



STANBIC IBTC BANK PLC
PILLAR III DISCLOSURES
DECEMBER 2015



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1 Introduction

1.1 Background

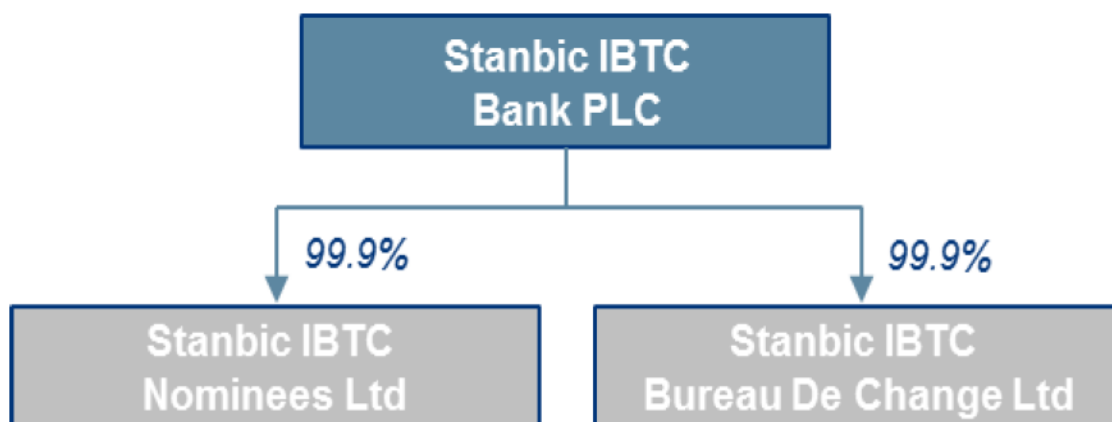
Stanbic IBTC Bank PLC (SIBTC or “the bank”) is a wholly owned subsidiary of Stanbic IBTC Holdings PLC, a member of Standard Bank Group Limited. The principal activity of the Bank is the provision of banking and related financial services to corporate and individual customers. The bank offers its clients a wide range of commercial banking products through its branches spread across every state in Nigeria. The bank also offers self-service channels powered by sophisticated technology to bring convenient banking to customers.

The Bank has two core business segments:

Personal and Business Banking : The Personal and Business Banking (PBB) division is the retail banking arm of Stanbic IBTC Bank. The division provides services to individual customers, high net worth individuals and the commercial and small and medium scale enterprises (SME) business segments. PBB supports the everyday banking needs of individuals and businesses through its network of branches and self-service channels. PBB is split into two business lines for effective service delivery - Personal Banking and Business Banking.

Corporate and Transactional Banking : The Corporate and Transactional Banking(CTB) division is responsible for all aspects of corporate and transactional banking services to larger corporates, financial institutions and international counterparties. CTB comprises three business units; Global Markets, Transactional Products and Services and Client Coverage.

The Bank has two wholly owned subsidiaries and eight affiliated companies. An illustrative diagram of Stanbic IBTC Bank’s structure is shown below:



Stanbic IBTC Nominees Nigeria Limited - The company acts in a nominee capacity for clients’ transactions in securities and other investments.



Stanbic IBTC Bureau De Change Limited - The company was licensed to carry on the business of buying, selling, supply, exchange dealing in all foreign currencies and in travellers' cheques where available and providing all services lawful for a bureau de change to provide in Nigeria.

1.2 Basel II Framework

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. It also specifies comprehensive disclosure requirements for banks operating under the framework.

The Basel II framework is based on three pillars:

- Pillar I - Minimum Capital Requirements. This 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. SIBTC has adopted the Standardized Approach for Credit and Market Risk and the Basic Indicator Approach for Operational Risk.
- Pillar II - Supervisory Review. This is structured along two separate but complementary stages; the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation process (SREP). The bank conducts a self-assessment of its internal capital requirements via the ICAAP whilst the Central Bank of Nigeria (CBN) conducts its assessment of the bank via the SREP.
- Pillar III – Market Discipline. This allows market participants access information on risk exposure and risk management policies and procedures through disclosures. The bank through this Pillar III Disclosures report provides an overview of its risk management practices in line with the CBN Guidance Notes on Pillar III Disclosures.

1.3 Scope of Application

Stanbic IBTC Bank PLC produces consolidated and separate financial statements for accounting purposes under International Financial Reporting Standards (IFRS) . These disclosures have been prepared at the individual parent entity level and are in accordance with the CBN guidance notes on Pillar 3, which covers the qualitative and quantitative disclosure requirements therein. The investment in subsidiaries, Stanbic IBTC Nominees Nigeria Limited and Stanbic IBTC Bureau De Change Limited have been deducted from regulatory capital for capital adequacy purposes.

1.4 Frequency

The Pillar III Disclosures Report will be published on bi-annual basis and will be made available through the bank's website at www.stanbicibtcbank.com.



2 Risk Management Review

2.1 Overview

Stanbic IBTC Bank, a subsidiary of the Stanbic IBTC Group, is aligned with the Group's strategic focus of being the leading end-to-end financial solutions provider in Nigeria through innovation and customer focused people. To successfully achieve this, the Bank is aware of the need to maintain a critical balance between the pursuit of growth and the need to have a firm management of the risks facing its business.

Effective risk management is one of Stanbic IBTC's trademark and thus a priority in its activities. This entails identifying the nature, amount and extent of all risks and structuring each risk in such a way that it not only conforms to the bank's risk appetite, but also offers corresponding risk premium and return. We combine prudence in risk management with the use of well-tested risk management techniques that support the generation of robust earnings whilst preserving shareholder value.

The Board sets the tone for a responsive and accountable organisational and risk culture, which permeates through the organisation to each business manager and independent risk officer.

Risks are managed according to a set of governance standards, which are implemented across the bank and are supported by appropriate risk policies, governance standards and procedures. The bank has adopted the Enterprise Risk Management (ERM) framework with an independent control process that provides an objective view of risk taking activities across all business and risk types at both an individual and aggregated portfolio level.

The bank seeks to achieve the right balance between risk and reward in its businesses, and limits adverse variations in earnings by appropriately managing its capital within specified risk appetite levels.

2.2 Risk Management Framework

Approach and Structure

The bank's approach to risk management is based on governance processes that rely on both individual responsibility and collective oversight that is supported by a tailored Management Information System (MIS). This approach balances corporate oversight at senior management level with independent risk management structures in the business. Business unit heads, as part of the first line of defence, are specifically responsible for the management of risk within their businesses using appropriate risk management frameworks that meet the required minimum standards.

An important element that underpins the bank's approach to the management of all risk is independence and appropriate segregation of responsibilities between Business and Risk. All principal risks are supported by the Risk department.

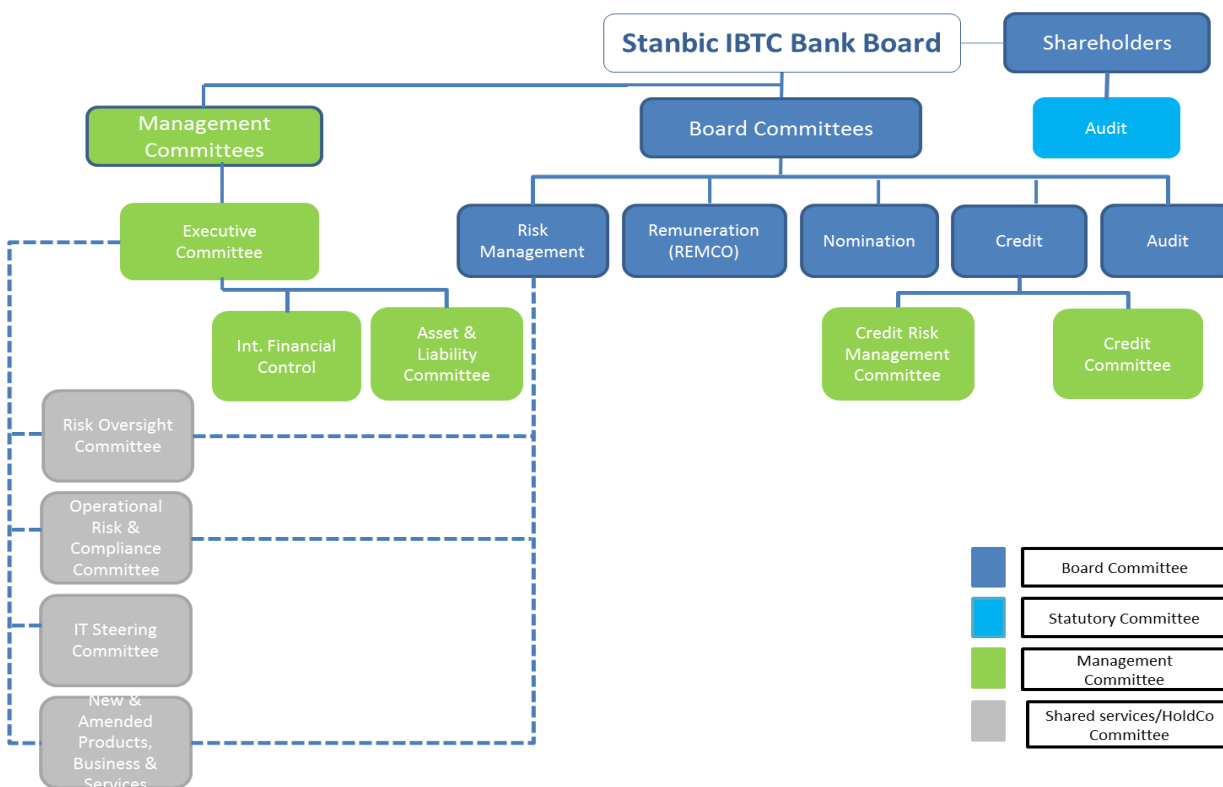


Risk Governance Structure

The risk governance structure provides a platform for the board, executive and senior management through the various committees to evaluate and debate key existential and emerging risks which the bank is exposed to, and assess the effectiveness of risk responses through the risk profiles of the underlying business units and functional areas (please refer to the pictorial representation of the bank risk governance structure below).

The risk governance structure is designed such that there is a forum for managing issues related to each of the material risks to which SIBTC is exposed to in addition to a forum for managing integrated risk issues. Risk management issues that arise are escalated through the bank's governance structure to ensure that they are resolved by the appropriate functional group or attain sufficient visibility at the level of the Executive and Board committees.

Figure 1: SIBTC risk management and compliance structure



Risk governance standards, policies and procedures

The bank has developed a set of risk governance standards for each principal risk including credit, market, operational, IT and compliance risks. The standards define the acceptable conditions for the assumption of the major risks and ensure alignment and consistency in the manner in which these risks are identified, measured, managed, controlled and reported, across the bank.



All standards are supported by policies and procedural documents. They are applied consistently across the bank and are approved by the Board. It is the responsibility of the business unit executive management to ensure that the requirements of the risk governance standards, policies and procedures are implemented within the business units.

Risk Appetite

Risk appetite is an expression of the amount, type and tenure of risk that the bank is prepared to accept in order to deliver its business objectives. It is the balance of risk and return as the bank implements business plans, whilst recognising a range of possible outcomes.

The Board establishes the bank's parameters for risk appetite by:

- providing strategic leadership and guidance;
- reviewing and approving annual budgets and forecasts; and
- regularly reviewing and monitoring the bank's performance in relation to set risk appetite.

The risk appetite is defined by several metrics which are then converted into limits and triggers across the relevant risk types, at both entity and business line levels, through an analysis of the risks that impact them.

Stress Testing

Stress testing serves as a diagnostic and forward looking tool to improve the bank's understanding of its credit; market and operational risks profile under event based scenarios. Management reviews the outcome of stress tests and selects appropriate mitigating actions to minimise and manage the impact of the risks to the bank. Residual risk is then evaluated against the risk appetite.

2.3 Risk Categories

The bank's enterprise risk management framework is designed to govern, identify, measure, manage, control and report on the principal risks to which the bank is exposed. The principal risks are defined as follows:

2.3.1 Credit Risk

Credit risk arises primarily in the bank's operations where an obligor / counterparty fails to perform in accordance with agreed terms or where the counterparty's ability to meet such contractual obligation is impaired. Credit risk comprises counterparty risk, wrong-way risk, settlement risk, country risk and concentration risk.

**Counterparty risk:**

Counterparty risk is the risk of loss to the bank as a result of failure by a counterparty to meet its financial and/or contractual obligations to the bank. It has three components:

- i. primary credit risk which is the Exposure At Default (EAD) arising from lending and related banking product activities, including their underwriting;
- ii. pre-settlement credit risk which is the EAD arising from unsettled forward and derivative transactions, arising from the default of the counterparty to the transaction and measured as the cost of replacing the transaction at current market rates; and
- iii. issuer risk which is the EAD arising from traded credit and equity products, and including their underwriting.

Wrong-way risk:

Wrong-way risk is the risk that arises when default risk and credit exposure increase together. There are two types of wrong-way risk as follows: specific wrong way risk (which arises through poorly structured transactions, for example, those collateralized by own or related party shares) and general wrong way risk (which arises where the credit quality of the counterparty may for non-specific reasons be held to be correlated with a macroeconomic factor which also affects the credit quality of the counterparty).

Settlement risk:

Settlement risk is the risk of loss to the bank from a transaction settlement, where value is exchanged, failing such that the counter value is not received in whole or part.

Country and cross border risk:

Country and cross border risk is the risk of loss arising from political or economic conditions or events in a particular country which reduce the ability of counterparties in that particular country to fulfil their obligations to the bank. Cross border risks is the risk of restriction on the transfer and convertibility of local currency funds, into foreign currency funds thereby limiting payment by offshore counterparties to the bank.

Concentration risk:

Concentration risk refers to any single exposure or group of exposures large enough to cause credit losses which threaten the bank's capital adequacy or ability to maintain its core operations. It is the risk that common factors within a risk type or across risk types cause credit losses or an event occurs within a risk type which results to credit losses.



2.3.2 Market Risk

Market risk is defined as the risk of a change in the actual or effective market value or earnings of a portfolio of financial instruments caused by adverse moves in market variables such as equity, bond and commodity prices, foreign exchange rates, interest rates, credit spreads, recovery rates, correlations and implied volatilities in the market variables. Market risk covers both the impact of these risk factors on the market value of traded instruments as well as the impact on the bank's net interest margin as a consequence of interest rate risk on banking book assets and liabilities.

2.3.3 Liquidity Risk

Liquidity risk is defined as the risk that the bank, although balance-sheet solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due (as a result of funding liquidity risk), or can only do so at materially disadvantageous terms (as a result of market liquidity risk). Funding liquidity risk refers to the risk that the counterparties, who provide the bank with funding, will withdraw or not roll-over that funding.

Market liquidity risk refers to the risk of a generalised disruption in asset markets that makes normal liquid assets illiquid and the potential loss through the forced-sale of assets resulting in proceeds being below their fair market value.

2.3.4 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed processes, people and systems (including information technology and infrastructure) or from external events.

The definition of operational risk also includes:

- information risk – the risk of unauthorised use, modification or disclosure of information resources;
- fraud risk – the risk of losses resulting from fraudulent activities;
- environmental risk – the risk of inadvertently participating in the destruction of the environment;
- legal risk - the risk that the bank will be exposed to litigation;
- taxation risk – the risk that the bank will incur a financial loss due to incorrect interpretation and application of taxation legislation or due to the impact of new taxation legislation on existing business;
- compliance risk - the risk that the bank does not comply with applicable laws and regulations or supervisory requirements.



2.3.5 Business Risk

Business risk is the risk of loss due to adverse local and global operating conditions such as decrease in demand, increased competition, increased cost, or by entity specific causes such as inefficient cost structures, poor choice of strategy, reputation damage or the decision to absorb costs or losses to preserve reputation.

Reputational risk is a risk of loss resulting from damages to a firm's reputation.



3 Regulatory Capital Structure and Capital Adequacy

3.1 Overview

The bank manages its capital base to achieve a prudent balance between maintaining capital ratios to support business growth and depositor confidence, and providing competitive returns to shareholders. The capital management process ensures that the bank maintains sufficient capital levels for legal and regulatory compliance purposes. The bank ensures that its actions do not compromise sound governance and appropriate business practices and it eliminates any negative effect on payment capacity, liquidity and profitability. The Central Bank of Nigeria (CBN) adopted the Basel II capital framework with effect from 1 October 2014 and revised the framework in June 2015. Stanbic IBTC Bank PLC has been compliant with the requirements of Basel II capital framework since it was adopted.

3.2 Regulatory Capital

The bank's regulatory capital is divided into two tiers:

- Tier 1 capital which comprises share capital, share premium, retained earnings and reserves created by appropriations of retained earnings. The closing balance on deferred tax asset is deducted in arriving at Tier 1 capital;
- Tier 2 capital which includes subordinated debts and other comprehensive income. Subordinated debt at the end of the year totalled N23bn and is broken down as follows:
 - Naira denominated subordinated debt totalling N15.5bn issued on 30 September 2014 at an interest rate of 13.25% per annum;
 - N100 million Naira denominated subordinated debt issued on 30 September 2014. Interest is payable semi-annually at 6-month Nigerian Treasury Bills yield plus 1.20%. It has a tenor of 10 years and is callable after 5 years from the issue date. The debt is unsecured;
 - USD denominated term subordinated non-collateralised facility of USD40 million obtained from Standard Bank of South Africa effective 31 May 2013. The facility expires on 31 May 2025 and is repayable at maturity. Interest on the facility is payable semi-annually at LIBOR (London Interbank Offered Rate) plus 3.60%.

Total eligible Tier 1 Capital as at 31 December 2015 was N87.bn (2014: N86bn). While Total eligible Tier 2 Capital as at 31 December 2015 was N24bn (2014: N21bn).

Investment in unconsolidated subsidiaries and associations are deducted from Tier 1 and 2 capital to arrive at total regulatory capital.



3.3 Methodology for Capital Adequacy

Regulatory capital adequacy is measured based on Pillar 1 of the Basel II capital framework. Capital adequacy ratio is calculated by dividing the capital held by total risk-weighted assets. Risk weighted assets comprise computed risk weights from credit, operational and market risks associated with the business of the bank. Management monitors the capital adequacy ratio on a proactive basis.

Throughout the year under review, Stanbic IBTC Bank PLC operated above its targeted capitalization range and well over the minimum regulatory capital adequacy ratio of 10% as mandated by CBN.

Table 1: SIBTC Bank PLC capital adequacy computation

	31 Dec 2015 N'million	31 Dec 2014 N'million
	87,355	85,993
Paid-up share capital	1,875	1,875
Share premium	42,469	42,469
General reserve (Retained Profit)	22,033	21,325
SMEEIS reserve	1,039	1,039
Statutory reserve	19,907	18,981
Other reserves	32	304
Non controlling interests	-	-
Less: regulatory deduction	7,371	4,933
Deferred tax assets	7,321	4,883
Investment in the capital of financial subsidiaries	50	50
Eligible Tier I capital	<u>79,984</u>	<u>81,060</u>
Tier II		
	24,520	21,404
Hybrid (debt/equity) capital instruments	-	-
Subordinated term debt	23,699	22,973
Other comprehensive income (OCI)	821	(1,569)
Less: regulatory deduction	50	50
Investment in the capital of financial subsidiaries	50	50
	<u>24,470</u>	<u>21,354</u>
Eligible Tier II capital	<u>104,454</u>	<u>102,414</u>
Risk weighted assets:		
Credit risk	438,694	509,846
Operational risk	128,524	99,637
Market risk	2,004	2,336
Total risk weight	<u>569,223</u>	<u>611,819</u>
Total capital adequacy ratio	18.4%	16.7%
Tier I capital adequacy ratio	14.1%	13.2%



4 Credit Risk

4.1 Principal credit standard and policies

The Risk Governance Standard, as reviewed regularly, sets out the broad overall principles to be applied in credit risk decisions and sets out the overall framework for the consistent and unified governance, identification, measurement, management and reporting of credit risk.

The Corporate and Transactional Banking (CTB) and the Personal and Business Banking (PBB) Global Credit Policies have been designed to expand the Credit Risk Governance Standard requirements by embodying the core principles for identifying, measuring, approving, and managing credit risk. These policies provide a comprehensive framework within which all credit risk emanating from the operations of the bank are legally executed, properly monitored and controlled in order to minimize the risk of financial loss; and assure consistency of approach in the treatment of regulatory compliance requirements.

In addition to the Credit Risk Governance Standard, CTB and PBB Global Credit Policies, a number of related credit policies and documents have been developed, with contents that are relevant to the full implementation and understanding of the credit policies.

Methodology for risk rating

Internal counterparty ratings and default estimates that are updated and enhanced from time-to-time play an essential role in the credit risk management and decision-making process, credit approvals, internal capital allocation, and corporate governance functions. Ratings are used for the following purposes:

- Credit assessment and evaluation
- Credit risk monitoring
- Credit approval and delegated authority
- Economic capital calculation, portfolio and management reporting
- Regulatory capital calculation
- RARORC (Risk-Adjusted Return on Regulatory Capital) calculation
- Pricing: PDs, EADs, and LGDs may be used to assess and compare relative pricing of assets/facilities, in conjunction with strategic, relationship, market practice and competitive factors.

The starting point of all credit risk assessment and evaluation lies in the counterparty risk grading, which is quantified and calculated in compliance with the bank's credit rating policy and using such Basel-2 compliant models as are in current use and which are updated or enhanced from time to time.

Credit risk quantification for any exposure or portfolio is summarised by the calculation of the expected loss (EL), which is arrived at in the following way:



- Based on the risk grading foundation which yields the counterparty's probability of default (PD), the nature and quantum of the credit facilities are considered;
- A forward-looking quantification of the exposure at default (EAD) is determined in accordance with bank standard guidelines.
- Risk mitigants such as security and asset recovery propensities are then quantified to moderate exposure at default to yield the loss given default (LGD).
- Finally, the EL is a function of the PD, the LGD and the EAD.

These parameters are in turn used in quantifying the required regulatory capital reserve, using the Regulatory Capital Calculator developed, maintained and updated in terms of Basel 2, and the economic capital implications through the use of Credit Portfolio Management's (CPM's) Economic Capital tools. Furthermore, bearing in mind the quantum of the facility and the risk/reward thereof, an appropriate consideration of Basel 2 capital requirements (where applicable) and the revenue and return implications of the credit proposal.

4.2 Framework and Governance

Credit risk remains a key component of financial risks faced by any bank given the very nature of its business. The importance of credit risk management cannot be over emphasized as consequences can be severe when neglected. The bank has established sound governance principles to ensure that credit risk is managed effectively within a comprehensive risk management and control framework.

In reaching credit decisions and taking credit risk, both the credit and business functions must consistently and responsibly balance risk and return, as return is not the sole prerogative of business neither is credit risk the sole prerogative of credit. Credit (and the other risk functions, as applicable) and business must work in partnership to understand the risk and apply appropriate risk pricing, with the overall aim of optimising the bank's risk adjusted performance. The reporting lines, responsibilities and authority for managing credit risk in the bank are very clear and independent. However, ultimate responsibility for credit risk rests with the board and which has delegated this to the following organs:

Board credit committee

The purpose of the board credit committee is to ensure that effective credit governance is in place in order to provide for the adequate management, measurement, monitoring and control of credit risk including country risk. In addition to its pre-existing role, the committee has also been vested with the following responsibilities as may be set by the board:

- setting overall risk appetite;
- reviewing and approving credit facilities that are within monetary limits as approved by the board;



- ensuring committees within the structure operate according to defined mandates and delegated authorities;
- maintaining overall accountability and authority for the adequacy and appropriateness of all aspects of the bank credit risk management process;
- utilising appropriate tools to measure, monitor and control credit risk in line with the bank's policies;
- recommending the bank's credit policies and guidelines for board approval; and
- any other matters relating to credit as may be delegated to the committee by the board.

Credit Committee

The credit committee (CC) is the senior management credit decision-making function of the bank with a defined delegated authority (DA) as determined by the board through the board credit committee from time to time. The credit committee exercises responsibility for the independent assessment, approval, review and monitoring of all credit risk assets relating to the bank's business, while ensuring that the origination and management of the assets comply with the principles documented in the credit risk governance standard.

In addition to the above, the CC ensures that the credit portfolio is maintained within the risk appetite set by the board credit committee.

Credit risk management committee

The credit risk management committee (CRMC) is the senior management credit oversight function with a defined oversight role as determined by the board through the board credit committee from time to time. The CRMC effectively enhances credit discipline within the bank and is responsible for controlling, inter alia, delegated authorities, concentration risk, and regulatory issues pertaining to credit, credit audits, policy and governance. In addition to the above, the CRMC provides oversight of governance; recommends to the board credit committee the level of the bank's risk appetite; monitors model performance, development and validation; determine counterparty and portfolio risk limits and approval, country, industry, market, product, customer segment and maturity concentration risk; risk mitigation; impairments and risk usage.

Heads of CTB and PBB Credit

The heads of CTB credit and PBB credit ensure granularity and function-specific details at the business unit levels. They have functional responsibility for credit risk management across the bank and are positioned at sufficiently senior levels in order to ensure the necessary experience and independence of judgment.

They are responsible for providing an independent and objective check on credit risk taking activities to safeguard the integrity of the entire credit risk process.



Credit risk mitigation

Credit risk mitigation is defined as all methods of reducing credit expected loss whether by means of reduction of EAD (e.g. netting), risk transfer (e.g. guarantees) or risk transformation.

Guarantees, collateral and the transaction structures are used by the bank to mitigate credit risks both identified and inherent, though the amount and type of credit risk is determined on a case by case basis. The bank's credit policy and guidelines are used in a consistent manner while security is valued appropriately and reviewed regularly for enforceability and to meet changing business needs.

Processes and procedures for accepting, verifying, maintaining, and releasing collateral are well documented in order to ensure appropriate application of the collateral management techniques.

Credit delegated authority

In terms of specific delegated authority (DA) levels approved (and updated from time to time) by the board upon advise, authority for approval of any credit facilities accorded to counterparties is vested in individuals, and/or groups of individuals acting in concert, and/or credit committees.

Such DA levels are quantified according to counterparty risk grade. Individuals may be accorded DA levels on the authority of the parties specifically mandated to do so in terms of the credit governance framework.

The global credit committee approves based on the mandate given to them by the board credit committee. All approvals are sanctioned by the board credit committee. The board credit committee approves all insider-related credit irrespective of the amount.

4.3 Credit risk measurement

A key element in the measurement of credit risk is the assignment of credit ratings, which are used to determine expected defaults across asset portfolios and risk bands. The risk ratings attributed to counterparties are based on a combination of factors which cover business and financial risks:

The bank uses the PD Master Scale rating concept with a single scale to measure the credit riskiness of all counterparty types. The grading system is a 25-point scale, with three additional default grades.

Group's rating	Grade description	Standard & Poor's	Fitch
SB01 - SB12/SB13	Investment grades	AAA to BBB-	AAA to BBB-
SB14 - SB21	Sub Investment grades	BB+ to CCC	BB+ to CCC
SB22 – SB25	Cautionary grades	CCC to C	CCC to C



Stanbic IBTC Bank PLC's own rating (Fitch)		
	2015	2014
National		
Long- Term IDR	AAA(nga)	AAA(nga)
Short- Term IDR	F1+(nga)	F1+(nga)
Sovereign risk		
Foreign-Currency Long-Term IDR	B+	BB-
Local-Currency Long-Term IDR	B+	BB-
Country Ceiling	B+	BB-

Maximum exposure to credit risk

Loans and advances are analyzed and categorized based on credit quality using the following definitions.

Performing loans

They are defined as:

Neither past due nor specifically impaired loans, which are loans that are current and fully compliant with all contractual terms and conditions.

Early arrears but not specifically impaired loans include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is not expected but could occur if the adverse conditions persist.

Non-performing loans

Non-performing loans are those loans for which:

- the bank has identified objective evidence of default, such as a breach of a material loan covenant or condition; or
- instalments are due and unpaid for 90 days or more.

Non-performing but not specifically impaired loans are not specifically impaired due to the expected recoverability of the full carrying value when considering future cash flows, including collateral.

Non-performing specifically impaired loans are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows. Specifically impaired loans are further analyzed into the following categories:

- substandard items that show underlying well-defined weaknesses and are considered to be specifically impaired;
- doubtful items that are not yet considered final losses due to some pending factors that may strengthen the quality of the items; and



- loss items that are considered to be uncollectible in whole or in part. The bank provides fully for its anticipated loss, after taking collateral into account.

Figure 2: Loan Classification

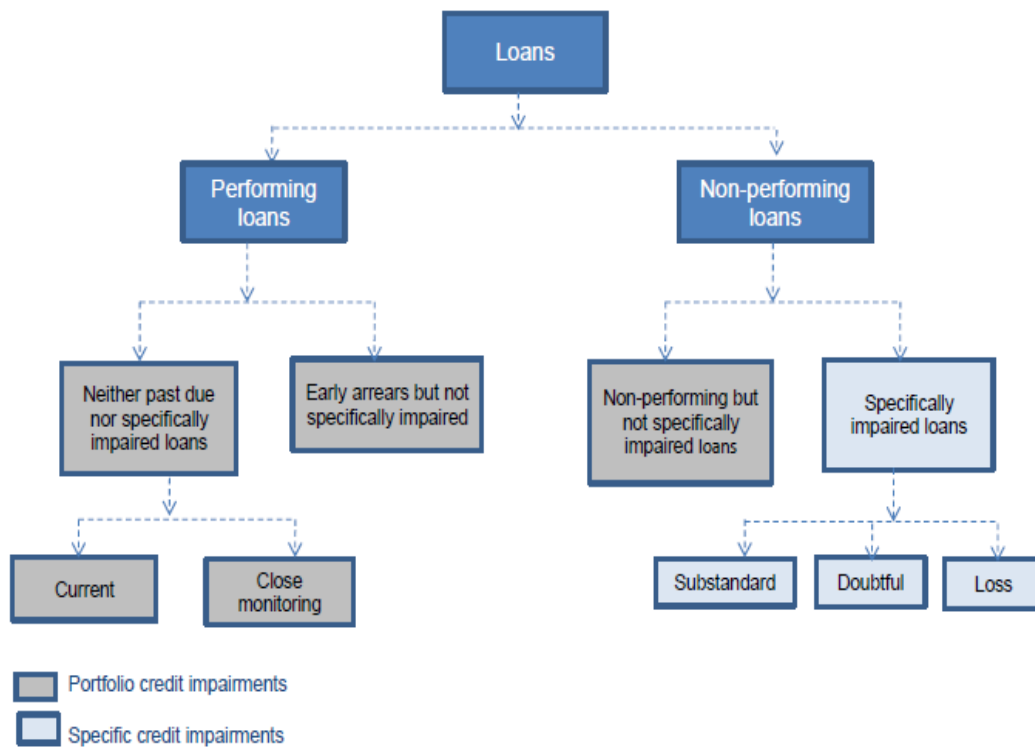




Table 2: Maximum Exposure to credit risk by credit quality- 2015

December 2015	Total Loans and Advances to Customers N/million	Balance sheet impairments for performing loans N/million	Performing loans						Non-performing loans							
			Neither past due nor specifically impaired			Not specifically impaired			Specifically impaired loans							
									Non-performing loans							
			Normal monitoring N/million	Close monitoring N/million	Early arrears N/million	Sub-standard N/million	Doubtful N/million	Loss N/million	Total N/million	Securities and expected recoveries on specifically impaired loans N/million	Net after securities and expected recoveries on specifically impaired loans N/million	Balance sheet impairments for non-performing specifically impaired loans N/million	Gross specific impairment coverage %	Total non-performing loans N/million	Non-performing loans %	
Personal & Business Banking	163,977	2,387	95,644	19,386	32,348	3,277	7,099	6,223	16,599	5,496	11,103	11,103	67	16,599	10.1	
Mortgage loans	9,953	112	7,220	-	2,123	173	154	283	610	181	429	429	70	610	6.1	
Instalment sale and finance leases	22,235	496	5,506	6,764	5,163	1,014	3,788	-	4,802	1,354	3,448	3,448	72	4,802	21.6	
Card debtors	1,638	18	1,440	5	45	26	122	-	148	11	137	137	93	148	9.0	
Other loans and advances	130,151	1,761	81,478	12,617	25,017	2,064	3,035	5,940	11,039	3,950	7,089	7,089	64	11,039	8.5	
Corporate & Transactional Banking	215,451	4,837	192,418	12,514	82	-	7,421	3,016	10,437	2,849	7,588	7,588	73	10,437	4.8	
Corporate loans	215,451	4,837	192,418	12,514	82	-	7,421	3,016	10,437	2,849	7,588	7,588	73	10,437	4.8	
Gross loans and advances	379,428	7,224	288,062	31,900	32,430	3,277	14,520	9,239	27,036	8,345	18,691	18,691	69	27,036	7.1	
Less:																
Impairment for loans and advances	(25,915)															
Net loans and advances	353,513															
Add the following other banking activities																
Cash and cash equivalents	193,945															
Derivatives	911															
Financial investments	145,485															
Asset held for sale	262															
Loans and advances to banks	26,782															
Trading assets	36,590															
Pledged assets	86,570															
Other financial assets	11,684															
Total on-balance sheet exposure	855,742															
<i>Unrecognised financial assets:</i>																
Letters of credit	19,638															
Guarantees	30,335															
Loan commitments	29,902															
Total exposure to credit risk	935,617															



Table 3: Maximum Exposure to credit risk by credit quality- 2014

December 2014	Total Loans and Advances to Customers N'million	Balance sheet impairments for performing loans N'million	Performing loans					Non-performing loans							
			Neither past due nor specifically impaired		Not specifically impaired	Specifically impaired loans								Total non-performing loans N'million	Non-performing loans %
			Normal monitoring N'million	Close monitoring N'million	Early arrears N'million	Sub-standard N'million	Doubtful N'million	Loss N'million	Total N'million	Securities and expected recoveries on specifically impaired loans N'million	Net after securities and expected recoveries on specifically impaired loans N'million	Balance sheet impairments for non-performing specifically impaired loans N'million	Gross specific impairment coverage %		
Personal & Business Banking	166,391	2,270	108,768	15,331	30,878	5,569	2,713	3,132	11,414	4,608	6,806	6,806	60	11,414	6.9
Mortgage loans	8,156	126	6,480	-	1,332	92	202	50	344	93	251	251	73	344	4.2
Instalment sale and finance leases	23,870	332	7,480	6,324	7,988	462	1,185	431	2,078	620	1,458	1,458	70	2,078	8.7
Card debtors	1,278	22	878	-	298	18	34	50	102	6	96	96	94	102	8.0
Other loans and advances	133,087	1,790	93,930	9,007	21,260	4,997	1,292	2,601	8,890	3,889	5,001	5,001	56	8,890	6.7
Corporate & Transactional Banking	247,049	2,032	226,752	9,060	4,700	-	5,127	1,410	6,537	2,809	3,728	3,728	57	6,537	2.6
Corporate loans	247,049	2,032	226,752	9,060	4,700	-	5,127	1,410	6,537	2,809	3,728	3,728	57	6,537	2.6
Gross loans and advances	413,440	4,302	335,520	24,391	35,578	5,569	7,840	4,542	17,951	7,417	10,534	10,534	59	17,951	4.3
Less:															
Impairment for loans and advances	(14,836)														
Net loans and advances	398,604														
Add the following other banking activities															
Cash and balances with central bank	137,553														
Derivatives	4,860														
Financial investments	186,757														
Loans and advances to banks	8,814														
Trading assets	95,121														
Pledged assets	34,172														
Other financial assets	10,749														
Total on-balance sheet exposure	876,630														
<i>Unrecognised financial assets:</i>															
Letters of credit	31,020														
Guarantees	34,543														
Loan commitments	17,972														
Total exposure to credit risk	960,165														



Table 4: Ageing of loans and advances past due but not specifically impaired

	Less than 31 days N'million	31-60 days N'million	61-89 days N'million	90-180 days N'million	More than 180 days N'million	Total N'million
December 2015						
Personal and Business Banking	23,878	6,092	2,378	-	-	32,348
Mortgage loans	1,788	114	221	-	-	2,123
Instalment sales and finance lease	3,038	1,391	734	-	-	5,163
Card debtors	-	32	13	-	-	45
Other loans and advances	19,052	4,555	1,410	-	-	25,017
Corporate and Transactional Banking	-	-	82	-	-	82
Corporate loans	-	-	82	-	-	82
Total	23,878	6,092	2,460	-	-	32,430
December 2014						
Personal and Business Banking	24,338	4,874	1,666	-	-	30,878
Mortgage loans	947	294	91	-	-	1,332
Instalment sales and finance lease	5,994	1,930	64	-	-	7,988
Card debtors	254	28	16	-	-	298
Other loans and advances	17,143	2,622	1,495	-	-	21,260
Corporate and Transactional Banking	3	4,386	311	-	-	4,700
Corporate loans	3	4,386	311	-	-	4,700
Total	24,341	9,260	1,977	-	-	35,578

Table 5: Past dues exposures and impairment by geography

At 31 December 2015

	Total Exposures N'million	Past Due Exposures N'million	Amount Impaired N'million
South South	19,619	2,436	1,977
South West	305,188	18,773	13,479
South East	8,444	423	313
North West	24,704	1,952	1,178
North Central	22,698	3,352	1,661
North East	1,775	100	83
Outside Nigeria	23,782	-	-
Carrying amount	406,210	27,036	18,691

At 31 December 2014

	Total Exposures N'million	Past Due Exposures N'million	Amount Impaired N'million
South South	18,872	954	602
South West	338,205	12,976	8,189
South East	7,409	372	281
North West	26,186	584	430
North Central	20,489	3,004	987
North East	2,279	61	45
Outside Nigeria	8,814	-	-
Carrying amount	422,254	17,951	10,534



Table 6: Past dues exposures and impairment by industry

At 31 December 2015			
	Total Exposures	Past Due Exposures	Amount Impaired
	N'million	N'million	N'million
Agriculture	23,186	952	520
Business services	5,704	882	562
Communication	35,693	2,678	1,293
Community, social & personal services	4	-	-
Construction and real estate	25,018	121	71
Electricity	7,421	7,421	4,570
Financial intermediaries & insurance	33,028	-	-
Government (including Central Bank)	13,978	-	-
Hotels, restaurants and tourism	133	-	-
Manufacturing	76,911	46	28
Mining	67,349	3,954	3,651
Private households	62,820	3,947	3,126
Transport, storage and distribution	16,250	4,156	2,891
Wholesale & retail trade	38,715	2,879	1,979
Carrying amount	406,210	27,036	18,691

At 31 December 2014			
	Total Exposures	Past Due Exposures	Amount Impaired
	N'million	N'million	N'million
Agriculture	26,893	402	264
Business services	4,511	432	227
Communication	42,197	2,599	945
Community, social & personal services	14,774	1,304	490
Construction and real estate	25,745	1,914	1,101
Electricity	12,114	3,214	1,217
Financial intermediaries & insurance	16,773	-	-
Government (including Central Bank)	2,164	-	-
Hotels, restaurants and tourism	255	5	5
Manufacturing	84,476	1,419	1,416
Mining	80,520	848	600
Private households	67,272	2,517	1,885
Transport, storage and distribution	16,696	1,756	1,177
Wholesale & retail trade	27,864	1,541	1,207
Carrying amount	422,254	17,951	10,534

Renegotiated loans and advances

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified due to weaknesses in the counterparty's financial position, and where it has been judged that normal repayment will likely continue after the restructure. Renegotiated loans that would otherwise be past due or impaired comprised N28.7 billion as at 31 December 2015 (Dec 2014: N3.4 billion).

Collateral

The table that follows shows the financial effect that collateral has on the bank's maximum exposure to credit risk. The table is presented according to Basel II asset categories and includes collateral that may not be eligible for recognition under Basel II but that management takes into



consideration in the management of the bank's exposures to credit risk. All on- and off-balance sheet exposures which are exposed to credit risk, including non-performing assets, have been included.

Collateral includes:

- financial securities that have a tradable market, such as shares and other securities;
- physical items, such as property, plant and equipment; and
- financial guarantees, surety ships and intangible assets.

All exposures are presented before the effect of any impairment provisions.

In the retail portfolio, 67% (Dec 2014: 61%) is collateralised. Of the bank's total exposure, 62% (Dec 2014: 62%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

Table 7: 2015 Breakdown by Collateral

Note	Total exposure N'million	Unsecured N'million	Secured N'million	Netting agreements N'million	Secured exposure after netting N'million	Total collateral coverage			
						1%-50% N'million	50%-100% N'million	Greater than 100% N'million	
December 2015									
Corporate	261,945	46,514	215,431	-	-	188,781	368	26,282	
Sovereign	378,519	378,519		-	-	-	-	-	
Bank	73,548	73,548		-	-	-	-	-	
Retail	181,115	60,961	120,154	-	-	44,518	21,702	53,934	
Retail Mortgage	9,953	-	9,953	-	-	1,368	1,905	6,679	
Other retail	171,162	60,961	110,201	-	-	43,150	19,797	47,255	
Total	895,127	559,542	335,585	-	-	233,299	22,070	80,216	
Add: Financial assets not exposed to credit risk	36,503								
Less: Impairments for loans and advances	(25,915)								
Less: Unrecognised off balance sheet items	(49,973)								
Total exposure	855,742								
Reconciliation to statement of financial position:									
Cash and balances with central bank	193,945								
Derivatives	911								
Financial investments	145,485								
Asset held for sale	262								
Loans and advances	380,295								
Trading assets	36,590								
Pledged assets	86,570								
Other financial assets	11,684								
Total	855,742								



Table 8: 2014 Breakdown by Collateral

	Note	Total exposure N'million				Secured exposure after netting N'million	Total collateral coverage		
			Unsecured N'million	Secured N'million	Netting agreements N'million		1%-50% N'million	50%-100% N'million	Greater than 100% N'million
December 2014									
Corporate		298,623	60,457	238,166	-	-	187,456	16,854	33,856
Sovereign		343,850	343,850	-	-	-	-	-	-
Bank		106,313	106,313	-	-	-	-	-	-
Retail		188,030	73,564	114,466	-	-	23,261	21,067	70,138
Retail Mortgage		8,156	-	8,156	-	-	173	386	7,597
Other retail		179,874	73,564	106,310	-	-	23,088	20,681	62,541
Total		936,816	584,184	352,632	-	-	210,717	37,921	103,994
Add: Financial assets not exposed to credit risk		20,213							
Less: Impairments for loans and advances		(14,836)							
Less: Unrecognised off balance sheet items		(65,563)							
Total exposure		876,630							
Reconciliation to statement of financial position:									
Cash and balances with central bank		137,553							
Derivatives		4,860							
Financial investments		186,757							
Loans and advances		407,418							
Trading assets		95,121							
Pledged assets		34,172							
Other financial assets		10,749							
Total		876,630							



Concentration of risks of financial assets with credit risk exposure

a) Geographical sectors

Table 9: Breakdown by Geography

At 31 December 2015	Trading assets N'million	Derivative assets N'million	Pledged assets N'million	Financial investments & Asset held for sale N'million	Loans and advances to customers N'million	Loans and advances to banks N'million	Total N'million
South South	-	-	-	-	17,428	-	17,428
South West	-	365	-	402	285,440	-	286,207
South East	-	-	-	397	7,977	-	8,374
North West	-	-	-	-	23,186	-	23,186
North Central	35,779	528	86,570	144,948	17,810	-	285,635
North East	-	-	-	-	1,672	-	1,672
Outside Nigeria	811	18	-	-	-	26,782	27,611
Carrying amount	36,590	911	86,570	145,747	353,513	26,782	650,113
At 31 December 2014	Trading assets N' million	Derivative assets N' million	Pledged assets N'million	Financial investments N' million	Loans and advances to customers N' million	Loans and advances to banks N' million	Total N' million
South South	-	-	-	-	17,980	-	17,980
South West	373	1,106	-	2,726	326,601	-	330,806
South East	-	-	-	1,058	7,050	-	8,108
North West	-	-	-	-	25,452	-	25,452
North Central	24,972	3,579	34,172	182,973	19,311	-	265,007
North East	-	-	-	-	2,210	-	2,210
Outside Nigeria	69,776	175	-	-	-	8,814	78,765
	95,121	4,860	34,172	186,757	398,604	8,814	728,328



b) Industry Sector

Table 10: Breakdown by Industry Sector

At 31 December 2015	Trading assets	Derivative assets	Pledged assets	Financial investments & Asset held for sale	Loans and advances to customers	Loans and advances to banks	Total
	N'million	N'million	N'million	N'million	N'million	N'million	N'million
Agriculture	-	-	-	-	22,280	-	22,280
Business services	-	-	-	-	5,017	-	5,017
Communication	-	-	-	-	34,216	-	34,216
Community, social & personal services	-	-	-	-	4	-	4
Construction and real estate	-	364	-	-	24,852	-	25,216
Electricity	-	-	-	-	2,851	-	2,851
Financial intermediaries & insurance	36,590	19	-	402	6,216	23,782	67,009
Government (including Central Bank)	-	528	86,570	145,345	12,989	3,000	248,432
Hotels, restaurants and tourism	-	-	-	-	128	-	128
Manufacturing	-	-	-	-	76,371	-	76,371
Mining	-	-	-	-	60,453	-	60,453
Private households	-	-	-	-	58,881	-	58,881
Transport, storage and distribution	-	-	-	-	13,014	-	13,014
Wholesale & retail trade	-	-	-	-	36,241	-	36,241
Carrying amount	36,590	911	86,570	145,747	353,513	26,782	650,113

At 31 December 2014	Trading assets	Derivative assets	Pledged assets	Financial investments	Loans and advances to customers	Loans and advances to banks	Total
	N' million	N' million	N'million	N' million	N' million	N' million	N' million
Agriculture	-	237	-	-	26,387	-	26,624
Business services	-	-	-	-	4,181	-	4,181
Communication	-	7	-	-	40,656	-	40,663
Community, social & personal services	-	-	-	-	14,055	-	14,055
Construction and real estate	-	554	-	337	24,529	-	25,420
Electricity	-	-	-	-	10,739	-	10,739
Financial intermediaries & insurance	70,150	185	-	1,896	7,933	8,814	88,978
Government (including Central Bank)	24,971	3,579	34,172	184,031	2,045	-	248,798
Hotels, restaurants and tourism	-	-	-	-	247	-	247
Manufacturing	-	196	-	493	82,569	-	83,258
Mining	-	-	-	-	79,072	-	79,072
Private households	-	-	-	-	64,768	-	64,768
Transport, storage and distribution	-	-	-	-	15,185	-	15,185
Wholesale & retail trade	-	102	-	-	26,238	-	26,340
Carrying amount	95,121	4,860	34,172	186,757	398,604	8,814	728,328

c) Analysis of financial assets disclosed above by risk rating

Table 11: Breakdown by risk rating

	AAA to A-	BBB+ to BBB-	Below BBB-	Unrated	Total
	N'million	N'million	N'million	N'million	N'million
At 31 December 2015	4,141	40,720	536,000	69,252	650,113
At 31 December 2014	75,218	3,785	649,161	164	728,328



Concentration of risks of off balance-sheet engagements

a) Geographical sectors

Table 12: Breakdown by Geography

At 31 December 2015	Bonds and guarantees N'million	Letters of credit N'million	Total N'million
South South	480	-	480
South West	28,963	19,638	48,601
South East	23	-	23
North West	57	-	57
North Central	800	-	800
North East	12	-	12
Carrying amount	30,335	19,638	49,973

At 31 December 2014	Bonds and guarantees N'million	Letters of credit N'million	Total N'million
South South	732	-	732
South West	33,277	31,020	64,297
South East	3	-	3
North West	12	-	12
North Central	519	-	519
North East	-	-	-
Carrying amount	34,543	31,020	65,563



b) Industry sectors

Table 13: Breakdown by Industry Sector

	31 Decemebr 2015			31 Decemebr 2014		
	Bonds and guarantees	Letters of credit	2015 Total	Bonds and guarantees	Letters of credit	2014 Total
	N' million	N' million	N'million	N' million	N' million	N' million
Agriculture	-	60	60	-	2,022	2,022
Business services	416	-	416	100	93	193
Communication	269	-	269	336	-	336
Community, social & personal services	-	-	-	2	-	2
Construction and real estate	9,098	-	9,098	10,212	-	10,212
Financial intermediaries & insurance	3,708	1,420	5,128	9,151	-	9,151
Government (including Central Bank)	10	-	10	-	-	-
Manufacturing	8,450	6,425	14,875	4,019	6,891	10,910
Mining	1,080	9,581	10,661	2,560	17,778	20,338
Private households	-	-	-	8	-	8
Transport, storage and distribution	12	-	12	12	-	12
Wholesale & retail trade	7,292	2,152	9,444	8,143	4,236	12,379
Carrying amount	30,335	19,638	49,973	34,543	31,020	65,563

4.4 Credit Risk Capital

The Bank currently allocates capital for credit risk using the Standardised approach. Risk Weights (RW) have been assigned as per CBN Guidelines for Credit Risk Capital Requirement. The table below shows the credit exposure and risk weighted asset as at 31 December 2015.

Table 14: Credit Exposure and Risk Weighted Asset as at 31 December 2015

Asset Class	Exposure Amount N'million	CRM N'million	Net Exposure N'million	RWA N'million	Capital Requirement N'million
Sovereigns and Central Banks	378,973	-	378,973	-	-
State Govt and Local Authorities	398	-	398	398	40
Public Sector Entities (PSEs)	13,314	7	13,307	13,307	1,331
Multilateral Development Banks (MDB)	-	-	-	-	-
Supervised Institutions	69,580	-	69,580	52,634	5,263
Corporate and Other Persons	242,841	-	242,841	230,536	23,054
Regulatory Retail Portfolio	59,434	12,305	47,129	40,309	4,031
Secured by Mortgages on Residential Properties	5,400	5,688	(288)	4,627	463
Exposures Secured by Mortgages on Commercial Real Estates	24,513	426	24,087	23,874	2,387
Past Due Exposures	8,345	640	7,706	8,264	826
Other Balance Sheet Exposures	71,036	-	71,036	34,604	3,460
Off Balance Sheet Exposures	37,789	241	37,549	36,824	3,682
Regulatory Risk Reserve	-	-	-	(6,684)	(668)
Total	911,623	19,307	892,317	438,694	43,869



5 Market Risk

5.1 Overview

The identification, management, control, measurement and reporting of market risk is categorised as follows:

Trading market risk

These risks arise in trading activities where the bank acts as a principal with clients in the market. The bank policy is that all trading activities are contained within the bank's Corporate and Investment Banking (CTB) trading operations.

Banking book interest rate risk

These risks arise from the structural interest rate risk caused by the differing re-pricing characteristics of banking assets and liabilities.

Foreign currency risk

These risks arise as a result of changes in the fair value or future cash flows of financial exposures due to changes in foreign exchange rates.

Equity investment risk

These risks arise from equity price changes in listed and unlisted investments, and managed through the equity investment committee, which is a sub-committee of the executive committee.

5.2 Framework and governance

The board approves the market risk appetite and standards for all types of market risk. The board grants general authority to take on market risk exposure to the ALCO. ALCO sets market risk policies to ensure that the measurement, reporting, monitoring and management of market risk associated with operations of the bank follow a common governance framework. The bank's ALCO reports to EXCO and also to the BRMC. The in-country risk management is subject to SBG oversight for compliance with group standards and minimum requirements.

The market risk management unit which is independent of trading operations and accountable to ALCO, monitors market risk exposures due to trading and banking activities. This unit monitors exposures and respective excesses daily, report monthly to ALCO and quarterly to the BRMC.



5.3 Market risk measurement

The techniques used to measure and control market risk include daily net open position, daily VaR, back-testing, PV01, other market risk measures, annual net interest income at risk and Daily net open position.

Daily net open position

The board on the input of ALCO sets limits on the level of exposure by currency and in aggregate for overnight positions. The latter is also aligned to the net open position limit as specified by the regulators, which is usually a proportion of the banks' capital.

Daily value-at-risk (VaR)

VaR is a technique that estimates the potential losses that may occur as a result of market movements over a specified time period at a predetermined probability.

VaR limits and exposure measurements are in place for all market risks the trading desk is exposed to. The bank generally uses the historical VaR approach to derive quantitative measures, specifically for market risk under normal market conditions. Normal VaR is based on a holding period of one day and a confidence level of 95%. Daily losses exceeding the VaR are likely to occur, on average, 13 times in every 250 days.

The use of historic VaR has limitations as it is based on historical correlations and volatilities in market prices and assumes that future prices will follow the observed historical distribution. Hence, there is a need to back-test the VaR model regularly.

VaR back-testing

The bank back-tests its foreign currency, interest rate and credit trading exposure VaR model to verify the predictive ability of the VaR calculations thereby ensuring the appropriateness of the model. Back-testing exercise is an ex-post comparison of the daily hypothetical profit and loss under the one-day buy and hold assumption to the prior day VaR. Profit or loss for back-testing is based on the theoretical profits or losses derived purely from market moves, both interest rate and foreign currency spot moves, and it is calculated over 250 cumulative trading-days at 95% confidence level.

Stress tests

Stress testing provides an indication of the potential losses that could occur in extreme market conditions.



The stress tests carried out include individual market risk factor testing and combinations of market factors on individual asset classes and across different asset classes. Stress tests include a combination of historical and hypothetical simulations.

PV01

PV01 is a risk measure used to assess the effect of a change of rate of one basis point on the price of an asset. This limit is set for the fixed income, money market trading, credit trading, derivatives and foreign exchange trading portfolios.

Other market risk measures

Other market risk measures specific to individual business units include permissible instruments, concentration of exposures, gap limits, maximum tenor and stop loss triggers. In addition, only approved products that can be independently priced and properly processed are permitted to be traded.

Pricing models and risk metrics used in production systems, whether these systems are off-the-shelf or in-house developed, are independently validated by the market risk unit before their use and periodically thereafter to confirm the continued applicability of the models. In addition, the market risk unit assesses the daily liquid closing price inputs used to value instruments and performs a review of less liquid prices from a reasonableness perspective at least fortnightly. Where differences are significant, mark-to-market adjustments are made.

Annual net interest income at risk

A dynamic forward-looking annual net interest income forecast is used to quantify the banks' anticipated interest rate exposure. This approach involves the forecasting of both changing balance sheet structures and interest rate scenarios, to determine the effect these changes may have on future earnings. The analysis is completed under both normal market conditions as well as stressed market conditions.

Analysis of Value-at-Risk (VaR) and actual income

The table below highlights the historical diversified normal VaR across the various trading desks. The minimum and maximum trading diversified normal VaR stood at USD61.8k and USD1.7m respectively with an annual average of USD1m which translates to a conservative VaR base limit utilisation of 15% on average.



Table 15: Diversified Normal VaR Exposures

Diversified Normal Var Exposures (USD'000)						
Desk	Maximum	Minimum	Average	31-Dec-15	31-Dec-14	Limit
Bankwide	1,702	62	746	1,007	136	4,815
FX Trading	70	2	16	20	4	88
Money Markets Trading	1,582	61	699	980	104	2,058
Fixed Income Trading	474	5	109	45	24	1,547
Credit Trading	184	0	24	0	58	1,001
Derivatives	0	0	0	0	0	200

Analysis of PV01

The table below shows the PV01 of the money markets banking and the individual trading books. The money markets trading book PV01 exposure increased to N911k from that of the previous year as a result of T-bills purchase of N95bn, the money markets banking book PV01 exposure stood at N3.9m lower than that of the previous year as a result of several maturities of T-bills, FGN bonds and Eurobonds while the fixed income trading book PV01 exposure was N316k. Overall trading PV01 exposure was N1.2m against a limit of N8.2m thus reflecting a very conservative exposure utilisation. Limit discipline was very good across the banking and trading books.

Table 16: Analysis of PV01

PV01 (NGN'000)	31-Dec-15	31-Dec-14	Limit
Money market trading book	911	208	2,775
Fixed income trading book	316	260	2,550
Credit trading book	-	414	2,478
Derivatives trading book	-	-	375
Total trading book	1,227	882	8,178
Money market banking book	3,969	6,804	10,000

Interest rate risk in the banking book

Interest rate risk in the banking book (IRRBB) can be defined as the reduction in banking book net interest income due to changes in interest rates arising from the different re-pricing characteristics of banking book assets and liabilities. IRRBB is further divided into the following sub-risk types:

- **Repricing risk** referring to the timing differences in the maturity (fixed rate) and repricing (floating rate) of assets and liabilities.



- **Yield curve risk** arising when unanticipated shifts in the yield curve have adverse effects on the bank's income.
- **Basis risk** arising from the imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics.
- **Optionality risk** arising from the options embedded in bank asset and liability portfolios, providing the holder with the right, but not the obligation, to buy, sell, or in some manner alter the cash flow of an instrument or financial contract.
- **Endowment risk** referring to the interest rate risk exposure arising from the net differential between interest rate insensitive assets such as non-earning assets and interest rate insensitive liabilities such as non-paying liabilities and equity.

Approach to managing interest rate risk on positions in the banking book

Banking-related market risk exposure principally involves the management of the potential adverse effect of interest movements on banking book earnings (net interest income and banking book mark-to-market profit or loss).

The bank's approach to managing IRRBB is governed by prudence and is in accordance with the applicable laws and regulations, best international practice and the competitive situation within which it operates in financial markets. Interest rate risk is transferred to and managed within the bank's treasury operations under supervision of ALCO.

Measurement of IRRBB

The analytical technique used to quantify IRRBB is an earnings based approach. A dynamic, forward-looking net interest income forecast is used to quantify the bank's anticipated interest rate exposure. Desired changes to a particular interest rate risk profile are achieved through the restructuring of on-balance sheet repricing or maturity profiles. All assets and liabilities are allocated to gap intervals based on either their repricing or maturity characteristics. However, assets and liabilities for which no identifiable contractual repricing or maturity dates exist are allocated to gap intervals based on behavioural profiling.

The impact on net interest income due to interest rate changes cover 12 months of forecasting and allows for the dynamic interaction of payments, new business and interest rates. The analyses are done under stressed market conditions in which the banking book is subjected to an upward 350 basis points and downward 400 basis points parallel rate shocks for local currency and 100 basis points upward and downward parallel rate shocks for foreign currency positions.



The table below shows the sensitivity of the bank's net interest income in response to standardised parallel rate shocks.

Table 17: Parallel Rate Shock Result

Measure	Stress Condition	Utilisation (%) Dec-15	Stress Condition	Utilisation (%) Dec-14	Limit
LCY Parallel Rate Shock	+350bps	+7.59	+350bps	+9.72	10%
	-400bps	-10.69	-350bps	-12.34	
FCY Parallel Rate Shock	+100bps	+5.12	75bps	6.24	
	-100bps	-2.67%	-75bps	-5.96	

		NGN	USD	Other	Total	
31 December 2014						
Increase in basis points			350	75	75	
Sensitivity of annual net interest income	NGNm	3 669	945	(46)	4 568	
Decrease in basis points			350	75	75	
Sensitivity of annual net interest income	NGNm	(4 660)	(905)	46	(5 519)	

Hedging of endowment risk

IRRBB is predominantly the consequence of endowment exposures, being the net exposure of non-rate sensitive liabilities and equity less non-rate sensitive assets. The endowment risk is hedged using marketable liquid instruments in the same currency as the exposure as and when it is considered opportune. Hedge decisions are made by ALCO following careful consideration of the interest rate views to be hedged against, including magnitude, direction, timing and probability, and the exposure to be hedged.

Market risk on equity investment

The equity committee (EC) has governance and oversight of all investment decisions. The committee is tasked with the formulation of risk appetite and oversight of investment performance. In this regard, a loss trigger is in place for the non-strategic portion.

Currency risk

The bank's foreign exchange positions arise mainly from foreign exchange trading activities, which are governed by position limits approved by the risk management committee in accordance with bank's market risk policy. These position limits are subject to review at least annually and foreign exchange exposures are monitored daily by the market risk function and reviewed monthly to ensure they remain within the approved risk appetite. The bank's policy is not to hold



open exposures in respect of the banking book of any significance. The table below summarises foreign currency exposures of the bank as at period end and the net open position thereof.

Table 18: Currency Risk Concentration as at 31 December 2015

Concentrations of currency risk – on- and off-balance sheet financial assets and liabilities

At 31 December 2015	Naira	US Dollar	GBP	Euro	Others	Total
Financial assets	N million	N million	N million	N million	N million	N million
Cash and cash equivalents	124,263	63,476	812	5,138	256	193,945
Trading assets	35,779	-	811	-	-	36,590
Pledged assets	86,570	-	-	-	-	86,570
Derivative assets	911	-	-	-	-	911
Financial investments	145,485	-	-	-	-	145,485
Asset held for sale	262	-	-	-	-	262
Loans and advances to banks	3,000	20,868	-	-	2,914	26,782
Loans and advances to customers	218,636	134,811	62	4	-	353,513
Other financial assets	(44,326)	59,103	4	(1,817)	(1,280)	11,684
	570,580	278,258	1,689	3,325	1,890	855,742
Financial liabilities						
Trading liabilities	24,101	-	-	-	-	24,101
Derivative liabilities	383	-	-	-	-	383
Deposits and current accounts from banks	23,000	72,446	-	-	-	95,446
Deposits and current accounts from customers	385,608	109,747	1,327	834	63	497,579
Other borrowings	14,672	66,435	-	-	-	81,107
Subordinated debt	15,698	8,001	-	-	-	23,699
Other financial liabilities	21,097	27,566	342	3,052	92	52,149
	484,559	284,195	1,669	3,886	155	774,464
Net on-balance sheet position	86,021	(5,937)	20	(561)	1,735	81,278
Off balance sheet	2,074	44,993	56	1,826	1,024	49,973

Table 19: Currency Risk Concentration as at 31 December 2014

Concentrations of currency risk – on- and off-balance sheet financial assets and liabilities

At 31 December 2014	Naira	US Dollar	GBP	Euro	Others	Total
Financial assets	N million	N million	N million	N million	N million	N million
Cash and cash equivalents	111,041	20,943	2,154	2,435	980	137,553
Trading assets	24,836	63,214	7,071	-	-	95,121
Pledged assets	34,172	-	-	-	-	34,172
Derivative assets	4,855	5	-	-	-	4,860
Financial investments	184,992	1,765	-	-	-	186,757
Loans and advances to banks	-	5,524	-	-	3,290	8,814
Loans and advances to customers	227,435	170,830	116	223	-	398,604
Other financial assets	8,275	2,439	35	-	-	10,749
	595,606	264,720	9,376	2,658	4,270	876,630
Financial liabilities						
Trading liabilities	85,283	-	-	-	-	85,283
Derivative liabilities	2,675	2	-	-	-	2,677
Deposits and current accounts from banks	42,546	16,571	-	4	-	59,121
Deposits and current accounts from customers	371,329	132,110	3,376	775	144	507,734
Other borrowings	18,476	51,675	-	-	-	70,151
Subordinated debt	15,678	7,295	-	-	-	22,973
Other financial liabilities (restated)	8,753	41,481	297	2,234	3,864	56,629
	544,740	249,134	3,673	3,013	4,008	804,568
Net on-balance sheet position	50,866	15,586	5,703	(355)	262	72,062
Off balance sheet	25,273	37,957	34	1,446	853	65,563

Exchange rates applied

Year-end spot rate	2015	2014
US Dollar	199.3	181.72
GBP	294.93	282.86
Euro	216.86	220.34



Sensitivity analysis

A reasonably possible strengthening (weakening) of the US dollar, GBP or Euro against Naira at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

Table 20: Sensitivity Analysis

Effect in N million	Profit or loss		Equity, net of tax	
	Strengthening	Weakening	Strengthening	Weakening
At 31 December 2015				
USD (20% movement)	(1,187)	1,187	(831)	831
GBP (10% movement)	2	(2)	1	(1)
EUR (5% movement)	(28)	28	(20)	20
At 31 December 2014				
USD (5% movement)	779	(779)	546	(546)
GBP (2% movement)	114	(114)	80	(80)
EUR (1% movement)	(4)	4	(2)	2

5.4 Market Risk Capital

The Bank currently allocates capital for market risk using the Standardised approach. The table below shows the capital charge and risk weighted asset for Interest rate and Foreign Exchange risk types.

Table 21: Market Risk Capital Charge and Risk Weighted Asset

Risk Type (Numbers are in N'million)	Capital Charge	RWA (12.5 x Capital)
Interest Rate (FGN Bond & T-Bills)	152	1,904
Foreign Exchange Risk (Net Open Position)	8	101
Total	160	2,004



6 Operational Risk

6.1 Overview

Operational risk is defined as the risk of loss resulting from inadequate or failed processes, people and systems (including information technology and infrastructure) or from external events. The definition of operational risk also includes:

- information risk – the risk of unauthorised use, modification or disclosure of information resources;
- fraud risk – the risk of losses resulting from fraudulent activities;
- environmental risk – the risk of inadvertently participating in the destruction of the environment;
- legal risk - the risk that the bank will be exposed to litigation;
- taxation risk – the risk that the bank will incur a financial loss due to incorrect interpretation and application of taxation legislation or due to the impact of new taxation legislation on existing business;
- compliance risk - the risk that the bank does not comply with applicable laws and regulations or supervisory requirements.

6.2 Operational Risk Capital

The Bank currently allocates capital for operational risk using the Basic Indicator Approach (BIA), as prescribed by the Basel Committee and the Central Bank of Nigeria (CBN). According to this approach, the Bank’s gross income is treated as a proxy for the institution's overall operational risk exposure and operational risk capital requirement is computed as 15% of the average gross income from the preceding three years.

The computation of operational risk capital requirement as of 31st December 2015 is based on the previous three (3) years gross income data as defined by the guideline.

Table 22: Operational Risk Capital Charge and Risk Weighted Asset

Item	2013	2014	2015
Gross Income N'million	61,250	75,294	69,095
Aggregate gross income N'million	205,639		
Beta Factor	15%		
Gross Income X Beta Factor	30,845		
Number of year with positive annual gross income	3		
Operational Risk Capital Charge	10,282		
Operational Risk Weighted Asset	128,524		



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