, importers, distributors, traders and other corporate organisations with annual gross revenues between ₦500 million and ₦5.0 billion. The products offered by this segment include current accounts, call and time deposits, overdraft, loans and other credit facilities and foreign currency services.

- SME Banking segment offers bespoke banking products and services to small and medium-size enterprises and ventures. SME's are small businesses with annual gross revenues of less than ₦500 million. The products and services offered by this segment include GTBusiness account, GTMax Account, SME Term Loan (Build & Buy), SME Invoice Discount Facility, GTBusiness Evolve, GTPay, GTBank Automated Payment System (GAPs), SME Markethub etc.

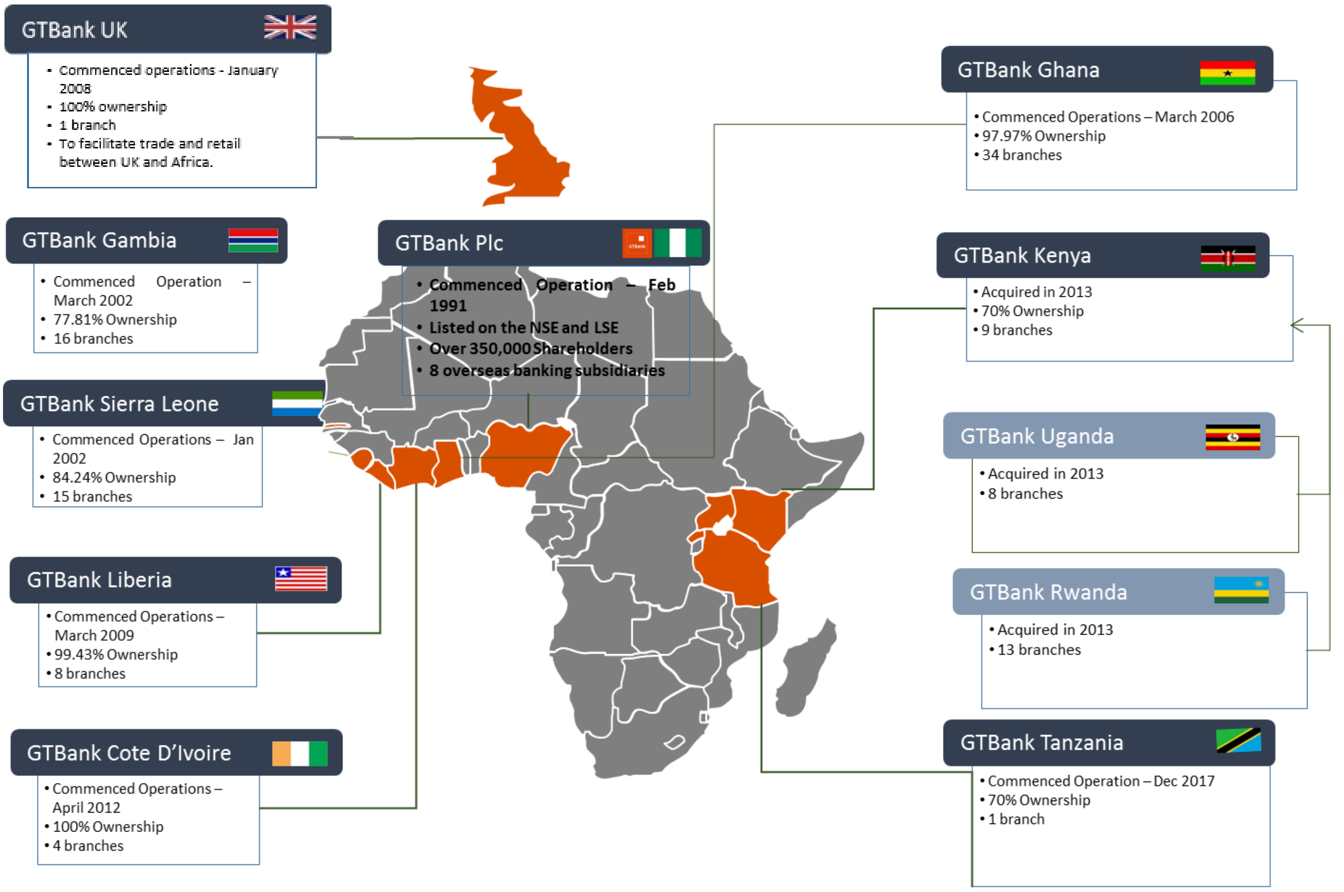
- Retail Banking serves personal and private banking customers. Some of the products offered by the segment include: individual current accounts, savings deposits, credit and debit cards, consumer loans and mortgages.

  Public Sector offers banking services to government at the Federal, State and Local levels as well as Ministries, Departments and Agencies (MDAs). Some of the products and services offered by the segment include current accounts, deposits, overdrafts, loans and other credit facilities etc.

Legal Structure of Subsidiaries

The Bank has eight (8) subsidiaries and two (2) sub-subsidiaries with presence in 10 countries outside Nigeria, providing superior tailored financial services to its customers. The Group conducts its business through GTBank Plc Nigeria and its subsidiaries, across multiple jurisdictions. The subsidiaries and branches are established solely to fulfil the Group's business objectives.

Fig 1 below depicts the diagrammatic representation of the Group entities



• *Guaranty Trust Bank Plc's stake in Guaranty Trust Bank (Rwanda) Limited and Guaranty Trust Bank (Uganda) Limited are indirect holding as these are Subsidiaries of Guaranty Trust Bank (Kenya) Limited where Guaranty Trust Bank Plc has 70% ownership.*

1.2 Basel II Overview

The Basel II framework specifies a minimum level of capital that banks must maintain to ensure that they can meet their obligations, cover unexpected losses; and more importantly promote public confidence. It also specifies comprehensive disclosure requirements for banks operating under the framework.

The Basel II framework lays out a three-pillar approach to risk and capital management for banks.

- Pillar 1 establishes minimum capital requirements and prescribes methods to quantify capital required to absorb unexpected losses that could occur in the three major risk areas that a bank is exposed to: credit risk, market risk and operational risk. The Bank has adopted the Standardized Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk.

- Pillar 2 establishes the Supervisory Review Process. This is a two- step phase; the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation process (SREP). The Bank conducts an assessment of its internal capital requirements via the ICAAP which details approaches and procedures on how the bank measures and computes its various risks and capital requirements whilst the Central Bank of Nigeria (CBN) conducts its assessment of the bank via the SREP in order to ascertain the reliability of the bank's self-assessment and to proffer recommendations and corrective measures where necessary.

- Pillar 3 emphasizes market discipline. This encourages external communication of risk exposure, risk management policies and procedures and capital information by banks in order to promote transparency and sound risk management practices. In adherence to the requirements of Basel and CBN Guidance Notes on Pillar 3 Disclosures, the Bank in this document has articulated its risk profile, risk management practices and capital information to enable market participants have full understanding of its activities.

1.3 Aim of the disclosure report

This report provides an overview of the risk profile and risk management practices of Guaranty Trust Bank Plc ("*the Bank*" or "*GTBank*"). It also contains information on the Bank's capital structure and capital adequacy in line with the requirements of the Central Bank of Nigeria. The objective of this disclosure is to encourage market discipline and allow stakeholders to assess accurate information on the Bank's risk exposures and risk assessment process.

The report covers the operations of Guaranty Trust Bank and is consistent with:

I. The Central Bank of Nigeria's (CBN) framework on Regulatory Capital Measurement and Management for the Nigerian Banking System for the implementation of Basel II in Nigeria;

II. The Basel Committee on Banking Supervision's (BCBS) Revised Pillar 3 Disclosure Requirements;

III. The Central Bank of Nigeria's (CBN) Revised guidance on Pillar 3 Disclosure Requirement.

This report has been internally verified by the Bank's governance processes in line with the Pillar 3 disclosure policy, which describes the responsibilities and duties of senior management and the Board in the preparation and review of the Pillar 3 disclosure. It aims to ensure that:

- Minimum disclosure requirements of the Regulations, standards and directives are met;
- The disclosure provides a true reflection of the Bank's financial condition and risk profile;
- Disclosed information is consistent with the manner in which the Board assesses the Bank's risk portfolio; and the quantitative and qualitative disclosures are appropriately reviewed.

1.4 Medium and Frequency of disclosure

The Pillar 3 Disclosure Report is published on a bi-annual basis and can be accessed via the Bank's website at http://www.gtbank.com/investor-relations

1.5 Scope of application

The Bank produces consolidated and separate financial statements for accounting purposes under International Financial Reporting Standards (IFRS). The disclosures in this report are prepared at individual parent entity level and are in accordance with the CBN Guidance notes on Pillar 3, which covers the qualitative and quantitative disclosure requirements. Investments in subsidiaries are deducted from regulatory capital for capital adequacy purposes.

All representations in this report are considered material in line with the disclosure policy in section 2.4 of the CBN Guidance Notes on Pillar III Market Discipline.

1.6 Summary of key metrics as at December 31, 2017

Figure 2 below illustrates GTBank's key capital metrics. The Bank's capital resources consists mainly of Tier 1 capital and it continues to maintain its capital ratio above the regulatory minimum of 16% for Domestic Systemically Important Banks.

Total Shareholders' Funds	Regulatory capital	Net Tier 1 capital	Minimum Regulatory Capital	Excess capital	Risk Weighted Assets	CAR
₦584.3bn	₦465.9bn	₦461.0bn	₦262.5bn	₦203.4bn	₦1.83trn	25.5%

2. Risk Management Framework

2.1 Overview

Guaranty Trust Bank has a strong risk culture and employs an enterprise wide risk management approach, in line with best practice, to align strategy, policies, people, processes, technology and business intelligence in order to evaluate, manage and optimize the opportunities and threats it may face in its efforts to maximize sustainable stakeholders' value within the defined risk appetite.

To continually sustain this strong risk culture, the bank adopted the COSO definition of Enterprise Risk Management which depicts ERM as a process driven by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of the entity's objectives. This involves the application of risk management principles and processes in every business activity to determine potential threats, and adopt appropriate control measures, to contain risks with the aim of achieving its objectives.

The Bank has identified its major risk areas as Credit, Market, Operational, Liquidity and Information Technology Risks. Risk identification in these areas is carried out by the relevant risk owners, in collaboration with the ERM Division.

2.2 Risk Management Philosophy

GTBank's Risk Management Philosophy describes its attitude to risk taking. It is the driving force behind its officers' behaviour in the conduct of business activities and operations from a risk perspective. This is summarized in the statement:

"To enhance shareholders' value by creating and maintaining a culture of intelligent risk-taking".

This philosophy is further cascaded into working statements via the following risk principles:

- The Bank's decisions will be based on careful analysis of its operating environment as well as the implications of risks to the achievement of its strategic goals.
- The Bank will not take any action that will compromise its integrity.
- Risk control will not constitute an impediment to the achievement of strategic objectives.
- The Bank will always comply with all government regulations and embrace global best practice.
- Risk management will form an integral part of the Bank's strategy setting process.
- The Bank will only assume risks that fall within its risk appetite with commensurate returns.
- The Bank shall adhere to the risk management cycle of identifying, measuring, controlling and reporting risks.

- The Bank shall continually review its activities to determine the level of risks inherent in them and adopt appropriate risk responses at all time.

2.3 Risk Appetite

The bank recognises that there are inherent risks associated with the pursuit of growth opportunities in achieving its strategic objectives. While the risk philosophy articulates how inherent risks are considered when making decisions, the Board and Management of the bank determine the risks that are acceptable based on its capabilities in terms of people, capital and technology.

Risk Appetite Statement

"Guaranty Trust Bank will maintain a moderate risk appetite in pursuit of its core strategies to dominate its priority sectors, expand its franchise on the African continent, contain its operating cost whilst leveraging on technology and remain the most profitable, without taking unnecessary risks."

The bank's risk appetite statement expresses the attitude and position of the Board and Management on the approach to risk adopted across all the businesses in relation to the set strategic objectives. This statement is interpreted in quantitative and qualitative risk factors that measure the risk profile. The identified risk factors include:

- Capital Adequacy
- Earnings Growth (Profit Before Tax)
- Earnings Quality (Net Interest Margin)
- Return on Asset
- Issuer Debt Rating
- Return on Equity
- Cost-to-Income
- Asset quality (Non-Performing Loan) and Coverage,
- Cost of Risk
- Liquidity and Coverage Ratio
- Risk Asset Funding
- Obligor and Sector Concentration
- Staff Attrition
- Stop Loss Limit

2.4 Risk Tolerance

To cascade the risk appetite statement across all business levels, the management of the Bank defines the risk tolerances applicable to risk factor. The tolerances are measured via a three leg limit system which measures an extreme upper region suggesting high risk or unacceptable risk level, a middle range region known as trigger point and a lower region suggesting a low risk or acceptable risk level. This establishes the acceptable level of variation relative to the bank's desired objective.

In setting the risk tolerances, the bank adopts the interview session approach wherein Management of the Bank are questioned to ascertain their position on the degree of risk the bank is willing to take. The set risk acceptance levels are subject to the approval of the Board of Directors and can be changed at the discretion of the Board and Management, when there are compelling regulatory and operating factors.

The risk tolerance limit is monitored periodically using a dashboard which establishes the status of each risk factor at any given point in time. The results of the dashboard is made available to the Management and Board of Directors to enable them take appropriate decisions regarding the acceptability of the risk tolerance level.

2.5 Risk Governance and Oversight

The Bank's Risk Management Framework is built on a well-defined organisational structure and established policies to guide in the function of identifying, analysing, managing and monitoring the various risks inherent in the business as well as setting appropriate risk limits and controls to align the risks with the strategic objectives. The risk management policies are subject to review at least once a year. However more frequent reviews may be conducted at the instance of the Board, when changes in laws, regulations, market conditions or the Bank's activities are material enough to impact on the continued adoption of the existing policies. The Bank, through its trainings and management standards and procedures, aims to develop a disciplined, engaging and controlled environment, in which all employees understand their roles and obligations.

The Bank employs a "three lines of defence governance model" in its risk management framework to implement and control decisions on strategy, risk and capital that are taken by the Board. As depicted in *Figure 2* below, the three lines of defence model are categorized into groups based on the following functions:

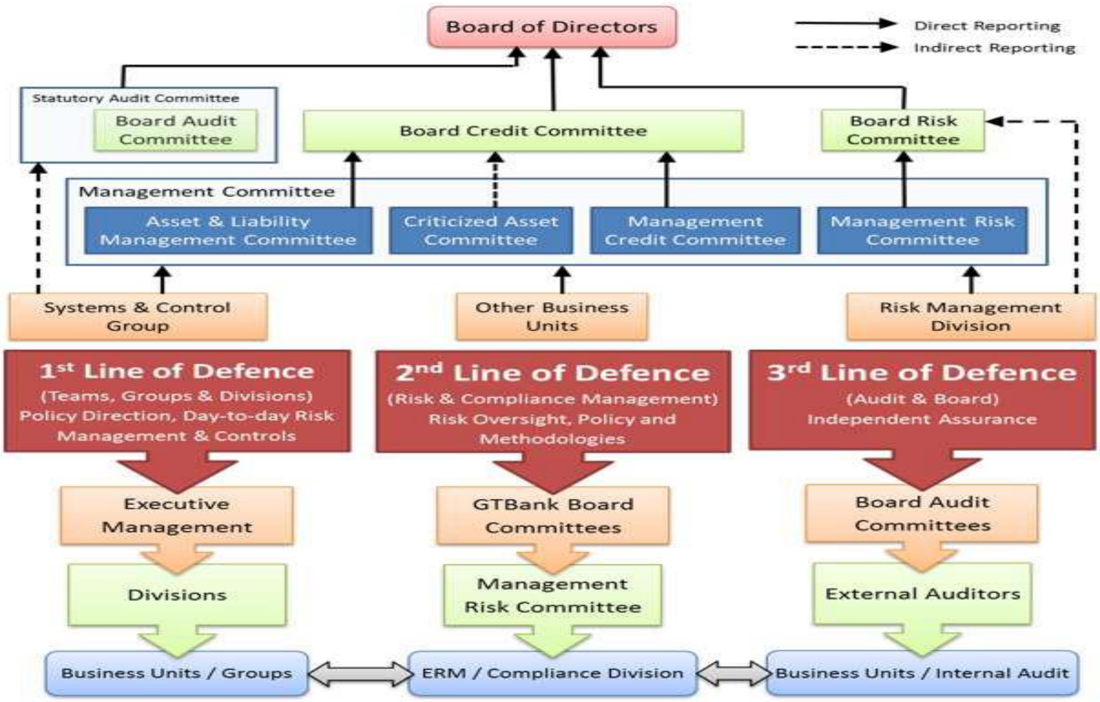
- Functions that own and manage risks.
- Functions that oversee risks.
- Functions that provide independent assurance.

First Line of Defence: Owns and manage the risks. They are responsible for implementing corrective actions to address process and control deficiencies; maintaining effective internal controls and executing risk and control procedures on a day-to-day basis. They also identify, assess, control and mitigate risks to ensure the achievement of set goals and objectives.

Second Line of Defence: Established to perform a policy-setting and monitoring role. It is a risk management function (and/or committee) that facilitates and monitors the implementation of effective risk management practices and a compliance function that monitors various specific risks such as non-compliance with applicable laws and regulations. Other functions include identifying known and emerging issues, providing risk management framework, assisting management in developing processes and controls to manage risks, monitoring the adequacy and effectiveness of internal control, accuracy and completeness of reporting and timely remediation of deficiencies.

Third Line of Defence: Provides objective assurance on the effectiveness of governance, risk management and internal controls. The scope of the assurance, which is reported to senior management and Board covers a broad range of objectives, including efficiency and effectiveness of operations, safeguarding of assets, reliability and integrity of reporting processes, and compliance with laws, regulations, policies, procedures and contracts. It also includes all elements of the risk management and internal control framework.

Figure 3: Risk Management Organisational structure



2.5.1 Board Committees

The Board of Directors has overall responsibility for the establishment of the Bank’s Risk Management framework and exercises its oversight function over all the Bank’s prevalent risks via various committees; Board Risk Committee, Board Credit Committee, Board Audit Committee and

Board Information Technology Strategy Committee. These committees are responsible for developing and monitoring risk policies in their specific areas and report regularly to the Board of Directors. All Board committees have both executive and non-executive members.

2.5.1.1 Board Risk Committee

The Board Risk Committee is responsible for reviewing and recommending risk management policies, procedures and profiles including risk philosophy, risk appetite and risk tolerance of the Bank. The oversight functions cut across all risk areas including credit risk, market and interest rate risk, liquidity risk, operational risk, reputation risk, technology risk and other major risks that may arise from time to time. The committee monitors the Bank's plans and progress towards meeting regulatory Risk-Based Supervision requirements including Basel II compliance as well as the overall Regulatory and Economic Capital Adequacy. It also reviews and approves the contingency plan for specific risks and ensures that all members of the Bank are fully aware of the risks involved in their functions.

2.5.1.2 Board Audit Committee

The Board 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 Bank. The Audit Committee is assisted by the Internal Audit Group, 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.

2.5.1.3 Board Credit Committee

The Bank'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. The committee also ensures that the Bank's internal control procedures in the area of risk assets remain fool proof to safeguard the quality of the Bank's risk assets.

2.5.1.4 Board Information Technology Strategy Committee

The Board Information Technology Strategy Committee is responsible for the provision of strategic guidance to Management on Information Technology issues and monitoring the effectiveness and efficiency of Information Technology within the Bank and the adequacy of controls. The Terms of Reference of the Board Information Technology Strategy Committee include:

- To provide advice on the strategic direction of Information Technology issues in the Bank;
- To inform and advise the Board on important Information Technology issues in the Bank;
- To monitor overall Information Technology performance and practices in the Bank.

2.5.2 Management Committees

The Board Committees are assisted by the various Management Committees in identifying and assessing risks arising from day to day activities of the Bank. These committees meet on a regular basis while others are set up on an ad-hoc basis as dictated by circumstances. The roles and responsibilities of the Bank's Management Committees are highlighted below:

2.5.2.1 Management Risk Committee

The Management Risk Committee examines risk in its entirety by reviewing and analysing environmental issues and policies impacting the Bank, either directly or remotely, and make recommendations to the Board Risk Committee.

2.5.2.2 Management Credit Committee

The 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 set by the Board.

2.5.2.3 Information Technology (IT) Steering Committee

This Committee is responsible for assisting Management with the implementation of IT strategy approved by the Board. The roles and responsibilities of the Committee include planning, budgeting and monitoring; ensuring operational excellence and IT Risk Assurance.

2.5.2.4 Information Technology (IT) Risk Management Committee

The Bank's IT Risk Management Committee is responsible for establishing standardised IT risk management practices and ensuring compliance, for institutionalising IT risk management in the Bank's operations at all levels; and identifying and implementing cost effective solutions for IT risk mitigation. The Committee is also responsible for the continuous development of IT risk management expertise and ensuring that a proactive risk management approach is adopted throughout the Bank to drive competitive advantage.

2.5.2.5 Asset & Liability Management Committee

The Asset & Liability Management Committee establishes the Bank's standards and policies covering the various components of Market Risk Management. These include 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.

2.5.2.6 Criticised Assets Committee

This Committee is responsible for the assessment of the Bank's credit risk asset portfolio. It highlights the status of the risk assets in line with the internal and external regulatory framework and ensures that triggers are sent in respect of delinquent credit risk assets. It also ensures adequate provisions are taken in line with the regulatory guidelines.

2.5.3 Other Risk Management Oversight Roles

2.5.3.1 Chief Risk Officer (CRO)

The Chief Risk Officer shall be responsible for the following:

- Development and regular review of the disclosure policy to ensure proper alignment with the business requirements and supervisory expectations;
- Periodic reporting of the contents of the disclosure requirements to the Board;
- Ensure the accuracy, completeness and integrity of Pillar III disclosures;
- Independently review the disclosure requirements to ensure compliance with regulation;
- Ensure prompt action is taken to mitigate any form of breach.

2.5.3.2 Internal Control

Internal control shall be responsible for the independent assessment of the disclosure policy with particular focus on:

- Assessment on the design and effectiveness of the disclosure requirement framework and its alignment with regulatory expectations;
- Validation of the design and effectiveness of disclosure requirements techniques;
- Reporting any deficiencies identified in the disclosure framework to the Board and Executive Management.

2.5.3.3 Financial Control

Financial control shall be responsible for the following:

- Preparing financial statements in accordance with International Financial Reporting Standards (IFRS);
- Ensuring that financial information provided is accurate, complete and timely;
- Ensuring that the disclosure in the financial statement is in line with regulatory requirements and global best practice

2.5.3.4 Compliance

Compliance shall be responsible for the following:

- Provide guidance on regulatory issues such as updates and changes in regulatory requirements;
- Ensure the bank's disclosure framework is in line with stipulation of the Central Bank of Nigeria

2.6 Risk Identification and Measurement

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 Bank as credit exposures, arising from lending activities account for the major portion of the Bank's assets and source of its revenue. Thus, the Bank 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 as other unfunded credit exposures that have default probabilities; such as contingent liabilities.

The Enterprise-wide Risk Management (ERM) Division is responsible for optimising the risks and returns opportunities inherent in the business. The risk management infrastructure encompasses a comprehensive and integrated approach to identifying, managing, monitoring and reporting risks with focus on Credit, Market, Operational, Liquidity and Technology Risks.

In compliance with the CBN's 'Risk-based Supervision' guidelines and in accordance with Basel II Capital requirements, the Bank has implemented capital measurement approaches for the estimate of the bank's economic capital required to manage unexpected losses using Oracle Financial Services Analytical Application (OFSAA). The Bank has also put in place other qualitative and quantitative measures that will assist with enhancing risk management processes and creating a platform for more risk-adjusted decision-making. In determining regulatory capital, the Bank uses standardized approach (SA) for quantifying credit and market risk and basic indicator approach (BIA) for determining operational risk.

Further to the determination and assessment of regulatory capital, the Bank regularly assesses and prepares a report on its internal capital. The Internal Capital Adequacy Assessment Process (ICAAP) report forms part of management and decision-making processes and is prepared on an annual basis and submitted to CBN. The ICAAP provides an elaborate information on the Bank's risk management processes; identification, measurement, monitoring and mitigation of risks; and how much capital the Bank should hold to absorb these risks now, in the future and under stressed conditions.

2.7 Credit Risk Management

Credit risk is the risk arising from counterparty's failure to meet the terms of any lending contracts with the Bank or failure to perform as agreed. Credit risk arises anytime the Bank's funds are extended, committed, invested or otherwise exposed through actual or implied contractual agreements.

The Bank's specific credit risk objectives, as contained in the Credit Risk Management Framework, include the following:

- 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 the credit policies and procedures in line with the credit policy guide approved 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 are independent risk management functions and they undertake regular audits of business units and credit quality reviews.

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

The Bank drives the credit risk management processes using appropriate technology to achieve global best practices .These software are customised to suit the internal processes of the Bank and to interact seamlessly with the Bank's core banking application.

Lead to Loan is an integrated credit solution software which handles credit customers' profiles, rating scores, documents and collateral management, credit workflow processes, disbursement, recoveries and collection. The deployment of 'Lead to Loan' has further enhanced the credit processes of the Bank and guarantees data integrity towards achieving the CBN's required set of disclosures and the seamless application of Advanced Internal Rating Based approach in the measurement and management of capital.

OFSAA is an oracle-based application that handles the complete range of calculations covered in the Basel II Accord. It supports Risk Weighted Assets (RWA) computation for credit risk, market risk and operational risk and performs the capital computation and risk weighted assets aggregation for all risk areas considered. The OFSAA software is also configured to process data from the Bank's core application and generate different required management reports for decision making.

There were no changes in the Bank's risk management policies during the period. Each business unit is required to implement credit policies and procedures, with credit approval authorised by the Board Credit Committee.

2.8 Market Risk Management

Market risk is the risk that changes in market variables, 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 Bank's income or the value of its holdings in 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.

The Management Risk Committee has the overall responsibility for market risk oversight in the Bank at a strategic level. The day-to-day management of market risk, however, resides with the Market Risk Management Group within the Enterprise-wide Risk Management Division which is responsible for the development and implementation and review of detailed risk management policies.

The Bank separates its exposure to market risk between trading and non-trading portfolios. Due to the various macro-economic indices and unanticipated market happenings, the bank continues to engage in proactive monitoring of market risks inherent in both trading and non-trading activities. Trading portfolios are held by the Treasury and Sales Group of the Bank and include positions arising from trading and market making activities. With the exception of translation risk arising on the Bank's net investment in its foreign operations, the Market and Liquidity Risk Group monitors the foreign exchange position in the trading and Banking books.

The principal tools used to measure and control market risk exposure within the Bank's trading portfolios are the Open Position limits, Mark-to-Market Analysis, Value-at-Risk Analysis, Sensitivity Analysis and the Earning-at-Risk Analysis. Specific limits (regulatory and in-house) across the trading portfolios have been clearly defined, in line with the Bank's overall risk appetite. These set limits shall prevent undue exposure in the event of abrupt market volatility. The Market and Liquidity Risk Management Group ensures that these limits and triggers are adhered to by the Treasury and Sales Group.

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. The Asset and Liability Management (ALM) Group is responsible for managing and monitoring mismatches between the bank's assets and liabilities. The Asset and Liability Management Committee (ALMAC) is responsible for ensuring compliance with these limits while the limits are independently verified by Market & Liquidity Risk Management Group.

The Bank makes use of limit monitoring, earnings-at-risk, Mark-to-Market analysis, Value-at-Risk, Sensitivity analysis, gap analyses and scenario analyses to measure and control the market risk exposures within its trading and banking books. The bank also performs regular stress tests on its banking and trading books. In performing this, the Bank ensures there are quantitative criteria in building the scenarios. The Bank determines the effect of changes in interest rates on interest income; volatility in prices on trading income; and changes in funding sources and uses on the Bank's liquidity.

2.9 Operational Risk Management

Operational Risk (OpRisk) is the direct or indirect risk of loss resulting from inadequate and/or failed internal processes, people, and systems or from external events. The Bank manages operational risk by reviewing and monitoring all strategies and initiatives deployed in its people management, process engineering and re-engineering, technology investment and deployment, management of all regulatory responsibilities, engagement of third party services, and response to major disruptions and external threats.

To ensure a holistic framework is implemented, operational risk management also monitors strategic and reputational risks from a broad perspective. Strategic risk management is the process for identifying, assessing and managing risks and uncertainties, affected by internal and external events or scenarios, that could inhibit the Bank's ability to achieve its strategic objectives with the ultimate goal of creating and protecting shareholder and stakeholder value. Reputational risk is the current and prospective adverse impact on earnings and capital arising from negative public opinion. It measures the change in perception of the Bank by its stakeholders. It is linked with customers' expectations regarding the Bank's ability to conduct business securely and responsibly. All adverse trends identified are reported to relevant stakeholders for timely redress.

The following practices, tools and methodologies have been deployed in the Bank for the purpose of Operational Risk Management implementation:

Loss Incident Reporting – Loss incidents are reported to OpRisk Group by all business areas in the Bank. All staff are encouraged to report operational risk events as they occur in their respective business spaces whether these risks crystallize into actual losses or not. As a result, the Bank has a robust OpRisk loss database detailing relevant OpRisk loss data for four years. Information collated is analyzed for identification of risk concentrations, appropriate OpRisk risk profiling and capital estimation.

Risk and Control Self Assessments (RCSAs) – This is a qualitative risk identification tool deployed bank-wide. All branches and Head-Office departments are required to complete the Risk Self- Assessment process at least once a year. A risk-based approach has been adopted for the frequency of RCSAs to be conducted by branches, departments, groups and divisions of the Bank. These assessments enable risk profiling and risk mapping of prevalent operational risks across the Bank. A detailed risk register cataloguing key risks identified and controls for implementation is also developed and maintained from this process.

Risk Assessments of the Bank's new and existing products, services, branches and vendors/contractors are also carried out. This process tests the quality of controls the Bank has in place to mitigate likely risks. Other Risk Assessments conducted include Process Risk Assessments, Product Risk Assessments, Vendor Risk Assessments, Fire Risk Assessments, New Branch Risk Assessment and Fraud Risk Assessments.

Key Risk Indicators (KRI) – These are quantitative parameters defined for the purpose of monitoring operational risk trends across the Bank. A comprehensive KRI Dashboard has been put in place and it is supported by specific KRIs for key departments in the Bank. Medium – High risk trends are reported in the Monthly and Quarterly Operational Risk Status reports circulated to Management and key stakeholders.

Fraud Risk Management Initiatives – Causal analysis of key fraud and forgery trends identified in the Bank or prevalent in local and global business environments are carried out and reported on a monthly basis. Likely and unlikely loss estimations are also determined in the process as input in the OpRisk capital calculation process. The focus on Fraud Risk Management is to ensure that processes for preventing, deterring, detecting fraud and forgery incidents, and sanctioning offenders are effective.

Business Continuity Management (BCM) in line with ISO 22301 Standards – To ensure the resilience of our business to any disruptive eventuality, the Bank has in place a robust Business Continuity Management System (BCMS). This system assures timely resumption of critical business activities with minimal financial losses or reputational damage and continuity of service to its customers, vendors and regulators. Part of the BCMS is a Business Continuity Plan (BCP), which is reviewed and updated periodically to ensure reliability and relevance of information contained therein. Various testing and exercising programs are conducted bank-wide to ensure that recovery coordinators are aware of their roles and responsibilities. The Plan is reviewed and updated periodically to ensure reliability and relevance of information contained therein. GTBank has been certified ISO 22301 Business Continuity compliant by the globally recognized British Standards Institution signifying that the Bank has instituted internationally accepted processes, structures and systems that demonstrate its capacity to resume business within a short timeframe in the event of any business disruption.

Compliance and Legal Risk Management – Compliance Risk Management involves close monitoring of KYC compliance by the Bank, escalation of Audit Non-conformances, Complaints Management, and observance of the Bank's zero-tolerance culture for regulatory breaches. It also entails an oversight role for monitoring adherence to regulatory guidelines and global best practices on an on-going basis. Legal Risk Management involves the monitoring of litigations against the Bank to ascertain likely financial or non-financial loss exposures. It also involves conduct of causal analysis on identified points of failure that occasioned these litigations. Medium – High risk factors identified are duly reported and escalated for appropriate treatment where necessary.

Occupational Health and Safety procedures and initiatives – Global best practices for ensuring the health and safety of all staff, customers and visitors to the Bank's premises are advised, reported to relevant stakeholders and monitored for implementation. Related incidents are recorded bank-wide for identification of causal factors and implementation of appropriate mitigants to forestall reoccurrence. As a result, the following are conducted and/or monitored: Fire Risk Assessments, Quarterly Fire Drills, Burglaries and Injuries that occur within the Bank's premises.

Operational Risk Capital Calculation – The Bank has adopted the Basic Indicator Approach under Basel II Pillar 1 for the calculation of its Operational Risk Economic Capital for internal risk monitoring and decision-making. Whilst the Bank has the required OpRisk loss data to migrate to other capital calculation methods i.e. the Standardized Approach and Advanced Measurement

Approach, it is mindful of investing in the additional resources required especially as the Central Bank of Nigeria has recommended the Basic Indicator Approach for all banks in Nigeria. The Estimated OpRisk Capital Charge is reported to the Board and Management for guidance in Capital Planning and decision making.

Operational Risk Reporting – Monthly, quarterly and annual reports highlighting key operational risks identified are circulated to relevant stakeholders for awareness and timely implementation of mitigation strategies. Reports are also generated and circulated on a need-basis. To aid timely and comprehensive reporting of prevalent OpRisk exposures in the Bank, an OpRisk Management software/application has been acquired by the Bank. This has been successfully implemented to aid data collation and information gathering, analysis, escalation and reporting of key OpRisk incidents or emerging trends observed.

2.10.2 Treatment of Operational Risks

GTBank adopts several risk treatment strategies to mitigate identified operational risks. These mitigants are applied to achieve a residual risk level aligned with the Bank's risk tolerances. In line with best practices, the cost of risk treatments introduced must not exceed the reward. The following comprise the OpRisk treatments adopted by the Bank:

Risk Acceptance and Reduction: The Bank accepts the risk because the reward of engaging in the business activity far outweighs the cost of mitigating the risk. Residual risks retained by the business after deploying suitable mitigants are accepted. As regards Risk reduction, risks that are within the Bank's strategic objectives but are outside the defined risk tolerance are reduced by implementing or increasing controls to reduce the impact and/or likelihood of the risk.

Risk Transfer (Insurance): This involves another party or parties bearing the risk, by mutual consent. Relationships are guided by the use of contracts and insurance arrangements

Risk Sharing (Outsourcing): Risk is shared with other parties that provide expert solutions required to mitigate risk or reduce risk burden whether operationally or financially

Risk Avoidance: This requires discontinuance of the business activity that gives rise to the risk

2.10 Liquidity Risk Management

The Bank's liquidity risk management process is primarily the responsibility of the Market Risk Management Group. The bank's liquidity management objectives include the following:

- Control of liquidity risk by the setting of dynamic limits on metrics such as liquidity ratio, reserve ratio, asset and liability gap measures, amongst others. Internal limits are typically more stringent than regulatory limits across all jurisdictions of the Group's operation.
- The limits are monitored regularly with exceptions reported to the Management Risk Committee (MRC) and the Board.
- Actively adjusts its business strategies to prevent and control liquidity risk based on its judgement of financial market trends.
- Control of non-earning assets proportion to the overall financial position.
- Performing regular liquidity stress tests.
- Ensuring proper diversification of funding sources in order to control concentration risk.
- Monitoring the level of undrawn commitments.
- Maintaining a contingency funding plan.
- Regular conduct of the Asset and Liability Management Committee (ALMAC) meetings.

2.10.1 Funding approach

The Bank's overall approach to funding is as follows:

- Consistently grow funding pool at the lowest possible cost.
- Maintain an appropriate funding structure that enables the Group operate under a variety of adverse circumstance, including potential firm-specific and/or market liquidity events.
- Maintain appropriate capital to support the Bank's risk level and strategic intent.

The Bank was able to meet all its financial commitments and obligations without any liquidity risk exposure for the year ended December 2017. The Bank's Asset and Liability Management Committee (ALMAC) is charged with the responsibility of managing the Bank's daily liquidity position. Liquidity position is monitored daily and stress testing is conducted regularly 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%.

2.10.2 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of liquid assets to short term liabilities. For this purpose, liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market. Short term liability includes local currency deposits from banks and customers.

The liquidity ratio of the Bank, which is a measure of liquidity risk, is calculated as a ratio of Naira liquid assets to local currency deposits and shown in Table 1 below:

Table 1: Liquidity Ratio

Period	Dec-2017	Dec-2016
At end of year	47.56%	42.19%
Average for the year	47.22%	38.56%
Maximum for the year	50.79%	42.19%
Minimum for the year	41.86%	36.13%
Regulatory requirement	30.00%	30.00%

2.11 Information Technology Risk Management

Technology continues to play a critical role in the Bank's operations and in the fulfilment of its strategic objectives. Given the importance of information technology to the overall performance and success of the Bank, GTBank has in place a sound framework to identify, monitor, control and report on IT risks. The Bank's IT governance framework aligns its IT strategy with its overall business objective. The Board of directors through the Board Information Technology Strategy Committee provides guidance to Management on information technology issues and monitors the effectiveness of information technology within the Bank and the adequacy of controls. The management also establishes a more detailed framework of supporting policies, standards and procedures that demonstrates how they will operate within the broader risk parameters established by the Board. As a result, there are two management committees that are responsible for controlling and mitigating IT risks in the Bank. These are:

- **Information Technology (IT) Steering Committee**- responsible for assisting management with the implementation of IT strategy approved by the Board as well as IT risk assurance.
- **Information Technology (IT) Risk Management Committee**- responsible for establishing standardised IT risk management practices and ensuring compliance and institutionalising IT risk management in the Bank's operations at all levels.

These committees ensure strategic alignment of information technology with business goals, value delivery, resource management, IT risk management and setting performance measures.

In order to monitor IT compliance, the Bank set up an IT Audit team in the Systems and Control Division with the mandate to examine and evaluate the Bank's IT infrastructure, policies and procedures. The audit determines whether IT controls protect corporate assets, ensure data integrity and are aligned with the business overall objectives. In fulfilment of this mandate, the IT Audit unit conducts an annual risk assessment exercise on the Bank's information technology infrastructure to identify high risk areas. This assessment culminates in an audit plan which is reviewed and approved by the Board Audit committee. The team also draws up a checklist which identifies the audit criteria, the Bank's policies and standards in effect, controls in place for information systems/products, statutory requirements and changes to the control environment.

The audit is performed through spot checks and comprehensive sweep exercises to ensure the following:

- Detect and prevent abuse of access right to the Bank's core banking application and other system applications
- System investigation to identify, rectify and prevent system malfunctions,
- Income and expense verification to verify that there are no income losses due to system error and provide assurance that the income recognised is based on set parameters.
- The team also performs a review of the Bank's network to prevent unauthorised accesses and breaches.

Based on the audit findings, exception reports and recommendations are prepared and sent to the relevant unit for prompt response and/or implementation. Follow up meetings are also made to ensure that issues identified are properly resolved and the recommendations made are being implemented.

Furthermore, the Bank was awarded a triple International Organization for Standardization certification i.e. ISO/IEC 27001- for Information Security, ISO 20000 – for IT Service Management and ISO 22301 – for Business Continuity by the British Standard Institute (BSI). The British Standard Institute (BSI) certification recognizes companies that have implemented systems and structures that ensure their operations are in line with international best practices. The certification attests that the Bank has instituted internationally accepted processes that guaranty the security of its customers' information, the ability of the institution to consistently provide quality service and its capacity to resume business within a short timeframe in the event of any business disruptions. These certificates are valid for a period of three years during which surveillance audits will be conducted by the BSI on an annual basis to ascertain conformity with established standards and procedures. After the expiration of the certificates, a re-certification audit will be conducted to evaluate the Bank's fulfilment of all the requirement of the internationally recognised standards.

The Bank also adopts the following mitigation strategies to manage information security risks:

- **Network Controls** – The bank has put in place different controls on its network to facilitate access to network resources on a need to have basis. Different network segmentations exist on the network to protect specific areas from access to unauthorized personnel. Also, a network access control security solution has been implemented to guard against enterprise network access to rogue systems.

- **Application Security Controls (e.g. Secure Coding controls)** – The Bank ensures that new and modified applications are well tested before deployment to production environment. Such tests include functional and security tests. Also, applications running on endpoint systems are reviewed quarterly to ensure that unauthorized applications are not freely used within the enterprise environment. In addition to this, security solutions such as Web Application Firewall, Database Activity Monitoring and Threat Management have been deployed to provide enhanced security for web facing applications in Bank.

- **Operating system hardening** – The Bank has baseline security configurations for the various operating systems and network devices based on global security best practices. Operating systems are deployed and configured based on published security standards of Centre for Internet security.

- **Patch management** – A benchmark threshold of permissible patch compliance status was instituted by the Management of the Bank. The monthly compliance status is obtained on a monthly basis, compared to the established threshold and reported to management for review and informed decision.

- **Administrative Controls (policies, procedures, attestations etc.)** – The Bank was certified by PCI DSS version 2.0 in 2012 and has continued to be recertified to upgraded versions ever since, currently certified to PCI DSS Version 3.2. The Bank was also certified in ISO 27001, 22301 and 2000 in 2014 and was recertified in 2015. The tedious process of getting these certifications and recertification has really helped in the development and maturity of appropriate policies, processes and procedures on business operations and security controls

3 Capital Resources and Capital Requirements

3.1 Capital Resources

The CBN requires banks to maintain a minimum level of capital to cover the Pillar 1 Risks - Credit, Operational and Market. This requirement is met by the Bank in its monthly returns on Capital Adequacy Ratio (CAR) to the CBN and the Bank's management. The Bank also holds additional capital in excess of regulatory capital to cover additional Pillar 2 or internally assessed risks which are extensively covered in the Bank's ICAAP.

There are 2 categories of capital under the Basel II framework: Tier 1 and Tier 2 capital. Tier 1 capital consists of only permanent shareholders' equity and disclosed reserves. It includes:

- Paid up share capital which is issued and fully paid; only redeemed on the winding-up of the business.
- Share premium, the excess paid over the par value of the shares.
- General reserves, the earnings derived after all distributable allocations have been made.
- SMEEIS reserves.
- Statutory reserve, made out of profit after tax

Tier 2 capital consists of qualifying hybrid capital instruments, subordinated debt and items in other comprehensive income (OCI) other than fixed asset revaluation reserves created by the adoption of IFRS. However, the Bank's Tier 2 capital is made up of only fair value reserves used to account for the revaluation changes in Available-for-sale financial instruments. Total capital is Tier 1 plus Tier 2 capital.

Regulatory Deductions made from capital include;

- Intangible assets,
- 100% investments in unconsolidated subsidiaries and
- Deferred tax assets

The table below shows the composition of the Bank's qualifying capital resources for use in the computation of the Capital Adequacy Ratio as at 31 December 2017:

Table 2: Capital resources

In thousands of Nigerian Naira	Dec-2017	Dec-2016
Tier 1 capital		
Share capital	14,715,590	14,715,590
Share premium	123,471,114	123,471,114
Retained profits	115,361,824	83,989,499
Statutory Reserve	247,571,078	199,185,674
SMEEIS Reserve	10,574,318	4,232,478
Other reserves	-	28,279,386
Tier 1 Sub-Total	**511,693,924**	**453,873,741**
Less Regulatory deductions :		
Other intangible assets	(4,501,296)	(3,377,961)
Deferred Tax Assets	-	-
Investments in Subsidiaries	(46,207,004)	(43,968,474)
Net Total Tier 1 Capital (A)	**460,985,624**	**406,527,306**
Tier 2 capital		
Fair Value Reserves	4,887,758	(1,000,680)
Total Tier 2 Capital (B)	**4,887,758**	**(1,000,680)**
Total Qualifying Capital (C= A+B)	**465,873,382**	**405,526,626**

3.2 Capital Requirements

3.2.1 Minimum capital requirements

The CBN specifies the approach for determining minimum capital requirements for banks and financial services holding companies which is expressed in the form of a Capital to Risk (Weighted) Assets Ratio commonly known Capital Adequacy Ratio (CAR). The CBN prescribes 10% or 15% respectively for Nigerian banks or Banking groups with regional/national license and international banking license and 16% for Domestic Systemically important Banks (D-SIB). As one of the D-SIBs, the Bank complies with the regulatory minimum CAR of 16%. The Bank adopts

Standardised approach for the estimation of its credit and market risk while Basic Indicator approach is adopted for computation of operational risk.

The table below shows the Bank's capital requirement for each of the Pillar 1 risks.

Table 2b: Minimum Capital Requirement for Pillar 1 risks

In thousands of Nigerian Naira	Dec-17	
	Risk Weighted Asset	Minimum Capital Requirement
Credit Risk	1,453,391,802	232,542,688
Operational Risk	371,126,769	29,690,142
Market Risk		
- Interest Rate Risk	2,585,519	206,842
- Foreign Exchange Risk	179,916	14,393
Total	**1,827,284,007**	**262,454,065**

A summary of the composition of regulatory capital and risk weighted assets as at December 31, 2017 is shown in the table below.

Table 3: Summary of Risk Assessments and Capital Adequacy Ratio

In thousands of Nigerian Naira	Dec-2017	Dec-2016
	CAR	CAR
Risk Weighted Amount for Credit Risk	1,453,391,802	1,700,022,945
Risk Weighted Amount for Operational Risk	371,126,769	347,267,040
Risk Weighted Amount for Market Risk	2,765,436	1,797,607
Aggregate Risk-Weighted Assets (A)	**1,827,284,007**	**2,049,087,592**
Tier 1 Capital (B)	**460,985,624**	**406,527,306**
Tier 2 Capital	**4,887,758**	**(1,000,680)**
Total Eligible/Qualifying Capital (C)	**465,873,382**	**405,526,626**
Tier 1 Risk-Based Capital Ratio (B/A)	**25.23%**	**19.84%**
Total Risk-Weighted Capital Ratio (C/A)	**25.50%**	**19.79%**

3.2.2 Internal Capital Adequacy Assessment Process ICAAP

Annually, the Bank produces an ICAAP report which provides management with a view of the impact of severe and unexpected events on earnings, balance sheet positions, reserves and capital. The Bank's ICAAP integrates stress testing scenarios with capital planning and is used to assess the adequacy of its capital to support current and future activities. The ICAAP document includes the following key elements:

- Summary of Pillar 1 capital requirement,
- Summary of Pillar 2 capital requirement,
- A three year capital plan and
- Analysis of the impact of stress testing on Profit and Loss, Balance Sheet and Regulatory Capital.

The ICAAP report is reviewed and approved by the Bank's Board of Directors. As such, the Bank's risk management processes and capital assessment assumptions are regularly being challenged and a conscious effort is made to ensure that the Bank continues to monitor and mitigate the risks it faces.

In determining its Internal Assessment of Capital Requirements (IACR), the Bank adopted the Standardized Approach (SA) for determining all of its Pillar 1 Risks with models developed for determining quantifiable Pillar 2 Risks. The internal assessment of the Bank's capital shows that the Bank has enough capital to withstand the severe stresses modelled in the internal capital assessment and is therefore ahead of what continues to be a stressed and challenging financial environment.

4 Credit Risk

4.1 Overview

Credit risk is the principal source of risk to the Bank arising from exposures in form of loans and advances extended to customers under the corporate, commercial, small & medium enterprises and retail business lines. Credit risk also arises through the use of off-balance sheet guarantees and commitments and through the Bank's investment in financial instruments. Capital requirements are based on the perceived level of risk of the individual credit exposures. As stipulated in the Basel II implementation document of the Central Bank local regulator, the bank classified its various credit exposures into appropriate Basel II classes - corporate exposures, retail exposures, exposures to public sector entities, exposures secured by residential mortgages and mortgages on commercial properties, exposures to Federal Government of Nigeria, Central Bank of Nigeria, Supervised Institutions (local and foreign banks), High Risk exposures (Investments in equity instruments of other entities), and other exposures. .

The Bank has adopted the Standardised Approach for assessing its capital requirements for credit risk for regulatory and internal capital assessment purposes.

Credit risk exposure

The Gross exposure and Capital Requirement in the banking and trading book as at December 31, 2017 are set out below in the table below.

Table 4: Total and Average Gross Credit Risk Exposures with Capital Requirement per Counterparty

In thousands of Nigerian Naira	Dec-17		
Credit Risk exposures/Counterparty	**Gross Exposure**	**Average exposure**	**Capital Requirement**
Federal Government and CBN	944,109,476	889,120,178	-
State & Local Government	52,926,369	58,413,031	8,211,079
Supervised Institutions	377,143,400	249,411,098	13,256,254
Corporate and Other Persons	1,048,345,858	762,790,551	126,071,608
Regulatory Retail Portfolio	95,432,126	92,844,015	11,433,519
Secured by Residential Mortgages	1,941,010	48,019	232,921
Secured by Commercial Mortgages	58,298,323	54,995,364	9,327,732
Past Due Exposures	11,078,735	702,268	2,048,753
High Risk Exposures (Equity Investments)	3,011,648	3,460,629	722,796
Other Balance Sheet Exposures	181,082,914	159,489,346	19,639,001
Sub-total (On-balance Sheet Exposures)	**2,773,369,859**	**2,271,274,499**	**190,943,663**

In thousands of Nigerian Naira	Dec-17		
Credit Risk exposures/Counterparty	**Gross Exposure**	**Average exposure**	**Capital Requirement**
Off Balance sheet exposures			
Public Sector Entities	75,000	122,558	12,000
Supervised Institutions	2,857,604	1,592,391	21,112
Corporate and Other Persons	266,474,674	295,437,287	41,435,666
Regulatory Retail Portfolio	1,379,337	1,383,601	130,247
Sub-total (Off-balance sheet Exposures)	**270,786,615**	**298,535,838**	**41,599,025**
Total (On and Off-balance Sheet Exposures)	**3,044,156,474**	**2,569,810,337**	**232,542,688**

4.2 Geographical Analysis of Exposures

The geographical distribution as required under Basel II is reported by analysing the counterparty based on location and the corresponding exposure amount. With the exception of placements with foreign banks and subsidiaries and balances with foreign banks, all other exposures to counterparties are within Nigeria.

Table 5: Geographical analysis of Exposures as at December 31, 2017

In millions of Nigerian Naira	North Central	North East	North West	South East	South/ South	South West	Outside Nigeria	Total Exposure
On-Balance Sheet Exposures								
Federal Government and CBN	944,109	-	-	-	-	-	-	944,109
State & Local Government	-	9,686	13	2	-	43,226	-	52,926
Supervised Institutions	-	-	-	-	-	6,627	370,516	377,143
Corporate and Other Persons	26,896	4,771	31,476	5,248	113,749	866,206	-	1,048,346
Regulatory Retail Portfolio	18,722	1,977	7,676	1,624	26,372	39,061	-	95,432
Secured by Residential Mortgages	170	-	17	-	52	1,702	-	1,941
Secured by Commercial Mortgages	-	-	-	81	-	58,218	-	58,298
Past Due Exposures	1,075	556	1,641	718	1,613	5,476	-	11,079
High Risk Exposures	-	-	-	-	-	3,012	-	3,012
Other Balance Sheet Exposures	4,914	1,067	3,334	1,638	3,023	148,782	18,324	181,083
Sub-Total (On-Balance Sheet Exposures)	**995,886**	**18,057**	**44,158**	**9,310**	**144,809**	**1,172,309**	**388,841**	**2,773,370**
Off Balance sheet exposures								
Public Sector Entities	-	-	-	-	-	75	-	75
Supervised Institutions	-	26	-	-	-	2,831	-	2,858
Corporate and Other Persons	105,895	-	14,033	102	12,212	134,233	-	266,475
Regulatory Retail Portfolio	43	-	95	-	-	1,241	-	1,379
Sub-Total (Off Balance Sheet Exposures)	**105,939**	**26**	**14,128**	**102**	**12,212**	**138,380**	**-**	**270,787**
Total (On & Off Balance Sheet Exposures)	**1,101,825**	**18,084**	**58,286**	**9,412**	**157,021**	**1,310,688**	**388,841**	**3,044,156**

4.3 Industry Analysis of Exposures

Table 6: Industry Analysis of Exposures (On and off balance sheet) as at December 31, 2017

In millions of Nigerian Naira	Agriculture	Capital Market & Fin. Institution	Constr. & Real Estate	Education	General Commerce	Govt.	Individual	Info. Telecoms & Transport.	Manufacturing	Oil & Gas	Others	Total Exposures
On-Balance Sheet Exposures												
Federal Government and CBN	-	-	-	-	-	944,109	-	-	-	-	-	944,109
State & Local Government	-	-	-	-	-	52,926	-	-	-	-	-	52,926
Supervised Institutions	-	377,143	-	-	-	-	-	-	-	-	-	377,143
Corporate and Other Persons	20,404	43,894	30,402	5,146	51,455	240	9,741	87,458	219,587	515,568	64,452	1,048,346
Regulatory Retail Portfolio	53	28	108	382	1,501	-	90,356	150	185	403	2,267	95,432
Secured by Residential Mortgages	-	-	-	-	-	-	1,913	-	-	-	28	1,941
Secured by Commercial Mortgages	-	-	58,298	-	-	-	-	-	-	-	-	58,298
Past Due Exposures	103	110	466	0	2,147	-	688	1,752	1,962	1,325	2,527	11,079
High Risk Exposures	-	3,012	-	-		-	-	-	-	-	-	3,012
Other Balance Sheet Exposures	-	181,083	-	-	-	-	-	-	-	-	-	181,083
Sub-Total (On-Balance Sheet Exposures)	**20,560**	**605,270**	**89,274**	**5,528**	**55,102**	**997,276**	**102,697**	**89,359**	**221,734**	**517,296**	**69,274**	**2,773,370**
Off Balance sheet exposures												
Public Sector Entities						75						75
Supervised Institutions		2,858										2,858
Corporate and Other Persons	1,420		130,666	200	14,534		-	3,350	18,018	55,291	42,996	266,475
Regulatory Retail Portfolio			24		381		-	77			898	1,379
Sub-Total (Off Balance Sheet Exposures)	**1,420**	**2,858**	**130,690**	**200**	**14,915**	**75**	**-**	**3,427**	**18,018**	**55,291**	**43,893**	**270,787**
Total (On & Off Balance Sheet Exposures)	**21,980**	**608,127**	**219,964**	**5,728**	**70,018**	**997,351**	**102,697**	**92,786**	**239,752**	**572,587**	**113,168**	**3,044,156**

4.4 Credit exposures by maturity

The residual maturity distribution of credit exposures for GTBank is broken down as follows:

Table 7: Residual maturity of credit exposures (On-balance and off balance sheet) for the year ended December 31, 2017

In millions of Nigerian Naira	Less than 30 days	Up to 3 months	3-6 months	6-12 months	1-3 Years	3-5 Years	5-10 Years	>10 Years	Total Exposures
On-Balance Sheet Exposures									
Federal Government and CBN	471,767	48,083	240,341	169,438	-	-	3,620	10,860	944,109
State & Local Government	528	684	1,152	2,272	9,141	9,264	17,869	12,016	52,926
Supervised Institutions	113,343	210,670	32,053	3,874	9,440	7,754	10	-	377,143
Corporate and Other Persons	136,687	132,366	109,123	117,635	355,921	183,223	13,393	-	1,048,346
Regulatory Retail Portfolio	10,284	14,574	5,295	9,757	39,172	16,114	156	81	95,432
Secured by Residential Mortgages	-	40	70	211	567	418	444	191	1,941
Secured by Commercial Mortgages	-	1,821	9,356	6,119	20,009	20,372	621	-	58,298
Past Due Exposures	11,079	-	-	-	-	-	-	-	11,079
High Risk Exposures	-	-	-	-	-	-	-	3,012	3,012
Other Balance Sheet Exposures	79,464	6,999	176	729	8,092	25,689	131	59,802	181,083
Sub-Total (On-Balance Sheet Exposures)	**823,151**	**415,238**	**397,565**	**310,034**	**442,341**	**262,835**	**36,243**	**85,962**	**2,773,370**
Off Balance sheet exposures									
Public Sector Entities	-	-	75	-	-	-	-	-	75
Supervised Institutions	-	-	-	207	-	-	2,651	-	2,858
Corporate and Other Persons	5,925	23,004	15,383	13,133	12,268	14,213	182,548	-	266,475
Regulatory Retail Portfolio	-	401	139	385	400	-	54	-	1,379
Sub-Total (Off Balance Sheet Exposures)	**5,925**	**23,405**	**15,598**	**13,725**	**12,668**	**14,213**	**185,252**	**-**	**270,787**
Total (On & Off Balance Sheet Exposures)	**829,077**	**438,643**	**413,163**	**323,759**	**455,009**	**277,048**	**221,495**	**85,962**	**3,044,156**

4.5 Credit Quality of Exposures

4.5.1 Loan Categorization

The Bank's definition and categorization of Loans and Receivables for credit risk purposes is as follows:

- **Neither past due nor impaired:**

These are significant loans and advances where contractual interest or principal payments are not past due. 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 Bank. These are assigned ratings 1-6[1].

- **Past due but not impaired:**

These are loans and advances where contractual interest or principal payments are past due but individually assessed as not being impaired. The Bank believes that impairment is not appropriate on the basis of the level of receivable/security/collateral available and/or the stage of collection of amounts owed to the Bank. This is assigned rating 7[1].

- **Individually impaired:**

Individually impaired are loans and advances for which the Bank 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/advance agreement(s). These are loans and advances specifically impaired. These are assigned ratings 8-10[1].

- **Collectively impaired:**

Collectively impaired are portfolios of homogenous loans and advances where contractual interest or principal payments are not past due, but have been assessed for impairment by the Bank. Thus, Loans assessed for collective impairment transverse from ratings 1 to ratings 7[1]. Tables 9 & 10 below present a breakdown of the Bank's Loans and advances based on the categorization of exposures and impairment taken on them and also by products; as well as movement in impairment on loans to banks, individuals and non-individuals.

1	*Ratings 1 Exceptional capacity*	*Ratings 2 Very strong capacity*	*Ratings 3-5 Strong repayment capacity*
	Ratings 6 Acceptable Risk	*Ratings 1-7 collectively impaired*	*Ratings 8-10 individually impaired*

4.5.2 Methodology for determining Impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses on its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant impaired 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.

- **Specific Impairment** – This is derived by identifying exposure at default and recoverable cash-flows. The Cash-flows are then discounted to present value using the original effective interest rate on the exposures. The shortfall between the discounted cash-flows and the exposure at default is recognized as individual impairment.

- **Collective Impairment** - This is arrived at using the incurred loss model under IAS 39 by incorporating emergence period into the expected loss model under Basel II.

- **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.

- **Write-off policy**- The balances on Loans and Receivables or investment securities (and any related allowances for impairment losses) are written off when the Management Credit Committee determines that the exposure amount is not collectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that obligation can no longer be repaid; 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.

The Table 8 below shows the movement in total impairment taken during the period ended December 31, 2017, on all balance sheet exposure types:

Table 8: Movement in impairment on all Balance Sheet Exposures:

	Loan Exposures				High Risk Exposures (Equity Securities)		Other Balance Sheet Exposures	
In thousands of Nigerian Naira	**Specific allowance**	**Collective allowance**	**Total allowance**		**Specific allowance**		**Specific allowance**	**Grand Total**
Balance at 1 January, 2017	15,873,630	58,027,255	73,900,885		3,454,978		305,556	77,661,419
Foreign currency translation and other adjustments	71	-	71		-		-	71
Increase in specific impairment	31,012,480		31,012,480		696,680		-	31,709,160
Reversal of loan provisioned	(1,684,474)		(1,684,474)		-		-	(1,684,474)
Increase in collective impairment		509	509					509
Reversal of collective impairment		(18,197,044)	(18,197,044)		-		-	(18,197,044)
Write offs	(24,752,090)	-	(24,752,090)		-			(24,752,090)
Reclassification of impairment	21,965,036	(21,965,036)	-				(178,710)	(178,710)
Balance at 31 December, 2017	**20,449,617**	**39,830,720**	**60,280,337**		**4,151,658**		**126,846**	**64,558,841**

4.6 Credit Risk Exposures under the Standardized Approach

The Bank uses standardised approach for quantifying credit risk. This involves the application of risk weights to the exposure types. All balance sheet exposure amounts weighted for credit risk are presented net of specific and collective provisions taken on the assets. The risk weights applied are a function of the credit ratings of the counterparty or the exposures which are made available by External Credit Assessment Institutions (ECAIs). The credit quality assessment scale assigns a credit quality step to each rating provided by the ECAIs, as set out in the Table 9 below.

Table 9: Credit Quality Assessment Scale and Risk Weights as specified by CBN

Credit Quality Step	Credit Rating	Risk Weight
1	AAA to AA-	0%/20%[1]
2	A+ to A-	20%/50%[1]
3	BBB+ to BBB-	50%
4-5	BB+ to B-	100%
6	Below B-	150%
Unrated	Unrated	100%

A risk weight one category less favourable than the sovereign assigned to Banks incorporated in other countries[1]

The Basel II guidance notes on credit risk by the CBN directs banks to nominate an ECAI and use their credit assessments consistently for each type of exposure, for both risk weighting and risk management purposes. To this end, the Bank has consistently used the credit ratings of either Fitch or Standard & Poor's (S &P) to rate exposures to supervised institutions (Placements and Balances with foreign banks and subsidiaries). Where a rating for the institution is not available, the Bank adopts the sovereign rating of the country that the institution is located.

In line with the CBN guidance notes, all corporate exposures have been assigned a risk weight of 100% due to the non-availability of ECAI ratings for the Bank's obligors. Exposures secured by commercial mortgage are risk-weighted 100% while a risk weight of 75% is applied to retail exposures and exposures secured by residential mortgages. The unsecured portion of past due exposures have been assigned a risk weight of either 150% - where specific provisions are less than 20% or 100% - where specific provisions are equal to or greater than 20% of the outstanding amount. Qualifying residential mortgage loans that are past due are risk weighted

100% where specific provisions are less than 20% or 50% - where specific provisions are equal to or greater than 20% of the outstanding amount.

A more detailed breakdown of the risk weights applied to the different exposure types and their amounts is presented in the table below:

Table 10: Analysis of exposures with or without CRM and the risk weights applied (On-Balance Sheet)

In thousands of Nigerian Naira	Dec-17		
Credit Risk exposures/Counterparty	**Risk Weight**	**Exposure value**	**Exposure after CRM & on-balance sheet netting**
Federal Government and CBN	0%	944,109,476	944,109,476
State & Local Government	20%	2,007,253	2,007,253
	100%	50,919,116	50,917,795
Supervised Institutions	20%	363,057,561	343,828,755
	100%	14,085,839	14,085,839
Corporate and Other Persons	100%	1,048,345,858	855,710,223
Regulatory Retail Portfolio	75%	95,432,126	95,279,327
Secured by Residential Mortgages	75%	1,941,010	1,941,010
Secured by Commercial Mortgages	100%	58,298,323	58,298,323
Past Due Exposures	Vary according to asset class	11,078,735	11,078,735
High Risk Exposures (Equity Investments)	150%	3,011,648	3,011,648
Other Balance Sheet Exposures	0%	44,999,687	44,999,687
	20%	16,674,336	16,674,336
	100%	119,408,891	119,408,891
Sub Total		**2,773,369,859**	**2,561,351,297.33**
Regulatory Deductions:			
Intangibles	N/A	4,501,296	4,501,296
Investment in Subsidiaries	N/A	46,207,004	46,207,004
Grand Total		**2,824,078,159**	**2,612,059,597**

Table 11: Analysis of Exposures with or without CRM and the risk weight applied (Off-Balance Sheet)

In thousands of Nigerian Naira		31-Dec-17	
Off Balance sheet exposures	**Risk Weight**	**Credit Equivalent Amount**	**Exposure Amount after CRM**
Public Sector Entities	100%	75,000	75,000
Supervised Institutions	100%	2,857,604	131,950
Corporate and Other Persons	100%	266,474,674	258,972,913
Regulatory Retail Portfolio	75%	1,379,337	1,085,394
Total		**270,786,615**	**260,265,257**

4.7 Credit Risk Mitigation

The Bank has a lending policy encapsulated in its Credit Policy Guide which prescribes lending limits to manage credit risk concentration and ensure diversification of its risk assets portfolio. It maintains borrowing limits for individuals and groups of related borrowers, business lines, sector/industry, geographical area and rating grade.

The limits are usually recommended annually by Credit Risk Management Group (CRMG) and approved by the Board. For each industry or economic sector, the set limits are dependent on regulatory limits, historical performance of the sector as well as the intelligence report on the outlook of the sector. Limits can however be realigned (by decrease or increase) to meet the exigencies of the prevailing macroeconomic events subject to appropriate approval.

Other credit risk mitigation techniques include: collateral management, establishing and enforcing authorisation limits, including set-off limits; defining exposure levels to counterparties; verifying the creditworthiness of counterparties that are not parent undertakings; daily monitoring of positions to ensure that prudential limits are not exceeded and imposing industry / economic sector limits to guard against concentration risk.

The Bank also adheres to the eligibility requirements on recognition of credit risk mitigants (CRM) of CBN and Basel II for the purpose of determining credit risk. The Basel II guidelines allows the Bank to use financial collaterals, on-balance sheet netting, eligible guarantee and credit derivatives that meet certain conditions to be used to obtain capital relief from balance sheet exposures. Financial collaterals are restricted cash, gold, and qualifying debt securities and equities after applying standard supervisory haircuts.

The Bank accepts a wide range of guarantees as collateral for credit exposures, these include: personal guarantee, corporate guarantee, sovereign guarantee, bank guarantees. However, only sovereign and bank guarantees qualify as eligible credit risk mitigant for capital adequacy assessment.

To arrive at the CRM value used to derive the net credit exposure for regulatory capital adequacy purposes, the Bank applies the haircut adjustments on the value of the eligible collaterals to provide a margin of safety in the event of a drop in market prices. The following formula is applied in the calculation of the net credit exposure;

$$\boldsymbol{E}^{*} = max\,\{0, \left[E\,*\,(1 + H_e) - C\,*\,\left(1 - H_C - H_{fx}\right)\right]\}$$

Where:

E* = the net exposure value after risk mitigation

E = the current value of the exposure

H_e = haircut appropriate to the exposure

C = the current value of the collateral received

H_c = haircut appropriate to the collateral

H_{fx} = haircut appropriate for currency mismatch between the collateral and exposure

4.7.1 Collateral Evaluation and Management

The Bank ensures that each credit is reviewed and granted based on the strength of the borrowers’ cash flow. However, it ensures its credit facilities are well secured as a contingency option. The policies that guide collateral for facilities are discussed in this section.

Loans to individuals or sole proprietors must be secured by tangible, marketable collaterals that have a market value supported by a valuation report from a registered estate valuer who is acceptable to the Bank. This collateral must be in the possession of, or pledged to, the Bank. The value of the collateral must be adequate to cover the exposure to the client.

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 inventory.
- Charges over financial instruments such as equities, treasury bills etc.

The fair values of collaterals are based upon last annual valuation undertaken by independent valuers on behalf of the Bank. The valuation techniques adopted for properties are based upon fair values of similar properties in the neighbourhood taking into cognizance the advantages and disadvantages of the comparatives over the subject property and any other factor which can have effect on the valuation e.g. subsequent movements in house prices after making allowance for dilapidations. The fair values of non-property collaterals (such as equities, bond, treasury bills, etc.) are determined with reference to market quoted prices or market values of similar instrument.

The same fair value approach is used in determining the collateral value in the course of sale or realisation.The Bank uses external agents to realize the collateral as soon as practicable, generally at auction, to settle indebtedness. Any surplus funds are returned to the borrower.

For the purpose of Capital Adequacy computation, the Bank adheres strictly to Basel II and CBN's Guidance on eligible financial collaterals and standard supervisory haircuts as shown in the table below.

Table 12: Eligible financial collaterals and standard supervisory haircuts

<table>
<tr><th>Financial Collaterals</th><th>Residual Maturity</th><th>Sovereigns (%)</th><th>Other issuers (%)</th></tr>
<tr><td rowspan="3">AAA to AA-/A-1 rated securities, Federal Government of Nigeria Bonds & T-bills and State Government bonds</td><td>=< 1 year</td><td>0.5</td><td>1</td></tr>
<tr><td>>1 year, < 5 years</td><td>2</td><td>4</td></tr>
<tr><td>> 5 Years</td><td>4</td><td>8</td></tr>
<tr><td rowspan="3">A+ to BBB-/ A-2/A-3/P-3 rated and unrated bank securities</td><td>=< 1 year</td><td>1</td><td>2</td></tr>
<tr><td>>1 year, < 5 years</td><td>3</td><td>6</td></tr>
<tr><td>> 5 Years</td><td>6</td><td>12</td></tr>
<tr><td>BB+ to BB-</td><td></td><td>15</td><td>NA</td></tr>
<tr><td>Main index equities (including convertible bonds) and Gold</td><td></td><td colspan="2">15</td></tr>
</table>

Financial Collaterals	Residual Maturity	Sovereigns (%)	Other issuers (%)
Other equities (including convertible bonds) listed on a recognized exchange.		25	
Cash		0	

The table below discloses for each exposure class, the total exposure covered by financial collaterals, on- balance sheet netting and eligible guarantees. The Bank's total credit risk mitigant amounted to N222.54bn as at December 2017.

Table 13: Exposure values covered by financial collaterals, On-balance sheet netting and eligible guarantees as at December 31, 2017

In thousands of Nigerian Naira	Dec-17				
Credit Risk exposures/Counterparty	**Gross Exposure**	**Financial Collaterals**	**On-Balance Sheet Netting**	**Eligible Guarantees**	**Exposure after CRM & on-balance sheet netting**
On Balance sheet exposures					
Federal Government and CBN	944,109,476	-	-	-	944,109,476
State & Local Government	52,926,369	1,322	-	-	52,925,047
Supervised Institutions	377,143,400	-	19,228,807	-	357,914,594
Corporate and Other Persons	1,048,345,858	75,209,705	117,256,188	169,742	855,710,223
Regulatory Retail Portfolio	95,432,126	152,799	-	-	95,279,327
Secured by Residential Mortgages	1,941,010	-	-	-	1,941,010
Secured by Commercial Mortgages	58,298,323	-	-	-	58,298,323
Past Due Exposures	11,078,735	-	-	-	11,078,735
High Risk Exposures (Equity Investments)	3,011,648	-	-	-	3,011,648
Other Balance Sheet Exposures	181,082,914	-	-	-	181,082,914
Sub-Total (On-Balance Sheet Exposures)	**2,773,369,859**	**75,363,826**	**136,484,995**	**169,742**	**2,561,351,297**
Off Balance sheet exposures					
Public Sector Entities	75,000	-	-	-	75,000
Supervised Institutions	2,857,604	292,848	-	2,432,805	131,950
Corporate and Other Persons	266,474,674	7,454,686	-	47,076	258,972,913
Regulatory Retail Portfolio	1,379,337	293,942	-	-	1,085,394
Sub-Total (Off Balance Sheet Exposures)	**270,786,615**	**8,041,477**	**-**	**2,479,881**	**10,521,357**
Grand Total (On & Off Balance Sheet Exposures)	**3,044,156,474**	**83,405,302**	**136,484,995**	**2,649,623**	**2,571,872,655**

Table 14: Breakdown of Financial Collaterals as at December 31, 2017

Credit Risk exposures/Counterparty In Thousands of Nigerian Naira	Cash	Equities	Government Debt Securities	Grand Total
On Balance Sheet Exposures				
Supervised Institutions	-	-	-	-
Corporate and Other Persons	42,066,958	23,029,591	10,113,157	75,209,705
State & Local Government	1,322	-	-	1,322
Secured by Residential Mortgages	-	-	-	-
Regulatory Retail Portfolio	83,345	22,664	46,790	152,799
Sub-Total (On-Balance Sheet Exposures)	**42,151,624**	**23,052,255**	**10,159,946**	**75,363,826**
Off Balance Sheet Exposures				
Supervised Institutions	203,298	-	89,550	292,848
Corporate and Other Persons	6,257,157	28,534	1,168,995	7,454,686
Regulatory Retail Portfolio	273,942	-	20,000	293,942
Sub-Total (Off-Balance Sheet Exposures)	**6,734,398**	**28,534**	**1,278,545**	**8,041,477**
Grand Total (On & Off Balance Sheet Exposures)	**48,886,022**	**23,080,789**	**11,438,491**	**83,405,302**

5 Operational Risk

5.1 Overview

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems and from external events including legal risk but exclude reputation & strategic risk. Operational risk is categorized into the following risk categories:

- People risk
- Process risk
- System risk
- External event risk

Risk Appetite and Acceptance Criteria

The Bank's operational risk appetite as set for key categories of operational risk event is as defined below:

Table 15 – Operational Risk Appetite

S/N	Operational Risk Parameter	Threshold
1	Fraud & Forgeries	1% of Gross Income
2	Legal Settlements	1% of Gross Income
3	Damage to Physical Assets -	All other OpsRisk Exposure ≤ 3% of Gross Income
4	Business Disruption Issues -	
5	Occupational Health & Safety (OHS) Issues	
6	Fines & Penalties -	
	Total Operational Risk Loss	5% of Gross Income

5.2 Operational Risk Capital

The Bank adopts the Standardized Approach for estimating capital charge for internal capital assessment. This involves mapping the business activities into the eight (8) Basel defined business lines as applicable.

Under this approach, the capital requirement for operational risk is an average of gross income for each business line over the last three years and weighted on the basis of the beta percentages applicable to them.

The Bank's operations involve five out of the eight Basel defined business lines as depicted in the table below:

Table 16 – Basel Business lines and Capital Charge

BASEL BUSINESS LINES		IN-HOUSE BUSINESS LINES	CAPITAL CHARGE (%)
Corporate Finance	Corporate Finance	Corporate Finance	18
	Government Finance	Public Sector	
	Merchant Banking	Energy, Telecoms, Corporate Bank	
	Advisory Services		
Trading and Sales	Sales	Treasury	18
	Market Making		
	Proprietary Positions		
	Treasury		
Payments and Settlement		Settlement	18
Retail Banking	Retail Banking	Retail Banking / SME / E-Business	12
	Private Banking		
	Card Services		
Commercial Banking	Commercial Banking	Commercial Banking	15

However, the bank uses the Basic Indicator Approach (BIA) for the purpose of determining operational risk regulatory capital requirement. The Capital requirement under this approach is obtained by applying 15% to the average of the last three years positive gross income of the Bank. As at December 2017, the minimum regulatory capital required to cover for unexpected losses arising from operational risk was ₦29.69bn.

The Gross income used in assessing operational risk for both regulatory and internal capital measurement purposes includes net interest income and net non-interest income gross of:

- Any provisions (example unpaid interest); and write-offs made during the year
- Any operating expenses, including fees paid to outsourced service providers; in addition to fees paid for services that are outsourced, fees received by banks that provide outsourcing services shall be included in the definition of gross income

The Gross income computation excludes:

- Realized or unrealized profits/losses from the sale or impairment of securities in the banking book;
- Extraordinary or irregular items;
- Income derived from insurance recoveries.
- Reversal during the year in respect of provisions and write-offs made during the previous year(s);
- Income from legal settlements in favour of the bank;

6 Market Risk

Market risk is defined as the risk of losses in on and off-balance-sheet positions arising from movements in market prices. The risks subject to this requirement are:

- The risks pertaining to interest rate related instruments and equities in the trading book;
- Foreign exchange risk and commodities risk throughout the bank.

The Bank's exposure to market risk comprises interest rate risk (trading & banking book) and foreign exchange risk. The Standardised approach is adopted in determining the capital requirement for market risk exposures.

The table below highlights the Bank's market risk components

Table 17: Market Risk Components

Scope	Composition	Capital Charge (%)	Risk Weight	Comments
A. Interest Rate Risk				
1. Trading Book	**General Risk :** This is the risk of loss in the value of a Bank's trading position held in debt securities **arising from changes in market interest rates**	As defined within the zones based on the maturity bands	12.5	Capitalized
	Specific Risk : This is the risk of loss in the value of a Bank's trading position held in debt securities **arising from factors related to the issuers of the debt instrument**	0%	12.5	Capitalized
2. Banking Book	Earning at Risk (Discounted Earning Impact). To enable management to ascertain the likely impact on earnings & capital, if interest rate changes are not properly managed. In doing this, the gap between the rate sensitive assets and liabilities are multiplied by interest rate change and roll over periods/intervals of 30days and divided by the period covered/horizon of 365 days. The outcome is multiplied by a discount factor.	N/A	N/A	Not Capitalized
B. Foreign Exchange Risk				
Trading/Banking Book	The Bank determines its FX Risk using the short hand method by computing its overall net open position and selecting the higher of the aggregate long or absolute short position and applying the appropriate capital charge of 8%	8%	12.5	Capitalized

**** The Bank's exposure to FGN debt securities is assigned a specific risk capital charge of 0% in line with Basel's specification for government issued debt securities with rating AAA to AA- as assessed by an ECAI (Fitch : AA- National Long term Rating)***

To determine the required capital for these risks, the Bank employs a building block approach by aggregating the individual capital requirement for each of the risks aforementioned.

Interest Rate Risk: This is the risk of loss to the Bank's earnings and capital as a result of adverse movements in market prices and rates. Interest rate risk can arise from mismatch / re-pricing risk, basis risk, prepayment or extension risk and yield curve risk. Adverse movement in interest rates may potentially impact the Bank's reported earnings and capital through its interest income, interest expense, the present and future market value of the Bank's trading books and the present and future value of the Bank's cash flows. To calculate the capital requirement for the interest rate risk on the trading book, the Bank uses the maturity method of Basel II Standardized Approach and the capital required to cover unexpected loss arising from interest rate risk as at December 2017 was ₦ 206.8mn. The assessment of the interest rate risk on the trading book is performed on a monthly basis using the Basel II Standardised approach while internally the Bank conducts daily assessment using the Value at Risk (VaR) and Mark to Market methodology.

The use of Earnings at Risk (EaR) to measure interest rate risk in the banking book helps the Bank determine how much the Bank's margin could change given a change in interest rates. It is a tool that measures short-term interest rate risk by projecting the change in interest income 12-month into the future. This assessment is conducted on a monthly basis.

The tables 18 & 19 below shows the outcome of a sensitivity analysis that was performed to determine the impact on Net interest income if a change of **+/-**100 basis point is applied on the interest rate on interest earning and bearing liabilities. A 100 basis point proportional change in the interest rate was assumed because rates seldom vary beyond 100 basis point. Further information on the breakdown by main currencies is also provided.

Table 18: Interest Rate Sensitivity per main currencies and impact on Pre-tax earnings

In thousands of Nigerian naira	Dec-17					
	Pre-tax					
	NGN	USD	GBP	EUR	OTHERS	TOTAL
Decrease in Rate	**3,696,206**	**(2,790,211)**	**(99,646)**	**241,228**	**11**	**1,047,587**
Asset	(11,038,826)	(8,781,788)	(100,223)	(102)	0	(19,920,939)
Liability	**14,735,032**	**5,991,576**	**577**	**241,330**	**11**	**20,968,526**
	NGN	USD	GBP	EUR	OTHERS	TOTAL
Increase in Rate	**(3,696,206)**	**2,790,211**	**99,646**	**(241,228)**	**(11)**	**(1,047,587)**
Asset	11,038,826	8,781,788	100,223	102	0	19,920,939
Liability	**(14,735,032)**	**(5,991,576)**	**(577)**	**(241,330)**	**(11)**	**(20,968,526)**

Table 19: Interest Rate Sensitivity per main currencies and impact on Post-tax earnings

In thousands of Nigerian naira	Dec-17					
	Post-tax					
	NGN	USD	GBP	EUR	OTHERS	TOTAL
Decrease in Rate	**3,141,776**	**(2,371,680)**	**(84,699)**	**205,044**	**9**	**890,449**
Asset	(9,383,006)	(7,464,522)	(85,189)	(86)	0	(16,932,804)
Liability	12,524,782	5,092,842	490	205,131	9	17,823,253
	NGN	**USD**	**GBP**	**EUR**	**OTHERS**	**TOTAL**
Increase in Rate	**(3,141,776)**	**2,371,680**	**84,699**	**(205,044)**	**(9)**	**(890,449)**
Asset	9,383,006	7,464,522	85,189	86	0	16,932,804
Liability	(12,524,782)	(5,092,842)	(490)	(205,131)	(9)	(17,823,253)

Table 20: Average volume of interest earning assets and interest bearing liabilities per currency as at December 2017

In thousands of Nigerian naira	Dec-17					
	NGN	**USD**	**GBP**	**EUR**	**OTHERS**	**TOTAL**
Average volume of Interest earning Assets	1,103,882,647	878,178,755	10,022,290	10,169	-	1,992,093,862
Average volume of Interest bearing liabilities	1,473,560,894	599,157,624	-	24,133,002	1,051	2,096,852,570

Foreign Exchange Risk: Foreign Exchange risk arises when fluctuations in the exchange rates of the Bank's foreign currencies assets and liabilities impact its earnings and capital. Foreign Exchange risk has been considered as either transactional (occurs when exchange rate changes unfavourably) or translational (balance sheet exposure that results from the consolidation of financial statements of subsidiaries abroad into the ''home currency''. The Bank's Foreign Exchange Risk is measured in two ways;

- Use of the Net Open Foreign Exchange position of the Bank
- Use of Liquidity Gaps in the currency used for business activities by the Bank.

However, for the purpose of calculating capital requirements, the Bank measures its foreign exchange risk using the Standardized Approach. This process involves determining the Bank's net open position in foreign currency calculated according to Short-hand Method and then multiplying the net open position by market risk capital charge factor of 8%. As at December 2017, the minimum capital required to cover unexpected losses arising from the fluctuations in exchange rate was N14.39mn.

In line with CBN regulatory requirement, the Bank submits detailed computation of its Risk Weighted Assets (RWA) for credit, market and operational risks and its Capital Adequacy Ratio to Central Bank of Nigeria (CBN) on a monthly basis.

7 Equity exposures

7.1 Overview

Equity risk refers to risk of losses arising from negative changes in the fair value of the long term equity investment portfolio.

The equity investments in the banking book are largely holdings of investment in the Bank's subsidiaries. Investments in subsidiaries are held at historical cost at parent level but eliminated in the Consolidated Financial Statements. For the purpose of determining regulatory and internal capital, investments in subsidiaries have been deducted from Tier 1 capital and are not included in credit risk weighted assets.

The other category of equity investments are investments in unquoted small and medium enterprises (SMEEIS). These investments were made in compliance with the CBN's directive in 2006 which requires Deposit Money Banks to set aside a specified portion of their Profit after Tax for investment in Small and Medium Enterprises. The impact of the unquoted equity risk in the banking book is deemed immaterial as it constitutes only 0.1 per cent of the balance sheet. Unquoted equity securities are designated as Available for sale instruments and are measured at fair value in line with IAS 39 using the Discounted Cash flow (DCF) technique.

7.2 Valuation Methodology and Assumptions

The fair value of the other unquoted equity securities were derived using the Discounted Cash Flow technique of the income approach. The steps involved in estimating the fair value of the Bank's investment in each of the investees (i.e. unquoted equity securities) are as follows:

Step 1: A five-year forecast of the Free Cash Flow to the Firm (FCFF) for each of the equity investments was made (see (a) below for the definition, explanation and derivation of FCFF).
Step 2: The yearly FCFF forecasts were discounted to present value using the company's WACC. (See (b) below for the definition, explanation and derivation of WACC).
Step 3: The terminal value at year five was estimated by dividing the compounded year five FCFF by the capitalization rate (please see (c) below)
Step 4: The terminal value was discounted to present value using the company's WACC.
Step 5: The firm value was obtained by adding the present value of the five-year FCFF obtained in step (2) above to the present value of terminal value obtained in step (4) above.
Step 6: The equity value of the firm was obtained by deducting the value of the debt of the company from the firm value obtained in step (5) above (i.e. Firm value minus market value of debt = Equity value)
Step 7: The equity value per share was obtained by dividing the Equity value obtained in step (6) above by the number of shares outstanding in the company.

Step 8: The fair value of the Bank's investment in each of the relevant unquoted equity securities was derived by multiplying the number of the Banks' shares in the investee by the value per share obtained in step (7) above.

a. Free Cash flow to the Firm (FCFF):

A measure of financial performance that expresses the net amount of cash that is generated for the firm, consisting of expenses, taxes and changes in net working capital and investments. Free cash flow to the firm is the cash available to all investors, both equity and debt holders.

$$\mathbf{FCFF} = \text{NI} + \text{NCC} + [\text{Int} * \ (1 - \text{tax rate})] - \text{Changes in FCI} - \text{Changes in WCI}$$

Where:
NI = Net Income
NCC = Non-Cash Charges
Int. = Interest
T= tax rate
FCI = Fixed Capital Investment
WCI = Working Capital Investment

b. Weighted average Cost of Capital (WACC):

This is the average cost of both equity and debt capital used in financing a business.

$$WACC = \frac{D}{D+E}(K_d)(1-T) + \frac{E}{D+E}(K_e)$$

WACC= {(D/D+E) x Kd(1-T)} + {(E/D+E) x Ke }
Where:
D = Value of Debt
E = Equity value
Ke = Cost of equity
Kd = Cost of debt
T = Tax rate

c. *Capitalization Rate= WACC – g*

Terminal value = ($FCFF_5$ *(1+g))/ (WACC – g)
Where:
FCFF = $Year_5$ FCFF
g = Growth rate
WACC = *Weighted average Cost of Capital*

Valuation Assumptions – Discounted Cash flow

1. Risk free rate (R_f) = 14.12% yield on 10-year Federal Government of Nigeria Bond
2. Beta = 1 or Less than 1.

3. Market premium = 6% based on trend analysis and research of market premiums across the globe by Aswath Damodaran.
4. Growth rate used is growth rate in earnings between the latest year and prior period.

It is important to note that some unquoted equities were carried at cost less impairment as there are no audited internal data (financial statements) that can be used for the purpose of fair valuation.

The tables below provides a breakdown of equity exposures that have been included in credit risk weighted assets and fair value amount that have been included in Tier 2 capital:

Table 21: Exposure Amount of Equity Securities

In thousands of Nigerian Naira	Dec-17		
Equity Exposures	**Gross Exposure**	**Specific Impairment**	**Net Exposure**
Unquoted Equity securities at fair value	3,011,648	-	3,011,648
Unquoted equity securities at cost	4,151,658	(4,151,658)	-
Total	**7,163,306**	**(4,151,658)**	**3,011,648**

Table 22: Unquoted Equities: Unrealized Gains/ Losses recognized in Other Comprehensive Income

In thousands of Nigerian Naira	Dec-17
Historical cost	(787,879)
Fair Value	3,011,648
Unrealized Fair Value Gain recognized in Equity (OCI)	**2,223,769**

***Forms part of Other Comprehensive Income included in Tier 2 Capital**