



**GUARANTY TRUST BANK PLC**  
**PILLAR III DISCLOSURES**  
**JUNE 2016**

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# 1. Executive Summary

## 1.1 Background

The Basel Committee on Banking and Supervision published a set of capital standards and banking regulations in June 2004 that became known as Basel II. These standards were subsequently updated with implementation beginning in 2007. The Basel II framework stipulates a minimum level of capital that banks must maintain to ensure that they can meet their obligations, cover unexpected losses; and can, very importantly, promote public confidence.

The Central Bank of Nigeria (CBN) in 2013 issued a framework on Regulatory Capital Measurement and Management for the Nigerian Banking System for the implementation of Basel II/III in Nigeria. The Basel II standard is based on three “pillars”: Minimum Capital Requirements; Supervisory Review and Market Discipline.

The Pillar 1 Minimum Capital Requirements details various approaches to measure and quantify capital required for the three major risk components that a bank faces: credit risk, market risk and operational risk. The general requirement for internationally active banks is that banks hold a total capital equal to 8% of their risk-weighted assets (RWA). In Nigeria, banks with international banking licence are required to hold a minimum of 15% of their total RWAs as capital while banks with regional and national banking licence require 10%.

The second Pillar, Supervisory Review is concerned with the quantitative and qualitative measures of the ways risks are managed within a bank. Supervisors/regulators are to ensure that Banks have processes in place for maintaining their capital as well as encourage banks to adopt better risk management techniques and develop a continuous process for evaluating these techniques. Furthermore, banks are also required to assess Pillar 2 risks, that is, other risks not covered in Pillar 1 and discuss any deficiencies arising with Supervisors. Banks are also required to hold additional internal capital buffer above the regulatory minimum to allow for fluctuations in capital requirements.

Market discipline is the third Pillar and it requires Banks to disclose information on the risks they take, how they allocate capital and their risk quantification and management approaches. The objective of Market Discipline disclosures is to promote transparency by ensuring that current and potential investors have information on the risk management decisions made by banks, thus pressurising banks to make the right decisions.

Effective October 1 2014, banks in Nigeria were required to commence monthly Capital Adequacy reporting, carry out an Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis and comply with the Basel II Pillar 3 disclosure requirements on a bi-annual basis.

However, in the 2015 financial year, CBN revised the Capital Adequacy Ratio (CAR) reporting template and existing guidance notes on Regulatory capital, Credit risk, Market risk, Operational risk and Pillar 3 disclosure requirement for Basel II implementation in the Industry.

By revising the guideline, CBN tends towards strict compliance with the recommended approach for credit, market and operational risks measurements thereby introducing more stringent measures for calculating Risk weighted assets for the Pillar 1 risks ensuring that banks are adequately capitalised and poised to withstand any threat to their solvency.

## 1.2 Aim of the disclosure report

This report shall provide an overview of the risk profile and risk management practices of Guaranty Trust Bank Plc hereafter referred to as the “*the Bank*” or “*GTBank*”. This disclosure fulfils the requirements set out in the Guidance Notes on Pillar III Disclosures as set forth by the Central Bank of Nigeria. In accordance with section 2.4 of the Guidance Notes on materiality, proprietary and confidential information, and the representations in this report are based on materiality as defined in the CBN Guidance Notes on Pillar III disclosures

## 1.3 Frequency and means of disclosure

The disclosure frequency is as assessed under section 2.5 of the Pillar III Guidance Notes which requires Domestic Systemically Important Banks (DSIBs) to publish pillar III disclosures on a bi-annual basis and is made available in accordance with the same section through the Bank’s website at;

<http://www.gtbank.com/investor-relations>

## 1.4 Scope of Application and Basis of Consolidation

Guaranty Trust Bank plc is a financial institution incorporated in Nigeria and is licensed and regulated by the Central Bank of Nigeria with the purpose of receiving deposits, extending credit and provision of basic investment services via its various products and services to various markets tailoring its products and services to suit the needs of the various market segments;

### 1. Corporate Banking (Institutional Banking)

This segment covers corporations with turnover in excess of ₦5bn. The products offered include current accounts, deposits, overdrafts, loans and other credit facilities, foreign currency and derivative products offered to large corporate customers. The Bank’s portfolio in this segment is dominated by the following sectors: manufacturing, telecommunications, construction and energy (upstream, downstream and midstream).

## 2. Commercial Banking

This segment covers companies with a turnover between ₦500mn to ₦5bn. The products offered to this segment include current accounts, deposits, overdraft, loans and other credit facilities and foreign currency services. After the Corporate Banking segment, commercial banking represents the second largest segment in terms of Loans & Advances.

## 3. Retail and SME Banking

This segment covers individuals, High Net worth Individuals (HNI) and Micro, Small & Medium scale Enterprises. The products offered to this segment include: individuals and medium-size enterprises current accounts, savings deposits, credit and debit cards, consumer and SME loans and mortgages.

## 4. Public sector

This covers banking services to Local governments, State Governments, Ministries, Departments and Agencies and product offerings include: current accounts, deposits, overdrafts, loans and other credit facilities to etc.

## 5. Correspondent Banking

This includes trade finance facilities, predominantly the confirmation, negotiation and advising of letters of credit, the provision of foreign exchange and funds transfer services to Nigeria, West African banks and off-shore banks.

The Bank is one of the biggest (by total asset size) and most profitable banks in Nigeria with various subsidiaries in sub-Saharan Africa (Cote-d'Ivoire, Gambia, Ghana, Kenya, Liberia, Rwanda, Sierra Leone and Uganda) and the United Kingdom also licensed and regulated by their different host country regulators to carrying out the business of banking. The Bank's subsidiary - GTB Finance B.V. Netherlands is a special purpose entity used to raise funds from the international financial market. A brief description of each subsidiary is provided below;

### Subsidiaries information

**Guaranty Trust Bank (Gambia) Limited** is a commercial bank established in The Gambia in 2002. As of June 30, 2016, the Bank held 77.81% of GTB Gambia, and the remaining shares held by Gambian nationals. As of June 30, 2016, GTB Gambia had seventeen (17) branches. The banking operations in the country comprise of a wide range of financial services and products for individuals, corporations, international institutions and public sector organisations.



**Guaranty Trust Bank (Sierra Leone) Limited** is a commercial bank established in Sierra Leone in 2001 as the First Merchant Bank of Sierra Leone. In 2002, following the Bank's acquisition of a majority interest in the bank, it changed its name to Guaranty Trust Bank (Sierra Leone) Limited. As of June 30, 2016, the Bank held 84.24% of GTB Sierra Leone, and the remaining shares held by Sierra Leoneans. As of June 30, 2016, GTB Sierra Leone had fourteen (14) branches and provides a wide range of financial services and products for corporate and retail customers.

**Guaranty Trust Bank (Ghana) Limited** is a commercial bank established in Ghana in 2004 and commenced operations in 2006. As of June 2016, the Bank owned 97.94% of GTB Ghana, and the other shares held by FMO and a Ghanaian national. As of June 30, 2016, GTB Ghana operated thirty four (34) branches in Ghana. The Group's banking operations in Ghana consist of general financial services to corporate and retail customers.

**Guaranty Trust Bank (Liberia) Limited** is a commercial bank established in Liberia in 2007. It commenced operations in March 2009. As of June 30, 2016, the Bank owned 99.43% of GTB Liberia and the remaining shares owned by Liberian individuals. GTB Liberia had eight (8) branches as of June 30, 2016. The services provided in Liberia consist of general financial services to corporate, public sector and retail services.

**Guaranty Trust Bank (Cote D'Ivoire) S.A.** is the Group's first subsidiary in francophone West Africa. The bank was licensed by the Central Bank of West African States (BCEAO) to offer banking services to the Ivorian public and operations commenced in April 2012. As of June 30, 2016, the Bank owned 100% of GTB Cote d'Ivoire. The subsidiary has four (4) branches and its operations consist of general financial services to corporate, retail and public sector customers.

**Guaranty Trust Bank (Kenya) Limited** was established in 2013 as a result of the acquisition of Fina Bank Limited (a commercial bank incorporated in Kenya which operates two subsidiaries in Rwanda and Uganda), which was subsequently rebranded. As of June 30, 2016, the Bank owned 70% of GTB Kenya. GTB Kenya had fifteen (15) branches as of June 30, 2016. The services provided in Kenya consist of general financial services to corporate, public sector and retail services.

**Guaranty Trust Bank (Rwanda) Limited** is a subsidiary of GTBank Kenya. The company equity is 96% held by GTBank Kenya and the balance by the Government of Rwanda. The Subsidiary represents an indirect subsidiary of GTBank Plc with 67% ownership. GTB Rwanda had fourteen (14) branches as of June 30, 2016, providing general financial services to corporate, public sector and retail services.

**Guaranty Trust Bank (Uganda) Limited** is a wholly owned subsidiary of GTBank Kenya. The Subsidiary represents an indirect subsidiary of GTBank Plc with 70% ownership. GTB Uganda had

nine (9) branches as of June 30, 2016, providing general financial services to corporate, public sector and retail services.

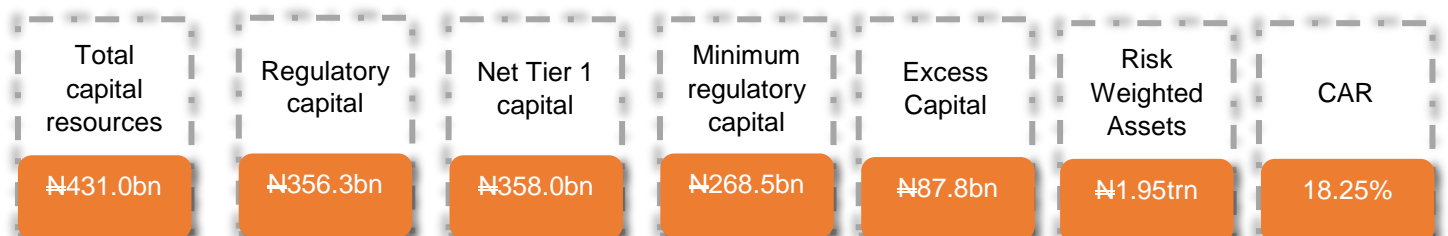
**Guaranty Trust Bank (UK) Limited** was established in 2006 to extend the Group’s business into the United Kingdom, with its Head Office in London to service the Group’s West African clientele (and their businesses) that frequently travel between West Africa and London. As of June 30, 2016, the Bank owned 100% of GTB UK. GTB UK commenced operations as a commercial bank in 2008 providing trade finance, correspondent banking, corporate banking and personal banking services, with principal focus on the provision of mortgage products and trade finance to West African counterparties who have business connections in the UK.

**Basis of consolidation and disclosures**

GTBank plc produces consolidated and separate financial statements for accounting purposes under International Financial Reporting Standards (IFRS) but produce individual regulatory returns for submission to the CBN relating to capital adequacy and balance sheet information. The disclosures in this document are therefore reported at the individual, parent entity level and not at a consolidated level as a result, investments in the subsidiaries discussed above are deducted from regulatory capital for capital adequacy purposes. In line with the frequency of disclosure, these disclosures are updated semi-annually after the conclusion of the half and full-year audits of the Bank and will be assessed for more frequent disclosures should market and business conditions so warrant. Unless otherwise stated, all tables are as at June 30, 2016, with prior year comparatives as at December 31, 2015.

**1.5 Summary of key metrics as at June 30, 2016**

Figure 1 below illustrates GTBank’s key capital metrics. The Bank’s capital resources is composed mainly of tier 1 capital and the Bank continues to maintain its capital ratio above the regulatory minimum of 15% for banks with international banking license.



## 2. Risk Management and Objectives

### 2.1 Introduction and 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 and Risk Appetite.

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.

The Bank recognises that there are risk elements associated with the pursuit of growth opportunities to achieve its strategic objectives. While its 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 capital, technology and people.

### **2.3 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.

### **2.4 Risk Management Framework**

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 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 its various committees; Board Risk Committee, Board Credit Committee, and Board Audit 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.

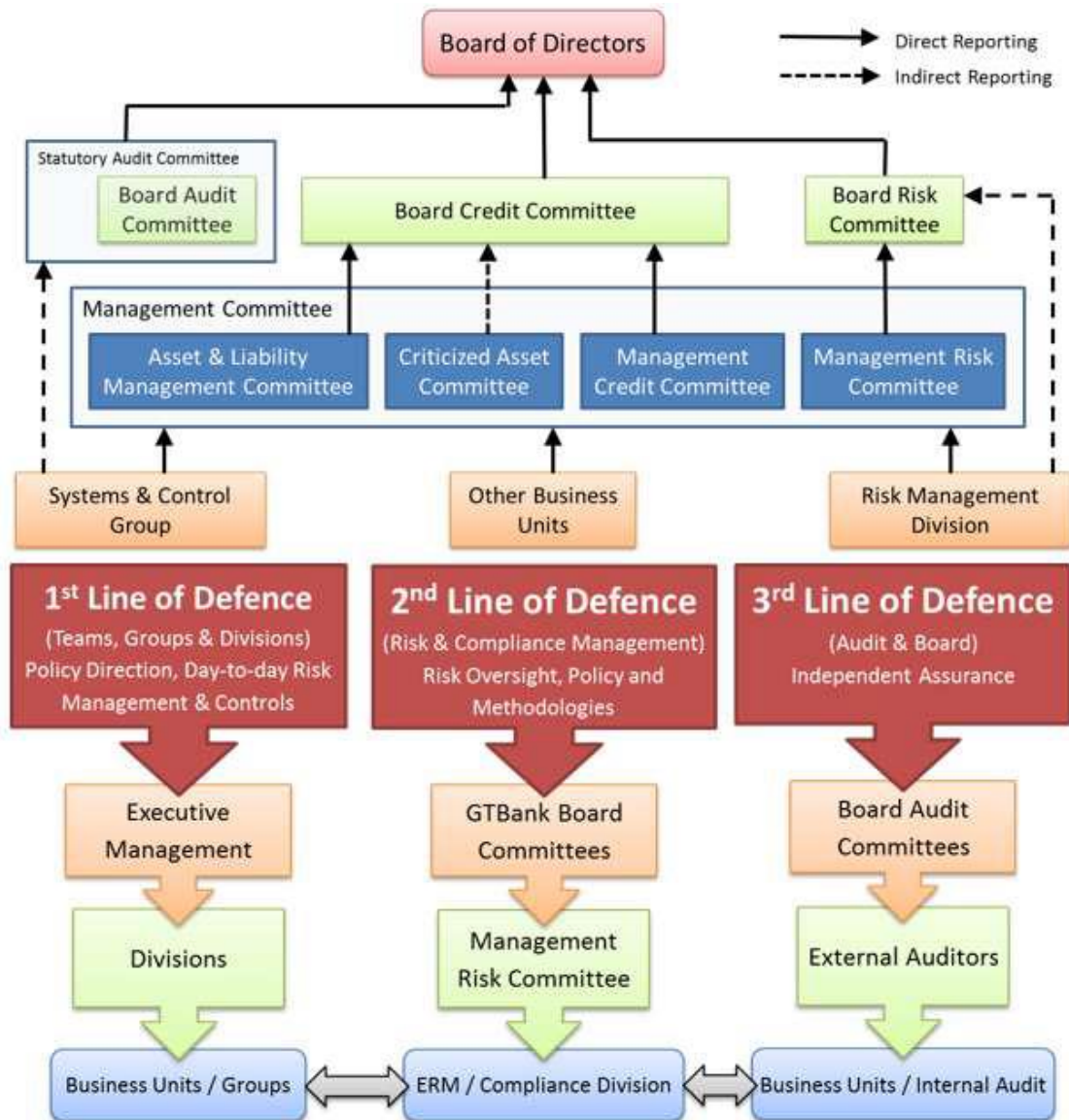
The Board Committees are assisted by the various Management Committees in identifying and assessing risks arising from day to day activities of the Bank. These committees include:

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

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

The figure below shows "three lines of defense governance model" that the Bank employs in its risk management framework to implement and control decisions on strategy, risk and capital that are taken by the Board:

Figure 2: Risk Management Organisational structure



The three lines of defense model depicts the three groups involved in effective risk management. These groups are categorized based on the following functions:

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

**FIRST LINE OF DEFENSE:** 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 DEFENSE:** 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 DEFENSE:** 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.

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.

The Bank's **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 Bank, in carrying out these functions. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The 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.

### **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.

**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.

**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.

### **Information Technology (IT) Steering Committee**

The Committee is responsible for assisting Management with the implementation of IT strategy approved by the Board. The roles and responsibilities of the Committee include:

#### **1. Planning, Budgeting and Monitoring**

- Review and approve the Bank's IT plan and budget (short and long term).
- Review IT performance against plans and budgets, and recommend changes, as required.
- Review, prioritize and approve IT investment initiatives.
- Establish a balance in overall IT investment portfolio in terms of risk, return and strategy.

#### **2. Ensuring Operational Excellence**

- Provide recommendations to Management on strategies for new technology and systems.
- Review and approve changes to IT structure, key accountabilities, and practices.
- Ensure project priorities and success measures are clearly defined, and effectively monitored.



- Conduct a review of exceptions and projects on selected basis.
- Perform service catalogue reviews for continued strategic relevance.
- Review and approve current and future technology architecture for the Bank.
- Monitor service levels, improvements and IT service delivery.
- Assess and improve the Bank's overall IT competitiveness.

### 3. IT Risk Assurance

- Review and approve governance, risk and control framework.
- Monitor compliance with defined standards and agreed performance metrics.
- Ensure that vulnerability assessments of new technology are performed.
- Reviewing and ensuring the effectiveness of the IT Risk Management and Security plan.
- Ensure the effectiveness of disaster recovery plans and review reports on periodic disaster recovery testing.
- Review key IT risk and security issues relevant to the Bank's IT processes / systems.
- Ensure that the Bank complies with relevant laws and regulations.

#### Information Technology (IT) Risk Management Committee

The Information Technology 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.

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.

**Criticised Assets 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.

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 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 the following:

- (i) The 5 main inherent risk groups – Credit, Market, Operational, Liquidity and Technology.
- (ii) Additional risk areas such as Reputation and Strategy risks

In compliance with the Central Bank of Nigeria's 'Risk-based Supervision' guidelines, best global practices, and to align with Basel II Capital requirements, the Bank incorporated a strategic framework for efficient measurement and management of the Bank's risks and capital. The Bank has implemented Basel II recommended capital measurement approaches for the estimate of the bank's economic capital required to cope with unexpected losses using Oracle Financial Services Analytical Applications. 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.

## 2.5 Identification and Measurement of Key Risks

GTBank conducts the Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis and forms part of management and decision-making processes such as the Bank's risk appetite, strategy, capital and risk management frameworks, and stress testing. The ICAAP is used to assess the key risks to which the Bank is exposed; how these risks are measured, managed, monitored and mitigated; and how much capital the firm should hold to reflect these risks now, in the future and under stressed conditions. Further information is provided on the ICAAP document on page 26.

## 2.6 Credit Risk Management

Lending and other financial activities form the core business of the Bank. The Bank recognises this and has laid great emphasis on effective management of its exposure to credit risk. The Bank defines credit risk as the risk of counterparty's failure to meet the terms of any lending contracts with the

Bank or otherwise 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, are:

- Maintenance of an efficient loan portfolio
- Institutionalization of sound credit culture in the Bank
- Adoption of international best practices in credit risk management
- Development of Credit Risk Management professionals.

Each business unit is required to implement 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. To comply with the CBN requirements on implementation of Basel II, especially with the computation of capital adequacy ratio and market disclosure, the Bank invested in two major software namely: Lead to Loan and OFSAA Basel II solution. These software are customised to suit the internal processes of GTBank and to interact seamlessly with the bank's core banking application. To satisfy the Basel II pillar 2 requirements, the Bank came up with a comprehensive ICAAP (Internal Capital Adequacy Assessment Process) document which detailed our approach and procedures on how the bank measures its various risks and capital required. The document also spells out the capital planning process of the bank and it is updated annually.

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 guarantee data integrity towards achieving the CBN required sets of disclosures and the seamless application of Internal Rating Based – Advanced in the measurement and management of capital.

OFSAA Basel II solution is an Oracle Financial Services Analytical Application which is capable of handling 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 as well as risk weighted assets aggregation for all risk areas considered. Aside from achieving Pillar 1 with OFSAA, the software is configured to process data from the Bank's core application and generate different required management reports for decision.

For capital adequacy computation under Basel II Pillar I, the Bank has implemented the Standardized Approach for the three risk areas – credit, market & operational risk.

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

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

- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

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

## 2.7 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 of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

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

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

### 2.7.1 Exposure to market risks – trading portfolios

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is the open position limits using the Earning-at-Risk approach. Specific limits (regulatory and in-house) have been set across the various trading portfolios to prevent undue exposure and the Market Risk Management Group ensures that these limits and triggers are adhered to by the bank.

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

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

The Bank makes use of limit monitoring, earnings-at-risk, 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.

During the period, the key potential risks the bank was exposed to from these instruments were foreign exchange risk and interest rate risk and price risk. However, all potential risk exposures in the course of the period were successfully mitigated as mentioned above.

## 2.8 Operational Risk Management

Guaranty Trust Bank defines Operational Risk Management (OpRisk) as “the direct or indirect risk of loss resulting from inadequate and/or failed internal processes, people, and systems or from external events”. In GTBank, this involves the review and monitoring of 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.

The Bank considers Reputational Risk to be 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 is 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 forgeries 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 in Fraud Risk Management is to ensure that

processes for preventing, deterring, detecting fraud and forgeries 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 Plan (BCP). This plan assures timely resumption of its business with minimal financial losses or reputational damage and continuity of service to its customers, vendors and regulators. 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. GTBank has been certified ISO 22301 BC 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 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.

### 2.8.1 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. For reduction option, 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:** Requires discontinuance of the business activity that gives rise to the risk

## 2.9 Liquidity Risk Management

The Bank's liquidity risk management process is primarily the responsibility of the Market Risk Management Group within the ERM Division. A brief overview of the bank's liquidity management processes during the year includes the following:

- Maintenance of minimum levels of liquid and marketable assets above the regulatory requirement of 30%. The Bank has also set for itself more stringent in-house limits above this regulatory requirement to which it adheres.
- Monitoring of its cash flow and balance sheet trends. The Bank also makes forecasts of anticipated deposits and withdrawals to determine their potential effect on the Bank.
- Regular measurement and monitoring of its liquidity position/ratios in line with regulatory requirements and in-house limits.
- Regular monitoring of non-earning assets.
- Monitoring of deposit concentration.
- Ensure diversification of funding sources.
- Monitoring of level of undrawn commitments.
- Maintaining a contingency funding plan.

### **2.9.1 Funding approach**

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

- Generation of large pool of low cost deposits.
- Maintenance of efficiently diversified sources of funds along product lines, business segments and also regions to avoid concentration risk.

The Bank was able to meet all its financial commitments and obligations without any liquidity risk exposure for the period ended June 2016. 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%.

### **2.9.2 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 Ratios**

	Jun-2016	Dec-2015
At end of year	36.87%	42.21%
Average for the year	37.41%	41.04%
Maximum for the year	38.53%	44.02%
Minimum for the year	36.13%	38.23%
Regulatory requirement	30.00%	30.00%

## 2.10 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 this 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:

- a) **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.
- b) **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 audits determine 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, 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 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 for 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 the network to facilitate access to network resources on 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 – 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 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 version 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 help 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 Bank complies with the Basel II guidance notes on regulatory capital by the CBN which requires banks to maintain a minimum level of prescribed capital over the pillar 1 requirements while it also holds excess capital to cover additional obligations or the pillar 2 risks which are covered by the Bank's ICAAP. The Bank therefore assesses its capital adequacy internally and for regulatory reporting purposes.

GTBank's regulatory capital resources comprise of the following distinct elements which are further classified under two main categories – Tier 1 and Tier 2 capital;

**Tier 1 capital** is going concern capital and is available for unrestricted and immediate use to cover risks and losses whilst enabling the organisation to continue in business. Tier 1 consists of only permanent shareholders' equity and disclosed reserves and it includes the following;

- 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 capital instruments which are normally of medium to long-term maturity with an original maturity of at least five years. For regulatory purposes, it is a requirement that these instruments be amortised on a straight-line basis in their final five years of maturity. Also considered part of tier 2 capital is other comprehensive income (OCI) other than fixed asset revaluation reserves created by the adoption of IFRS which are subjected to CBN's limitations. However, Tier 2 items in the Bank only consists of OCI, particularly the fair value reserves used to account for the revaluation changes in Available-for-sale financial instruments.

Deductions made from capital include;

- Intangible assets

- 100% investments in unconsolidated subsidiaries
- Deferred tax assets

The Table 2 shows the regulatory capital resources of GTBank as at 30 June 2016 and 31 December 2015.

**Table 2: Capital resources**

<i>In thousands of Nigerian Naira</i>	<b>Jun-2016</b>	<b>Dec-2015</b>
Tier 1 capital		
Share capital	14,715,590	14,715,590
Share premium	123,471,114	123,471,114
Retained profits	60,231,078	46,048,031
Statutory Reserve	177,752,657	161,134,636
SMEEIS Reserve	4,232,478	4,232,478
Other reserves	28,279,386	24,457,544
<b>Tier 1 Sub-Total</b>	<b>408,682,303</b>	<b>374,059,393</b>
Less Regulatory deductions :		
Other intangible assets	(3,450,473)	(2,492,959)
Deferred Tax Assets	(3,299,014)	-
100% of investments in unconsolidated Banking and financial subsidiary/associate companies.	(43,968,474)	(41,905,781)
<b>Net Total Tier 1 Capital (A)</b>	<b>357,964,342</b>	<b>329,660,653</b>
Tier 2 capital		
Fair Value Reserves	(1,662,029)	3,765,486
<b>Net Total Tier 2 Capital (B)</b>	<b>(1,662,029)</b>	<b>3,765,486</b>
<b>Total Qualifying Capital (C= A+B)</b>	<b>356,302,313</b>	<b>333,426,139</b>

## 3.2 Capital Requirements

### 3.2.1 Minimum capital requirements

The minimum capital requirement is the amount of Pillar 1 capital that the regulator requires GTBank to hold at all times. Pillar 1 deals with maintenance of minimum regulatory capital and specifies approaches for the quantification of the three traditional risks that might crystallize on a bank: Credit risk, Operational risk and Market risk. Other risks are not considered fully quantifiable at this stage. Banking regulators define capital requirements for banks and financial services holding companies expressed in the form of a Capital to Risk (Weighted) Assets Ratio (CRAR) or as commonly known Capital Adequacy Ratio (CAR). The current minimum required level for this ratio is 10% or 15% respectively for Nigerian banks or banking groups with regional/national license and international banking license.

Furtherance to this, CBN has urged all banks and banking groups in Nigeria to adopt the Standardized Approach (SA) in determining Credit Risk and Market Risk and Basic Indicator



Approach (BIA) for determining Operational Risk. To this end, the CAR for the bank as at June 30, 2016 was 18.25%.

A summary of the composition of regulatory capital and risk weighted assets as at June 30, 2016 is shown in Table 3 below.

**Table 3: Summary of Risk Assessments and Capital Adequacy ratio.**

<i>In thousands of Nigerian Naira</i>	Jun-2016	Dec-2015
	CAR	CAR
Aggregate Risk-Weighted Assets (RWA)	1,952,805,989	1,835,072,113
Risk Weighted Amount for Credit Risk	1,604,335,002	1,505,103,910
Risk Weighted Amount for Operational Risk	347,267,040	325,137,398
Risk Weighted Amount for Market Risk	1,203,946	4,830,805
Minimum Capital required	268,527,929	252,163,043
Tier 1 Capital	357,964,342	329,660,653
Tier 2 Capital	(1,662,029)	3,765,486
<b>Total Eligible/Qualifying Capital</b>	<b>356,302,313</b>	<b>333,426,139</b>
<b>Tier 1 Risk-Based Capital Ratio</b>	<b>18.33%</b>	<b>17.96%</b>
<b>Total Risk-Weighted Capital Ratio</b>	<b>18.25%</b>	<b>18.17%</b>

### 3.2.2 Internal Capital Adequacy Assessment Process ICAAP

To assess the adequacy of its capital to support current and expected future activities, GTBank produces regular capital forecasts, taking into account both normal business conditions and stress scenarios. As part of this process, GTBank maintains an ICAAP (Internal Capital Adequacy Assessment Process) which documents GTBank’s risk appetite, regulatory capital requirement and associated policies and procedures. The Bank’s risk assessment, management processes and procedures are well documented in the Bank’s ICAAP report. ICAAP is the process under which the Board of Directors of Guaranty Trust Bank oversees and regularly assesses the following:

- The Bank’s processes, strategies and systems;
- The major sources of risk to the Bank’s ability to meet its obligations as they fall due; and
- The amounts and types of financial and capital resources and whether they are adequate to cover the nature and level of the risks to which the Bank is exposed.

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

- Analysis of the impact of stress testing on Profit and Loss, Balance Sheet and regulatory capital.

The ICAAP is regularly reviewed at the highest levels of Guaranty Trust Bank's organisation structure. As such the Bank's risk management processes and ICAAP assumptions are regularly being challenged. Maintaining and continually reviewing the Bank's ICAAP helps to ensure that the Bank continues to retain its focus on the risks it faces.

A key feature of the ICAAP is to identify those risks which are not captured in the Pillar 1 capital adequacy calculation and to assess an appropriate additional capital requirement to be included as Pillar 2. The Bank's approach to calculating its own internal capital requirements has been to take the minimum capital required for capitalised risks – credit, market and operational under Pillar I as the starting point, assess whether this is sufficient to cover the risks and then identify other risks and assess the prudent levels of capital to meet them.

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 model 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 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 loan exposures into appropriate Basel II classes – corporate exposures, retail, exposures to public sector entities, exposures secured by residential mortgages and mortgages on commercial properties and equity.

The CBN framework provides two approaches for the calculation of minimum regulatory capital requirements for credit risk - the Standardised Approach; and Internal Ratings Based Approach (“IRB Approach”) of which banks were directed to adopt the standardised approach. To this end, as at 30 June 2016, GTBank used the Standardised Approach only for assessing its capital requirements for credit risk for regulatory and internal capital assessment purposes. Because the standardized approach is hinged on assignment of diversified risk weights to the asset classes, based on the ratings provided by the External Rating Agencies; which are not available in the local operating environment, the regulator; CBN thus stipulates that all unrated exposures irrespective of the asset classes shall be assigned a risk weight of 100% with the exception of exposures to the Federal Government of Nigeria, the Central Bank of Nigeria and some Multilateral development banks which a risk weight of 0% is to be applied while a risk weight of 75% is to be applied to retail exposures and exposures secured by residential mortgages.

### 4.2 Credit risk exposure

The total and average credit risk exposures after accounting offsets and without taking into account the effects of credit risk mitigation as at June 30, 2016 are set out below in Table 4 below. These exposures include both banking book and trading book activity and have been calculated in accordance with the regulatory requirements applicable.

**Table 4: Total and Average credit risk exposures by counterparty**

In thousands of Nigerian Naira	Jun-16		Dec-15	
	Total Exposure	Average exposure	Total Exposure	Average exposure
Credit Risk exposures/Counterparty				
Central Governments and Central Banks	791,561,375	747,238,611	729,525,288	634,193,343
State Government and Local Authorities	61,158,982	61,902,225	52,574,926	50,067,789
Supervised Institutions	174,884,845	150,996,681	126,289,817	151,662,052
Corporate and Other Persons	1,199,011,296	1,074,494,639	1,076,890,470	1,130,397,130
Regulatory Retail Portfolio	85,339,874	87,903,568	73,800,562	75,751,017
Secured by Mortgages on Residential Properties	1,975,143	2,296,382	2,189,958	2,522,978
Exposures Secured by Mortgages on Commercial Real Estates	62,329,841	55,368,593	63,600,918	63,878,776
High Risk Exposures (Unquoted Equity investments)	3,901,551	4,059,343	4,217,135	5,916,396
Unsettled and Failed Transactions	4,885,232	3,235,062	1,584,892	1,057,312
Other Assets	111,282,490	106,919,502	102,556,515	105,807,607
<b>Sub-total</b>	<b>2,496,330,629</b>	<b>2,294,414,606</b>	<b>2,233,230,481</b>	<b>2,221,254,400</b>
Off Balance sheet exposures				
Public Sector Entities	170,115	170,115	170,115	1,020,115
Supervised Institutions (DMBs, Discount Houses, etc.)	300,283	1,178,362	2,056,441	3,318,861
Corporates	486,599,672	505,358,837	524,118,003	572,932,213
Retail Portfolios and Other Contingents	1,773,116	1,406,088	1,039,060	938,757
<b>Sub-total</b>	<b>488,843,186</b>	<b>508,113,403</b>	<b>527,383,620</b>	<b>578,209,947</b>
<b>Total</b>	<b>2,985,173,815</b>	<b>2,802,528,009</b>	<b>2,760,614,100</b>	<b>2,799,464,346</b>

### 4.3 Geographical Analysis of Exposures

The geographical distribution as required under Basel II is reported by analysing where the counterparty is based and further analysed to show the breakdown by exposure. All the Bank's exposure with the exception of placements with foreign banks and subsidiaries as well as balances with foreign banks are within Nigeria.

**Table 5a: Geographical analysis of exposures as at June 30, 2016.**

In thousands of Nigerian Naira	Nigeria	Rest of Africa	Outside Africa	Total
Credit Risk exposures/Counterparty				
Central Governments and Central Banks	791,561,375	-	-	791,561,375
State Government and Local Authorities	61,158,982	-	-	61,158,982
Supervised Institutions	7,700,168	4,911,363	162,273,314	174,884,845
Corporate and Other Persons	1,199,011,296	-	-	1,199,011,296
Regulatory Retail Portfolio	85,339,874	-	-	85,339,874
Secured by Mortgages on Residential Properties	1,975,143	-	-	1,975,143
Exposures Secured by Mortgages on Commercial Real Estates	62,329,841	-	-	62,329,841
High Risk Exposures (Unquoted Equity investments)	3,901,551	-	-	3,901,551
Unsettled and Failed Transactions	4,885,232	-	-	4,885,232
Other Assets	111,282,490	-	-	111,282,490
<b>Sub-total</b>	<b>2,329,145,952</b>	<b>4,911,363</b>	<b>162,273,314</b>	<b>2,496,330,629</b>
<b>Off Balance sheet exposures</b>				
Public Sector Entities	170,115	-	-	170,115
Supervised Institutions (DMBs, Discount Houses, etc)	300,283	-	-	300,283
Corporates	486,599,672	-	-	486,599,672
Retail Portfolios	1,773,116	-	-	1,773,116
<b>Sub-total</b>	<b>488,843,186</b>	<b>-</b>	<b>-</b>	<b>488,843,186</b>
<b>Grand total</b>	<b>2,817,989,139</b>	<b>4,911,363</b>	<b>162,273,314</b>	<b>2,985,173,815</b>

**Table 5b: Geographical analysis of exposures as at December 31, 2015.**

In thousands of Nigerian Naira	Nigeria	Rest of Africa	Outside Africa	Total
<b>Credit Risk exposures/Counterparty</b>				
Central Governments and Central Banks	729,525,288	-	-	729,525,288
State Government and Local Authorities	52,574,926	-	-	52,574,926
Supervised Institutions	9,259,186	3,593,270	113,437,361	126,289,817
Corporate and Other Persons	1,076,890,470	-	-	1,076,890,470
Regulatory Retail Portfolio	73,800,562	-	-	73,800,562
Secured by Mortgages on Residential Properties	2,189,958	-	-	2,189,958
Exposures Secured by Mortgages on Commercial Real Estates	63,600,918	-	-	63,600,918
High Risk Exposures (Unquoted Equity investments)	4,217,135	-	-	4,217,135
Unsettled and Failed Transactions	1,584,892	-	-	1,584,892
Other Assets	102,556,515	-	-	102,556,515
<b>Sub-total</b>	<b>2,116,199,850</b>	<b>3,593,270</b>	<b>113,437,361</b>	<b>2,233,230,481</b>
<b>Off Balance sheet exposures</b>				
Public Sector Entities	170,115	-	-	170,115
Supervised Institutions (DMBs, Discount Houses, etc.)	2,056,441	-	-	2,056,441
Corporates	524,118,003	-	-	524,118,003
Retail Portfolios and Other Contingents	1,039,060	-	-	1,039,060
Sub-total	527,383,620	-	-	527,383,620
<b>Total</b>	<b>2,643,583,469</b>	<b>3,593,270</b>	<b>113,437,361</b>	<b>2,760,614,100</b>

#### 4.4 Industry Analysis of Exposures

Table 6 shows the balances by industry classification and by exposure class as at June 30, 2016 and as at December 31, 2015

**Table 6a: Industry Analysis of Exposures (On- balance sheet) as at June 30, 2016**

<i>Credit Exposures of On-Balance sheet items</i>												
<b>Parent</b>												
<b>Jun-2016</b>												
<i>In thousands of Nigerian naira</i>												
<i>Classification</i>	<i>Agriculture</i>	<i>Capital market &amp; Financial institution</i>	<i>Construction/ Real Estate</i>	<i>Education</i>	<i>General Commerce</i>	<i>Government</i>	<i>Manufacturing</i>	<i>Mining, Oil &amp; Gas</i>	<i>Info.Telecoms &amp; Transport.2</i>	<i>Individual</i>	<i>Others 1</i>	<i>Total</i>
<b>Cash and cash equivalents</b>												
Unrestricted balances with central banks	-	-	-	-	-	48,479,926	-	-	-	-	-	48,479,926
Balances held with other banks	-	126,419,235	-	-	-	-	-	-	-	-	-	126,419,235
Money market placements	-	65,175,804	-	-	-	-	-	-	-	-	-	65,175,804
Loans and advances to banks	-	29,837	-	-	-	-	-	-	-	-	-	29,837
<b>Loans and advances to customers<sup>3</sup>:</b>												
Loans to individuals	-	-	-	-	-	-	-	-	-	97,381,016	-	97,381,016
Loans to non-individuals	20,004,476	39,508,078	91,382,286	8,009,619	78,982,142	57,953,364	241,239,172	513,748,863	153,251,557	-	105,115,859	1,309,195,416
<b>Financial assets held for trading</b>												
Debt securities	-	-	-	-	-	7,247,621	-	-	-	-	-	7,247,621
Derivative financial instruments	-	442,181	-	-	-	-	1,068	-	15,455	-	6,425	465,129
<b>Hedging derivatives</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Investment securities:</b>												
Debt securities	-	7,700,168	-	-	-	281,929,327	-	-	-	-	-	289,629,495
<b>Assets pledged as collateral:</b>												
Debt securities	-	-	-	-	-	61,592,845	-	-	-	-	-	61,592,845
Restricted deposits and other assets <sup>4</sup>	-	-	-	-	-	348,768,573	-	-	-	-	23,344,119	372,112,692
	<b>20,004,476</b>	<b>239,275,303</b>	<b>91,382,286</b>	<b>8,009,619</b>	<b>78,982,142</b>	<b>805,971,656</b>	<b>241,240,240</b>	<b>513,748,863</b>	<b>153,267,012</b>	<b>97,381,016</b>	<b>128,466,403</b>	<b>2,377,729,016</b>

**Table 6b: Industry Analysis of Exposures (Off-balance sheet) as at June 30, 2016**

<i>Credit Risk Exposure to off-balance sheet items</i>												
Parent												
Jun-2016												
In thousands of Nigerian naira												
<i>Classification</i>	Agriculture	Capital market & Financial institution	Constructio/ Real estate	Education	General Commerce	Government	Manufacturing	Mining, Oil & Gas	Info.Telecoms & Transport.2	Individual	Others 1	Total
Financial guarantees	-	571,949	293,781,253	200,000	8,738,666	170,115	8,513,720	71,444,400	3,353,859	-	42,104,430	428,878,392
Other contingents	495,378	-	285,479	-	11,645,167	-	25,170,754	22,098,372	-	-	269,644	59,964,794
<b>Total</b>	<b>495,378</b>	<b>571,949</b>	<b>294,066,732</b>	<b>200,000</b>	<b>20,383,833</b>	<b>170,115</b>	<b>33,684,474</b>	<b>93,542,772</b>	<b>3,353,859</b>	<b>0</b>	<b>42,374,074</b>	<b>488,843,186</b>
<i>Classification of Sectorial Credit Concentration on Loans to Customers by Product</i>												
Parent												
Jun-2016												
In thousands of Nigerian naira												
<i>Classification</i>	Agriculture	Capital market & Financial institution	Constructio/ Real estate	Education	General Commerce	Government	Manufacturing	Mining, Oil & Gas	Info.Telecoms & Transport.2	Individual	Others 1	Total
<b>Loans to individuals:</b>												
Overdraft	-	-	-	-	-	-	-	-	-	5,320,631	-	5,320,631
Loans	-	-	-	-	-	-	-	-	-	92,060,385	-	92,060,385
Others	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	<b>97,381,016</b>	-	<b>97,381,016</b>
<b>Loans to non-individuals:</b>												
Overdraft	498,584	7,342,430	10,498,426	606,363	22,046,576	26,473	32,674,523	46,721,881	4,305,275	-	12,624,256	137,344,787
Loans	17,684,118	32,165,648	80,883,860	7,403,256	46,793,126	57,926,891	205,498,304	426,230,091	148,946,282	-	92,467,690	1,115,999,266
Others	1,821,774	-	-	-	10,142,440	-	3,066,345	40,796,891	-	-	23,913	55,851,363
	<b>20,004,476</b>	<b>39,508,078</b>	<b>91,382,286</b>	<b>8,009,619</b>	<b>78,982,142</b>	<b>57,953,364</b>	<b>241,239,172</b>	<b>513,748,863</b>	<b>153,251,557</b>	<b>0</b>	<b>105,115,859</b>	<b>1,309,195,416</b>

<sup>1</sup> Includes Engineering Services, Hospitality, Clubs, Cooperative Societies etc.

<sup>2</sup> Logistics, Maritime and Haulage.



**Table 6c: Industry Analysis of Exposures (On-balance sheet) as at December 31, 2015**

<i>Credit Risk Exposure to on-balance sheet items</i>												
<b>Parent</b>												
<b>Dec-2015</b>												
<i>In thousands of Nigerian naira</i>												
Classification	Agriculture	Capital market & Financial institution	Construction / real estate	Education	General Commerce	Government	Manufacturing	Mining, oil & gas	Info.Telecoms & Transport.2	Individual	Others 1	Total
<b>Cash and cash equivalents</b>												
Unrestricted balances with central banks	-	-	-	-	-	25,453,036	-	-	-	-	-	25,453,036
Balances held with other banks	-	100,404,743	-	-	-	-	-	-	-	-	-	100,404,743
Money market placements	-	20,178,228	-	-	-	-	-	-	-	-	-	20,178,228
Loans and advances to banks	-	638,817	-	-	-	-	-	-	-	-	-	638,817
<b>Loans and advances to customers<sup>3</sup>:</b>												
- Loans to individuals	-	-	-	-	-	-	-	-	-	77,647,274	-	77,647,274
- Loans to non-individuals	48,048,185	32,985,514	109,586,192	5,618,625	75,081,270	49,364,351	225,656,642	418,664,599	130,726,894	-	91,827,897	1,187,560,169
<b>Financial assets held for trading</b>												
Debt securities	-	-	-	-	-	25,075,618	-	-	-	-	-	25,075,618
Hedging derivatives	-	-	-	-	-	-	-	-	-	-	-	-
Investment securities:												
Debt securities	-	5,858,270	-	-	-	320,720,992	-	-	-	-	-	326,579,262
Assets pledged as collateral:												
Debt securities	-	-	-	-	-	61,946,270	-	-	-	-	-	61,946,270
Restricted deposits and other assets <sup>4</sup>	-	7,348,576	-	-	-	273,873,799	-	-	-	-	-	281,222,375
	<b>48,048,185</b>	<b>167,414,148</b>	<b>109,586,192</b>	<b>5,618,625</b>	<b>75,081,270</b>	<b>756,434,066</b>	<b>225,656,642</b>	<b>418,664,599</b>	<b>130,726,894</b>	<b>77,647,274</b>	<b>91,827,897</b>	<b>2,106,705,792</b>

**Table 6d: Industry Analysis of Exposures (Off-balance sheet) as at December 31, 2015**

<b>Credit Risk Exposure to off-balance sheet items</b>												
<b>Parent</b>												
<b>Dec-2015</b>												
<i>In thousands of Nigerian naira</i>												
Classification	Agriculture	Capital market & Financial institution	Construction/ real estate	Education	General Commerce	Government	Manufacturing	"Mining,oil & gas	Info.Telecoms & Transport.2	Individual	Others 1	Total
Financial guarantees	-	2,056,441	290,949,086	200,000	6,559,810	170,115	9,534,874	100,315,461	4,025,004	-	40,312,286	454,123,077
Other contingents	348,736	15,220,737	742,273	-	13,406,595	-	26,071,155	17,300,557	126,289	-	44,201	73,260,543
<b>Total</b>	<b>348,736</b>	<b>17,277,178</b>	<b>291,691,359</b>	<b>200,000</b>	<b>19,966,405</b>	<b>170,115</b>	<b>35,606,029</b>	<b>117,616,018</b>	<b>4,151,293</b>	<b>-</b>	<b>40,356,487</b>	<b>527,383,620</b>
<b>Classification of Sectorial Credit Concentration on Loans to Customers by Product</b>												
<b>Parent</b>												
<b>Dec-2015</b>												
<i>In thousands of Nigerian naira</i>												
Classification	Agriculture	Capital market & Financial institution	Construction/ real estate	Education	General Commerce	Government	Manufacturing	"Mining,oil & gas	Info.Telecoms & Transport.2	Individual	Others 1	Total
<i>Loans to individuals:</i>												
Overdraft	-	-	-	-	-	-	-	-	-	4,858,203	-	4,858,203
Loans	-	-	-	-	-	-	-	-	-	72,789,071	-	72,789,071
Others	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	77,647,274	-	77,647,274
<i>Loans to non-individuals:</i>												
Overdraft	7,127,986	7,861,953	17,589,199	609,750	19,035,977	6,852	24,640,548	47,972,815	8,971,886	-	13,158,771	146,975,737
Loans	38,619,345	25,123,561	91,830,252	5,008,875	45,358,699	49,357,499	192,289,662	342,925,333	121,750,043	-	78,668,895	990,932,164
Others	2,300,854	-	166,741	-	10,686,594	-	8,726,432	27,766,451	4,965	-	231	49,652,268
	<b>48,048,185</b>	<b>32,985,514</b>	<b>109,586,192</b>	<b>5,618,625</b>	<b>75,081,270</b>	<b>49,364,351</b>	<b>225,656,642</b>	<b>418,664,599</b>	<b>130,726,894</b>	<b>-</b>	<b>91,827,897</b>	<b>1,187,560,169</b>

## 4.5 Credit exposures by maturity

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

**Table 7a: Residual maturity of credit exposures (On-balance sheet) for the year ended June 30, 2016**

Residual Contractual Maturities of Financial Assets and Liabilities							
Parent							
Jun-2016							
<i>In thousands of Nigerian Naira</i>	<i>Note</i>	<b>Carrying amount</b>	<b>Less than 3 months<sup>1</sup></b>	<b>3 to 6 months</b>	<b>6 to 12 months</b>	<b>1 to 5 years</b>	<b>More than 5 years</b>
<b>Financial assets</b>							
Cash and cash equivalents	23	266,940,752	266,940,752	-	-	-	-
Loans and advances to banks	28	29,837	29,837	-	-	-	-
Loans and advances to customers	29	1,406,576,432	459,473,860	188,563,818	166,946,119	532,599,655	58,992,980
Financial assets held for trading	24	7,247,621	4,115,191	2,233,826	897,378	1,226	-
Hedging derivatives	25	-	-	-	-	-	-
Derivative financial assets	25	465,129	465,129	-	-	-	-
Investment securities:							
– Available for sale <sup>2</sup>	26	290,322,177	193,184,286	62,482,030	12,883,711	3,603,813	18,168,337
– Loans and receivables	26	-	-	-	-	-	-
– Held to maturity	26	3,208,868	-	-	-	3,208,868	-
Assets pledged as collateral	27	61,592,845	40,084,000	20,446,271	1,062,574	-	-
Restricted deposits and other assets <sup>3</sup>	34	377,208,025	364,637,020	7,410,013	65,659	5,095,333	-
		2,413,591,686	1,328,930,075	281,135,958	181,855,441	544,508,895	77,161,317
<b>Financial liabilities</b>							
Deposits from banks	35	158,087	158,087	-	-	-	-
Deposits from customers	36	1,700,295,053	1,694,284,172	5,494,390	510,419	6,072	-
Financial liabilities held for trading	37	-	-	-	-	-	-
Derivative financial liabilities	25	398,493	398,493	-	-	-	-
Debt securities issued	38	-	-	-	-	-	-
Other borrowed funds	41	312,388,240	3,054,063	7,974,151	12,436,683	190,723,977	98,199,366
Other liabilities <sup>4</sup>	39	101,663,576	91,459,927	7,410,013	1,173,934	1,619,702	-
		2,114,903,449	1,789,354,742	20,878,554	14,121,036	192,349,751	98,199,366
Gap (asset - liabilities)			(460,424,667)	260,257,404	167,734,405	352,159,144	(21,038,049)
Cumulative liquidity gap			(460,424,667)	(200,167,263)	(32,432,858)	319,726,286	298,688,237
<sup>1</sup> Includes balances with no specific contractual maturities			<sup>2</sup> Included in More than 5 years maturity bucket of Available for Sale are equity securities				
<sup>3</sup> Excludes prepayments			<sup>4</sup> Excludes Deferred Income				
Management of this liquidity gap is as disclosed in Note 4(g)							
Restricted deposits have been bucketed within "less than 3 months" to match the underlying deposit liabilities							

**Table 7b: Residual maturity of credit exposures (Off- balance sheet) for the year ended June 30, 2016**

Residual Contractual Maturities of Financial Assets and Liabilities							
Parent							
Jun-2016							
		Carrying	Less than	3 to 6	6 to 12	1 to 5	More than
<i>In thousands of Nigerian Naira</i>		amount	3 months <sup>1</sup>	months	months	years	5 years
Transaction related bonds and guarantees	45	428,878,392	31,328,296	17,416,739	31,723,219	40,827,585	307,582,553
Agency Transactions	45	-	-	-	-	-	-
Short term foreign currency related transactions	45	658,612	658,612	-	-	-	-
Clean line facilities and letters of credit	45	59,306,182	50,063,953	9,242,229	-	-	-
Bankers' acceptances	45	-	-	-	-	-	-
		<b>488,843,186</b>	<b>82,050,861</b>	<b>26,658,968</b>	<b>31,723,219</b>	<b>40,827,585</b>	<b>307,582,553</b>

**Table 7c: Residual maturity of credit exposures (On- balance sheet) for the year ended December 31, 2015**

Residual contractual maturities of financial assets and liabilities							
Parent							
Dec-2015							
In thousands of Nigerian Naira	Note	Carrying amount	Less than 3 months <sup>1</sup>	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
<b>Financial assets</b>							
Cash and cash equivalents	23	173,133,109	173,133,109	-	-	-	-
Loans and advances to banks	28	638,817	38,077	600,740	-	-	-
Loans and advances to customers	29	1,265,207,443	551,847,626	115,889,357	91,169,909	449,908,304	56,392,247
Hedging derivatives	25	-	-	-	-	-	-
Investment securities:							
– Available for sale <sup>2</sup>	26	327,585,822	205,914,031	25,431,180	86,165,205	2,449,650	7,625,756
– Held to maturity	26	3,210,575	-	-	-	3,210,575	-
Assets pledged as collateral	27	61,946,270	61,946,270	-	-	-	-
Restricted deposits and other assets <sup>3</sup>	34	286,317,708	281,222,375	-	-	5,095,333	-
		2,143,115,362	1,275,493,790	146,683,874	183,555,566	460,673,439	76,708,693
<b>Financial liabilities</b>							
Deposits from banks	35	39,941	39,941	-	-	-	-
Deposits from customers	36	1,422,550,125	1,415,734,635	4,799,121	2,011,492	4,877	-
Other borrowed funds	40	338,580,300	5,214,764	106,382,771	10,911,529	169,781,131	46,290,105
Other liabilities <sup>4</sup>	38	85,088,484	78,119,387	3,817,041	1,582,862	1,569,194	-
		1,846,258,850	1,499,108,727	114,998,933	14,505,883	171,355,202	46,290,105
Gap (asset - liabilities)			(223,614,937)	31,684,941	169,049,683	289,318,237	30,418,588
Cumulative liquidity gap			(223,614,937)	(191,929,996)	(22,880,313)	266,437,924	296,856,512
<sup>1</sup> Includes balances with no specific contractual maturities			<sup>2</sup> Included in <i>More than 5 years</i> maturity bucket of Available for Sale are equity securities.				
<sup>3</sup> Excludes prepayments			<sup>4</sup> Excludes Deferred Income				
Management of this liquidity gap is as disclosed in Note 4(c)							
Restricted deposits have been bucketed within "less than 3 months" to match the underlying deposit liabilities							

**Table 7d: Residual maturity of credit exposures (Off- balance sheet) for the year ended December 31, 2015**

Residual contractual maturities of contingencies							
Parent							
Dec-2015							
		Carrying	Less than	3 to 6	6 to 12	1 to 5	More than
<i>In thousands of Nigerian Naira</i>		amount	3 months	months	months	years	5 years
Transaction related bonds and guarantees	43	454,123,077	25,584,729	8,148,959	37,576,123	21,836,887	360,976,379
Clean line facilities and letters of credit	43	73,260,543	41,237,545	27,826,631	4,196,367	-	-
		527,383,620	66,822,274	35,975,590	41,772,490	21,836,887	360,976,379
<sup>1</sup> Includes balances with no specific contractual maturities							

## 4.6 Impairment

### 4.6.1 Identification and measurement of impairment for accounting purposes

#### **Assets carried at amortised cost**

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

- I. significant financial difficulty of the issuer or obligor;
- II. a breach of contract, such as a default or delinquency in interest or principal payments;
- III. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- IV. it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- V. the disappearance of an active market for that financial asset because of financial difficulties; or
- VI. observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - Adverse changes in the payment status of borrowers in the portfolio; and

- National economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between losses occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months.

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

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for



groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

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

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

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

The Table 8 below shows the non-performing loans and total by industry

**Table 8: Non-Performing Loans by Industry as at June 30, 2016 and December 31, 2015**

In thousands of Nigerian Naira	Jun-16	Dec-15	Contribution	
			Jun-16	Dec-15
Manufacturing	18,544,897	15,668,622	36%	43%
Construction & Real Estate	13,300,958	1,846,360	26%	5%
Info.Telecoms & Transport	7,824,642	1,045,139	15%	3%
Downstream Oil & Gas	4,781,482	6,332,322	9%	17%
Others	3,427,414	5,554,904	7%	15%
Midstream Oil & Gas	1,900,412	485,367	4%	1%
General Commerce	1,173,177	1,771,417	2%	5%
Individual	984,178	960,706	2%	3%
Agriculture	-	669,664	0%	2%
Capital Market & Fin. Institution	-	2,276,426	0%	6%
<b>Grand Total</b>	<b>51,937,160</b>	<b>36,610,928</b>	<b>100%</b>	<b>100%</b>

### Assets classified as available for sale

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

Assets classified as available for sale are assessed for impairment in the same manner as assets carried at amortised cost.

### 4.6.2 Impairment and provisioning policies

The following policies guide the Bank's provisioning and impairment:

**(1) Loan Categorization**

All loans and advances are categorized 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<sup>1</sup>.

- **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<sup>1</sup>.

- **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<sup>1</sup>.

- **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<sup>1</sup>.

The following 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*

**Table 9a: Loans and Advances and impairment (specific and collective)**

Parent								
<i>In thousands of Nigerian naira</i>								
	Jun-2016				Dec-2015			
	Loans to Individual	Loans to non-Individual	Loans to Banks	Total	Loans to Individual	Loans to non-Individual	Loans to Banks	Total
Neither past due nor impaired	78,291,159	1,124,860,567	27,277	1,203,179,003	63,317,528	1,022,941,662	613,796	1,086,872,986
Past due but not impaired	-	730,712	-	730,712	-	2,126,983	-	2,126,983
Individually impaired	984,178	50,222,271	-	51,206,449	960,706	33,523,238	-	34,483,944
Collectively Impaired	20,085,586	190,701,481	3,224	210,790,291	14,178,683	154,467,428	25,285	168,671,396
<b>Gross Loans and Advances</b>	<b>99,360,923</b>	<b>1,366,515,031</b>	<b>30,501</b>	<b>1,465,906,455</b>	<b>78,456,917</b>	<b>1,213,059,311</b>	<b>639,081</b>	<b>1,292,155,309</b>
<i>Less allowances for impairment:</i>								
Individually impaired	29,883	24,230,316	-	24,260,199	138,049	18,781,373	-	18,919,422
Portfolio allowance	1,950,024	33,089,299	664	35,039,987	671,594	6,717,769	264	7,389,627
<b>Total allowance</b>	<b>1,979,907</b>	<b>57,319,615</b>	<b>664</b>	<b>59,300,186</b>	<b>809,643</b>	<b>25,499,142</b>	<b>264</b>	<b>26,309,049</b>
<b>Net Loans and Advances</b>	<b>97,381,016</b>	<b>1,309,195,416</b>	<b>29,837</b>	<b>1,406,606,269</b>	<b>77,647,274</b>	<b>1,187,560,169</b>	<b>638,817</b>	<b>1,265,846,260</b>

**Table 9b: Loans and Advances and impairment (specific and collective) by products**

<b>Loans and advances to customers</b>		
	<b>Parent</b>	<b>Parent</b>
<b>Jun-2016</b>	<b>Jun-2016</b>	<b>Dec-2015</b>
<b>Loans to individuals:</b>		
Loans	92,935,691	73,176,379
Overdrafts	6,425,232	5,280,538
Others <sup>1</sup>	-	-
<b>Gross loans</b>	<b>99,360,923</b>	<b>78,456,917</b>
Loans	(23,452)	(137,114)
Overdrafts	(6,431)	(935)
Others <sup>1</sup>	-	-
<b>Specific impairment</b>	<b>(29,883)</b>	<b>(138,049)</b>
Loans	(851,854)	(250,194)
Overdrafts	(1,098,170)	(421,400)
Others <sup>1</sup>	-	-
<b>Collective impairment</b>	<b>(1,950,024)</b>	<b>(671,594)</b>
Loans	(875,306)	(387,308)
Overdrafts	(1,104,601)	(422,335)
Others <sup>1</sup>	-	-
<b>Total impairment</b>	<b>(1,979,907)</b>	<b>(809,643)</b>
Loans	92,060,385	72,789,071
Overdrafts	5,320,631	4,858,203
Others <sup>1</sup>	-	-
<b>Carrying amount</b>	<b>97,381,016</b>	<b>77,647,274</b>
<b>Loans to Non-individuals:</b>		
Loans	1,165,222,982	1,000,955,826
Overdrafts	144,102,325	162,210,692
Others <sup>1</sup>	57,189,724	49,892,793
<b>Gross loans</b>	<b>1,366,515,031</b>	<b>1,213,059,311</b>
Loans	(23,127,953)	(6,979,085)
Overdrafts	(1,102,363)	(11,802,288)
Others <sup>1</sup>	-	-
<b>Specific impairment</b>	<b>(24,230,316)</b>	<b>(18,781,373)</b>
Loans	(26,095,763)	(3,044,577)
Overdrafts	(5,655,175)	(3,432,667)
Others <sup>1</sup>	(1,338,361)	(240,525)
<b>Collective impairment</b>	<b>(33,089,299)</b>	<b>(6,717,769)</b>
Loans	(49,223,716)	(10,023,662)
Overdrafts	(6,757,538)	(15,234,955)
Others <sup>1</sup>	(1,338,361)	(240,525)
<b>Total impairment</b>	<b>(57,319,615)</b>	<b>(25,499,142)</b>
Loans	1,115,999,266	990,932,164
Overdrafts	137,344,787	146,975,737
Others <sup>1</sup>	55,851,363	49,652,268
<b>Carrying amount</b>	<b>1,309,195,416</b>	<b>1,187,560,169</b>
<b>Total carrying amount (individual and non individual)</b>	<b>1,406,576,432</b>	<b>1,265,207,443</b>
<sup>1</sup> Others include Usances and Usances Settlement		

**Table 10: Movement in impairment on Loans and Advances to Banks, Individuals and non-Individuals**

Movement in Impairment-Individuals						
In thousands of Nigerian Naira	Jun-2016			Dec-2015		
	Specific allowance for impairment	Collective allowance for impairment	Total allowance for impairment	Specific allowance for impairment	Collective allowance for impairment	Total allowance for impairment
Balance at 1 January	138,049	671,594	809,643	69,838	611,585	681,423
Foreign currency translation and other adjustments	-	-	-	-	-	-
Increase in impairment allowances	109,493	1,376,402	1,485,895	714,062	408,911	1,122,973
Reversal of impairment	(115,511)	(97,972)	(213,483)	(6,437)	(348,902)	(355,339)
Reclassifications	-	-	-	-	-	-
Write offs	(102,148)	-	(102,148)	(639,414)	-	(639,414)
Impairment of subsidiary acquired	-	-	-	-	-	-
<b>Balance, end of period</b>	<b>29,883</b>	<b>1,950,024</b>	<b>1,979,907</b>	<b>138,049</b>	<b>671,594</b>	<b>809,643</b>
Movement in Impairment-Non-Individuals						
In thousands of Nigerian Naira	Jun-2016			Dec-2015		
	Specific allowance for impairment	Collective allowance for impairment	Total allowance for impairment	Specific allowance for impairment	Collective allowance for impairment	Total allowance for impairment
Balance at 1 January	18,781,373	6,717,769	25,499,142	18,479,842	6,896,906	25,376,748
Foreign currency translation and other adjustments	315	-	315	49	-	49
Increase in impairment allowances	20,045,384	28,881,273	48,926,657	11,486,652	3,394,719	14,881,371
Reversal of impairment	(10,721,171)	(2,509,743)	(13,230,914)	(201,193)	(3,573,856)	(3,775,049)
Reclassifications	-	-	-	-	-	-
Write offs	(3,875,585)	-	(3,875,585)	(10,983,977)	-	(10,983,977)
Impairment of subsidiary acquired	-	-	-	-	-	-
<b>Balance, end of period</b>	<b>24,230,316</b>	<b>33,089,299</b>	<b>57,319,615</b>	<b>18,781,373</b>	<b>6,717,769</b>	<b>25,499,142</b>
Movement in Impairment in Bank						
In thousands of Nigerian Naira	Jun-2016			Dec-2015		
	Specific allowance for impairment	Collective allowance for impairment	Total allowance for impairment	Specific allowance for impairment	Collective allowance for impairment	Total allowance for impairment
Balance at 1 January	-	264	264	-	21	21
Foreign currency translation and other adjustments	-	-	-	-	-	-
Increase in impairment allowances	-	452	452	-	249	249
Reversal of impairment	-	(52)	(52)	-	(6)	(6)
Reclassifications	-	-	-	-	-	-
Write offs	-	-	-	-	-	-
Impairment of subsidiary acquired	-	-	-	-	-	-
	-	664	664	-	264	264

## 4.7 Credit Quality

### Risk exposures calculated by the standardised approach

As earlier mentioned, the use of the standardised approach for quantifying credit risk involves the application of risk weights to the exposure types. 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 11 below.

**Table 11: Credit Quality Assessment Scale and Risk Weights as specified by CBN**

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

<sup>1</sup> A risk weight one category less favourable than the sovereign assigned to Banks incorporated in other countries

The Basel II guidance notes on credit risk by the CBN directs banks to use a chosen ECAI and their external credit assessments consistently for each type of exposure, for both risk weighting and risk management purposes. However, the Bank only uses the credit ratings of Fitch, Standard and Poor's and Moody's to rate exposures (Placements and balances) to supervised institutions not in Nigeria and their sovereigns where a rating for the institution is not available. For other exposures given the unavailability of ratings for them, the CBN has directed Banks to apply a risk weight of 100% to all corporates exposures while exposures to the Federal Government of Nigeria, Central Bank of Nigeria, some multilateral development Banks and cash are to be risk weighted at 0% and a risk weight of 75% to be applied to retail exposures below ₦100million and exposures secured by residential mortgages. Table 12 below shows the exposures, the credit quality step and risk weight applied.

**Table 12a: Analysis of Exposures with or without CRM and risk weight applied (On-Balance Sheet)**

<i>In thousands of Nigerian Naira</i>		Jun-16		Dec-15	
Credit Risk exposures/Counterparty	Credit Quality Step/Risk Weight	Exposure value	Exposure after CRM & on-balance sheet netting	Exposure value	Exposure after CRM
Central Governments and Central Banks	1	791,561,375	791,561,375	729,525,288	729,525,288
State Govt and Local Authorities	2	3,208,868	3,208,868	3,210,575	3,210,575
	Unrated	57,950,114	56,030,990	49,364,351	48,406,641
Supervised Institutions	2	162,273,314	138,929,194	120,431,546	113,082,970
	Unrated	12,611,531	12,611,531	5,858,271	5,858,271
Corporate and Other Persons	Unrated	1,199,011,296	1,010,292,097	1,076,890,470	913,847,726
Regulatory Retail Portfolio	75%	85,339,874	84,903,870	73,800,562	73,315,225
Secured by Mortgages on Residential Properties	75%	1,975,143	1,975,143	2,189,958	2,189,958
Exposures Secured by Mortgages on Commercial Real Estates	Unrated	62,329,841	61,762,641	63,600,918	63,600,918
High Risk Exposures (Unquoted Equity investments)	150%	3,901,551	3,901,551	4,217,135	4,217,135
Unsettled and Failed Transactions	0%	4,885,232	4,885,232	1,584,892	1,584,892
Other Assets	0%	26,865,787	26,865,787	27,097,102	27,097,102
	20%	(3,417,573)	-	19,751,040	-
	100%	87,834,275	87,834,275	95,210,453	95,210,453
<b>Total</b>		<b>2,496,330,629</b>	<b>2,284,762,554</b>	<b>2,233,230,481</b>	<b>2,081,147,154</b>



**Table 12b: Analysis of Exposures with or without CRM and risk weight applied (Off-Balance Sheet)**

<i>In thousands of Nigerian Naira</i>		Jun-16		Dec-15	
Off Balance sheet exposures	Risk Weight	Credit Equivalent Amount	Exposure after CRM	Credit Equivalent Amount	Exposure after CRM
Public Sector	100%	170,115	170,115	170,115	170,115
Supervised Institutions (DMBs, Discount Houses in	100%	300,283	174,401	1,207,210	232,097
Corporates	100%	307,695,288	299,484,504	354,643,021	320,049,118
Retail Portfolios	75%	1,112,191	1,101,579	1,036,748	613,313
<b>Total</b>		<b>309,277,878</b>	<b>300,930,599</b>	<b>357,057,093</b>	<b>321,064,642</b>

#### 4.8 Credit Risk Mitigation

The Bank has a lending policy encapsulated in the 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 reduction or increase) to meet the exigencies of the prevailing macroeconomic events subject to appropriate approval.

Other credit risk mitigation techniques include: 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.

Likewise, in order to comply with the CBN requirements on implementation of Basel II, especially with the computation of capital adequacy ratio and market disclosure, the Bank invested in two major software namely: Lead to Loan and OFSAA Basel II solution. These software are customised to suit the internal processes of GTBank 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 Group and guarantee data integrity towards achieving the CBN required sets of disclosures.

### **Credit Collaterals**

As discussed in details under Notes 4 (Financial Risk Management) in our Financial Statements for June 2016, the Bank ensures that each credit is reviewed and granted based on the strength of the borrowers' cash flow. However, the Bank also ensures its credit facilities are well secured as a second way out. The policies that guide collateral for facilities are embedded within the Bank's credit policy guide. These include the following policy statements amongst others:

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

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

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

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

The Basel II guidelines restrict eligible financial collaterals for credit risk mitigation to just cash, gold, debt securities, equities with applicable standard supervisory haircuts as shown in table 13 below and credit protection from guarantees which the Bank has adopted for computation of risk weighted assets under credit risk.

**Table 13: Eligible financial collaterals and standard supervisory haircuts**

Issue rating by ECAI for debt securities	Residual Maturity	Sovereigns (%)	Other issuers (%)
<b>AAA to AA-/A-1 (long and short positions), FGN bonds &amp; T-bills and State Government bonds</b>	=< 1 year	0.5	1
	>1 year, < 5 years	2	4
	> 5 Years	4	8
<b>A+ to BBB-/ A-2/A-3/P-3 and unrated bank securities</b>	=< 1 year	1	2
	>1 year, < 5 years	3	6
	> 5 Years	6	12
<b>BB+ to BB-</b>		15	NA
<b>Main index equities (including convertible bonds) and Gold</b>		15	
<b>Other equities (including convertible bonds) listed on a recognized exchange.</b>		25	
<b>Cash in the same currency</b>		0	

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 value of the collaterals in the course of sale or realisation. The Bank does not take physical possession of properties or other assets held as collateral and it uses external agents to realise the value as soon as practicable, generally at auction, to settle indebtedness. Any surplus funds are returned to the borrower.

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. These haircuts reflects the Management's loss experience on the different collateral types. The following formula is applied in the calculation of the net credit exposure;

$$E^* = \max \{0, [E \times (1 + H_e) - C \times (1 - H_c - H_{fx})]\}$$

Where:

E\* = the net exposure value after risk mitigation

E = the current value of the exposure

H<sub>e</sub> = haircut appropriate to the exposure

C = the current value of the collateral received

H<sub>c</sub> = haircut appropriate to the collateral

H<sub>fx</sub> = haircut appropriate for currency mismatch between the collateral and exposure

**Table 14a: Credit risk concentrations and mitigation Instruments as at June 30, 2016**

Exposure Type	On-Balance Sheet Netting	Cash	Equities	Government Debt Securities	By Eligible Guarantor	Grand Total
Supervised Institutions	23,344,119	-	-	-	-	23,344,119
Commercial Mortgage	-	-	-	-	-	-
Corporate And Other Persons	94,461,852	49,307,508	32,908,695	9,683,964	3,023,030	189,385,049
Public Sector	-	1,919,124	-	-	-	1,919,124
Residential Mortgage	-	-	-	-	-	-
Retail	-	212,425	65,024	59,906	-	337,355
Grand Total	117,805,971	51,439,058	32,973,719	9,743,870	3,023,030	214,985,648

**Table 14b: Credit risk concentrations and mitigation Instruments as at December 31, 2015**

Exposure Type	On-Balance Sheet Netting	Cash	Equities	Government Debt Securities	Guarantee By Eligible	Grand Total
Supervised Institutions	7,348,576	-	-	-	-	7,348,576
Commercial Mortgage	-	-	-	-	-	-
Corporate And Other Persons	80,566,981	48,458,489	24,262,386	6,784,376	2,970,513	163,042,745
Public Sector	-	957,710	-	-	-	957,710
Residential Mortgage	-	-	-	-	-	-
Retail	-	269,900	102,785	94,880	17,772	485,337
Grand Total	87,915,558	49,686,098	24,365,171	6,879,256	2,988,284	171,834,367

**Table 15a: Exposure values covered by eligible financial collaterals and guarantees as at June 30, 2016**

<i>In thousands of Nigerian Naira</i>	Jun-16		
<b>Credit Risk exposures/Counterparty</b>	<b>Gross Exposure</b>	<b>Exposures covered by eligible collaterals (excluding On-balance sheet netting)</b>	<b>Exposures covered by guarantees</b>
Central Governments and Central Banks	791,561,375	-	-
State Government and Local Authorities	61,158,982	57,950,114	-
Supervised Institutions	174,884,845	-	-
Corporate and Other Persons	1,199,011,296	331,909,106	3,493,546
Regulatory Retail Portfolio	85,339,874	746,353	-
Secured by Mortgages on Residential Properties	1,975,143	-	-
Exposures Secured by Mortgages on Commercial Real Estates	62,329,841	-	-
High Risk Exposures (Unquoted Equity investments)	3,901,551	-	-
Unsettled and Failed Transactions	4,885,232	-	-
Other Assets	111,282,490	-	-
<b>Total</b>	<b>2,496,330,629</b>	<b>390,605,572</b>	<b>3,493,546</b>
<b>Off Balance sheet exposures</b>			
Public Sector Entities	170,115	-	-
Supervised Institutions (DMBs, Discount Houses, etc)	300,283	300,283	-
Corporates	487,258,285	427,293,491	-
Retail Portfolios	1,114,504	1,109,879	-
<b>Total</b>	<b>488,843,186</b>	<b>428,703,652</b>	<b>-</b>
<b>Grand total</b>	<b>2,985,173,815</b>	<b>819,309,224</b>	<b>3,493,546</b>

**Table 15b: Exposure values covered by eligible financial collaterals and guarantees as at December 31, 2015**

<i>In thousands of Nigerian Naira</i>	<b>Dec 2015</b>		
<b>Credit Risk exposures/Counterparty</b>	<b>Gross Exposure</b>	<b>Exposures covered by eligible collaterals (excluding On-balance sheet netting)</b>	<b>Exposures covered by guarantees</b>
Central Governments and Central Banks	729,525,288	-	-
State Govt and Local Authorities	52,574,926	49,364,351	-
Supervised Institutions	126,289,817	-	-
Corporate and Other Persons	1,076,890,470	252,516,522	3,065,990
Regulatory Retail Portfolio	73,800,562	921,964	
Secured by Mortgages on Residential Properties	2,189,958	-	-
Exposures Secured by Mortgages on Commercial Real Estates	63,600,918	-	-
High Risk Exposures (Unquoted Equity investments)	4,217,135	-	-
Unsettled and Failed Transactions	1,584,892	-	-
Other Assets	102,556,515	-	-
<b>Total</b>	<b>2,233,230,481</b>	<b>302,802,836</b>	<b>3,065,990</b>
<b>Off Balance sheet exposures</b>			
Public Sector Entities	170,115	-	-
Supervised Institutions (DMBs, Discount Houses, etc)	2,056,441	2,056,441	-
Corporates	524,118,003	450,857,460	-
Retail Portfolios	1,039,060	1,034,435,333	-
<b>Total</b>	<b>527,383,620</b>	<b>1,487,349,234</b>	<b>-</b>
<b>Grand total</b>	<b>2,760,614,100</b>	<b>1,790,152,071</b>	<b>3,065,990</b>

## 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. 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 16 – 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 five out of the eight Basel defined business lines as depicted in Table 17 below:

**Table 17 – Basel Business lines and Beta factor**

BASEL BUSINESS LINES BREAK DOWN		GTBANK	BETA FACTOR (%)
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

The bank's capital charge for operational risk is thus expressed as:

$$K_{rq} = \{\sum_{\text{years}1-3} \max [\sum (GI_{1-3} * \beta_{1-3}), 0]\} / 3$$

Where:

$K_{rq}$  = Capital charge required

$GI_{1-3}$  = Annual gross income in a given year for three (3) business lines in table above.

$\beta_{1-3}$  = Fixed Beta factor in percentages for the business lines

For regulatory capital assessment, the bank uses the Basic Indicator Approach (BIA) in which the bank calculates its regulatory capital requirement by multiplying an indicator of the bank's volume of business, net income, by a specified regulatory percentage (15%) using the formula below.

$$KBIA = [GI \dots \eta * \alpha] / \eta$$

Where:

KBIA = the capital charge under the Basic Indicator Approach

GI = positive annual gross income for the previous three years

$\eta$  = number of the previous three years for which gross income is positive



$\alpha = 15\%$

i.e. average over the previous three years of a fixed percentage of positive annual gross income.

Gross income is computed in line with the regulatory description as;

Gross income under this guideline includes the sum of a bank's

- Net interest income, and
- Net non-interest income;

All of which shall be gross of:

- Any provisions (example unpaid interest); and write-offs made during the year
- Any operating expenses, including fees paid to outsourcing 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

But shall exclude;

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.
- exclude reversal during the year in respect of provisions and write-offs made during the previous year(s);
- exclude income from legal settlements in favour of the bank;

## 6 Market Risk

The Bank's exposure to market risk comprises interest rate risk (trading & banking book) and foreign exchange risk as detailed below in Table 18:

**Table 18: Market Risk Components**

Market Risk	Composition	Risk Weight (%)	Comments
<b>A. Interest Rate Risk</b>			
<b>1. Trading Book</b>			
	Interest Rate Risk - General (Trading FGN – Treasury Bills (TB) & Bonds)	As defined within the zones based on the maturity bands	Capitalised
	Interest Rate Risk - Specific ( Trading FGN - TB & Bonds)	0	Not capitalised
<b>2. Banking Book</b>			
	Earning at Risk (Discounted Earning Impact). To enable management ascertain the likely impact on earnings if interest rate changes are not properly managed. In doing this, the gap between the rate sensitive assets and liabilities are multiplied by volatility/interest rate change & roll over periods/intervals of 30days and divided by the period covered/horizon of 365 days. The outcome is multiplied by a discount factor.	0	Not Capitalised
<b>B. Foreign Exchange Risk</b>	It is the higher of foreign currency position (long & short) throughout the Bank.	15	Capitalised

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.

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.

The tables 19 & 20 below shows the changes that would impact the income statement after carrying out interest rate sensitivities and provides further information on the breakdown by main currencies:

**Table 19a: Interest Rate Sensitivity (Fair value and Cash flow Interest rate) on Statement of financial Position for June 30, 2016**

<i>In thousands of Nigerian naira</i>	<b>Jun-16</b>	<b>Jun-16</b>
	<b>Pre-tax</b>	<b>Post-tax</b>
	<b>TOTAL</b>	<b>TOTAL</b>
<b>Decrease</b>		
<b>Assets</b>		
Cash and cash equivalents	(258,780)	(222,292)
Loans and Advances to Banks	(72)	(62)
Loans and Advances to Customers	(6,328,883)	(5,436,510)
Financial assets held for trading	(63,012)	(54,127)
Investment Securities	(1,533,675)	(1,317,427)
Assets pledged as collateral	(302,250)	(259,632)
	<b>(8,486,672)</b>	<b>(7,290,051)</b>
<b>Liabilities</b>		
Deposit from banks	9,107	7,823
Deposit from customers	7,842,821	6,736,983
Financial liabilities held for trading	9,724	8,353
Debt securities	-	-
Other borrowed funds	1,576,655	1,354,346
	<b>9,438,306</b>	<b>8,107,505</b>
<b>Total</b>	<b>951,634</b>	<b>817,454</b>
<b>Increase</b>		
<b>Assets</b>		
Cash and cash equivalents	258,780	222,292
Loans and Advances to Banks	72	62
Loans and Advances to Customers	6,328,883	5,436,510
Financial assets held for trading	63,012	54,127
Investment Securities	1,533,675	1,317,427
Assets pledged as collateral	302,250	259,632
	<b>8,486,672</b>	<b>7,290,051</b>
<b>Liabilities</b>		
Deposit from banks	(9,107)	(7,823)
Deposit from customers	(7,842,821)	(6,736,983)
Financial liabilities held for trading	(9,724)	(8,353)
Debt securities	-	-
Other borrowed funds	(1,576,655)	(1,354,346)
	<b>(9,438,306)</b>	<b>(8,107,505)</b>
<b>TOTAL</b>	<b>(951,634)</b>	<b>(817,454)</b>

**Table 19b: Interest Rate Sensitivity (Fair value and Cash flow Interest rate) on Statement of financial Position for December 31, 2015**

<i>In thousands of Nigerian naira</i>	<b>Dec-15</b>	<b>Dec-15</b>
	<b>Pre-tax</b>	<b>Post-tax</b>
	<b>TOTAL</b>	<b>TOTAL</b>
<b>Decrease</b>		
<b>Assets</b>		
Cash and cash equivalents	(600,570)	(502,045)
Loans and Advances to Banks	(6,387)	(5,340)
Loans and Advances to Customers	(12,327,567)	(10,305,202)
Financial assets held for trading	(161,739)	(135,205)
Investment Securities	(3,199,141)	(2,674,315)
Assets pledged as collateral	(572,463)	(478,549)
	<b>(16,867,867)</b>	<b>(14,100,655)</b>
<b>Liabilities</b>		
Deposits from banks	3,180	2,658
Deposits from customers	14,714,048	12,300,175
Financial liabilities held for trading	32,456	27,132
Debt securities issued	-	-
Other borrowed funds	3,187,526	2,664,605
	<b>17,937,210</b>	<b>14,994,570</b>
<b>Total</b>	<b>1,069,343</b>	<b>893,915</b>
<b>Increase</b>		
<b>Assets</b>		
Cash and cash equivalents	600,570	502,045
Loans and Advances to Banks	360	301
Loans and Advances to Customers	12,333,594	10,310,240
Financial assets held for trading	161,738.6	135,205
Investment Securities	3,199,141	2,674,315
Assets pledged as collateral	572,462.7	478,549
	<b>16,867,866</b>	<b>14,100,654</b>
<b>Liabilities</b>		
Deposits from banks	(3,180)	(2,658)
Deposits from customers	(14,714,048)	(12,300,175)
Financial liabilities held for trading	(32,456)	(27,132)
Debt securities issued	-	-
Other borrowed funds	(3,187,526)	(2,664,605)
	<b>(17,937,210)</b>	<b>(14,994,570)</b>
<b>Total</b>	<b>(1,069,344)</b>	<b>(893,916)</b>

**Table 20a: Financial Instrument by Currency for June 30 2016**

Parent						
Jun-2016						
In thousands of Nigerian Naira	Total	Naira	USD	GBP	Euro	Others
Cash and cash equivalents	266,940,752	117,425,190	112,869,064	18,229,678	17,888,413	528,407
Loans and advances to banks	29,837	29,276	561	-	-	-
Loans and advances to customers	1,406,576,432	657,490,937	749,067,799	385	17,311	-
Financial assets held for trading	7,247,621	7,247,621	-	-	-	-
Derivative financial assets	465,129	442,181	-	-	22,948	-
Investment securities:						
– Available for sale	290,322,177	280,280,721	10,041,456	-	-	-
– Held to maturity	3,208,868	3,208,868	-	-	-	-
Assets pledged as collateral	61,592,845	61,592,845	-	-	-	-
Restricted deposits and other assets <sup>1</sup>	377,208,025	353,863,906	21,195,014	203,684	1,945,421	-
	<b>2,413,591,686</b>	<b>1,481,581,545</b>	<b>893,173,894</b>	<b>18,433,747</b>	<b>19,874,093</b>	<b>528,407</b>
Deposits from banks	158,087	158,087	-	-	-	-
Deposits from customers	1,700,295,053	1,280,119,195	397,920,041	13,544,315	8,710,678	824
Derivative financial liabilities	398,493	-	398,493	-	-	-
Other borrowed funds	312,388,240	94,461,852	217,926,388	-	-	-
Other liabilities <sup>2</sup>	101,663,576	77,147,344	20,123,225	242,478	4,149,441	1,088
	<b>2,114,903,449</b>	<b>1,451,886,478</b>	<b>636,368,147</b>	<b>13,786,793</b>	<b>12,860,119</b>	<b>1,912</b>
<b>Financial Instrument Gap</b>	<b>298,688,237</b>	<b>29,695,067</b>	<b>256,805,747</b>	<b>4,646,954</b>	<b>7,013,974</b>	<b>526,495</b>
<sup>1</sup> Excludes prepayments		<sup>2</sup> Excludes Deferred Income and impact of currency position				
The above table does not give complete representation of the On-Balance sheet gap of the Parent in terms of currency (foreign and local currencies) because non Financial Instruments items are not taken into consideration in this disclosure as it falls outside the IFRS 7 disclosure requirement. On the Asset side Property, Plant & Equipment, Intangible Assets and Prepayment are not included while on the Liability side, Deferred Income, Tax Payable and Deferred Tax and Positions have also been excluded.						

**Table 20b: Financial Instrument by Currency for December 31 2015**

Parent						
Dec-2015						
<b>Financial instruments by currency</b>						
<i>In thousands of Nigerian Naira</i>	<b>Total</b>	<b>Naira</b>	<b>USD</b>	<b>GBP</b>	<b>Euro</b>	<b>Others</b>
Cash and cash equivalents	173,133,109	60,900,361	86,803,401	16,303,440	8,774,840	351,067
Loans and advances to banks	638,817	616,350	22,467	-	-	-
Loans and advances to customers	1,265,207,443	682,221,754	582,341,419	312	643,887	71
Financial assets held for trading	25,075,618	25,075,618	-	-	-	-
Investment securities:						
– Available for sale	327,585,822	321,727,551	5,858,271	-	-	-
– Held to maturity	3,210,575	3,210,575	-	-	-	-
Assets pledged as collateral	61,946,270	61,946,270	-	-	-	-
Restricted deposits and other assets <sup>1</sup>	286,317,708	278,969,132	6,357,038	230,468	761,070	-
	<b>2,143,115,362</b>	<b>1,434,667,611</b>	<b>681,382,596</b>	<b>16,534,220</b>	<b>10,179,797</b>	<b>351,138</b>
Deposits from banks	39,941	39,941	-	-	-	-
Deposits from customers	1,422,550,125	1,161,931,095	244,302,305	10,700,273	5,615,953	499
Derivative financial liabilities	-	-	-	-	-	-
Other borrowed funds	338,580,300	80,566,981	258,013,319	-	-	-
Other liabilities <sup>2</sup>	85,088,484	75,558,016	8,546,614	230,463	752,325	1,066
	1,846,258,850	1,318,096,033	510,862,238	10,930,736	6,368,278	1,565
<b>Financial Instrument Gap</b>	<b>296,856,512</b>	<b>116,571,578</b>	<b>170,520,358</b>	<b>5,603,484</b>	<b>3,811,519</b>	<b>349,573</b>
1Excludes prepayments		2 Excludes Deferred Income and impact of currency position				

The above table does not give complete representation of the On-Balance sheet gap of the Parent in terms of currency (foreign and local currencies) because non Financial Instruments items are not taken into consideration in this disclosure as it falls outside the IFRS 7 disclosure requirement. On the Asset side Property, Plant & Equipment, Intangible Assets and Prepayment are not included while on the Liability side, Deferred Income, Tax Payable and Deferred Tax and Positions have also been excluded.

**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 its 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 mentioned earlier, the Bank's detailed computation of its Risk Weighted Assets (RWA) for credit, market and operational risks and its Capital Adequacy Ratio is rendered to Central Bank of Nigeria (CBN) on a monthly basis in line with CBN.



## 7 Equity exposures: disclosures for banking book positions.

### 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 holding of investment in the Bank's subsidiaries. Equity investments in subsidiaries are held at historical cost and are in the Consolidated Financial Statements.

The Bank also invested in unquoted equity securities in compliance with the Central Bank of Nigeria's directive in 2006 to 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. They are measured at cost less impairment where fair value is not easily determinable.

### 7.2 Description of the valuation Methodology

#### **Discounted Cash flow Technique (DCF)**

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 (with 'g') - 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.

$$\text{FCFF} = \text{NI} + \text{NCC} + [\text{Int} \times (1 - \text{tax rate})] - \text{Changes in FCInv} - \text{Changes in WCInv}$$

**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.

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

**Where:**

**D = Value of Debt**

**E = Equity value**

**Ke = Cost of equity**

**Kd = Cost of debt**

**T = Tax rate**

*c. Capitalization Rate = WACC – g*

$$\text{Terminal value} = \frac{\text{FCFF}_5 \times (1+g)}{\text{WACC} - g}$$

Where:

FCFF = Year<sub>5</sub> FCFF

g = Growth rate

WACC = *Weighted average Cost of Capital*

#### Valuation Assumptions – Discounted Cash flow

1. Risk free rate ( $R_f$ ) = 11.01% 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.

**Table 21: Unquoted Equities: Value disclosed in the balance sheet and fair value**

In thousands of Nigerian naira	Jun-16	Dec-15
Fair Value	3,763,386	3,608,972
Cost less Impairment	138,164	608,163
Carrying Amount as per Balance Sheet	3,901,550	4,217,135

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

In thousands of Nigerian naira	Jun-16	Dec-16
Historical cost	(2,415,699)	(2,415,699)
Fair Value	4,271,402	4,116,988
Unrealized Fair Value Gain recognized in Equity (OCI)	1,855,703	1,701,289

Fair value gains/losses included in Tier 2 capital = N1, 855,703,000