STANBIC IBTC BANK PLC

PILLAR III DISCLOSURES

DECEMBER 2016

Table of contents

1 Introduction

1.1 Background

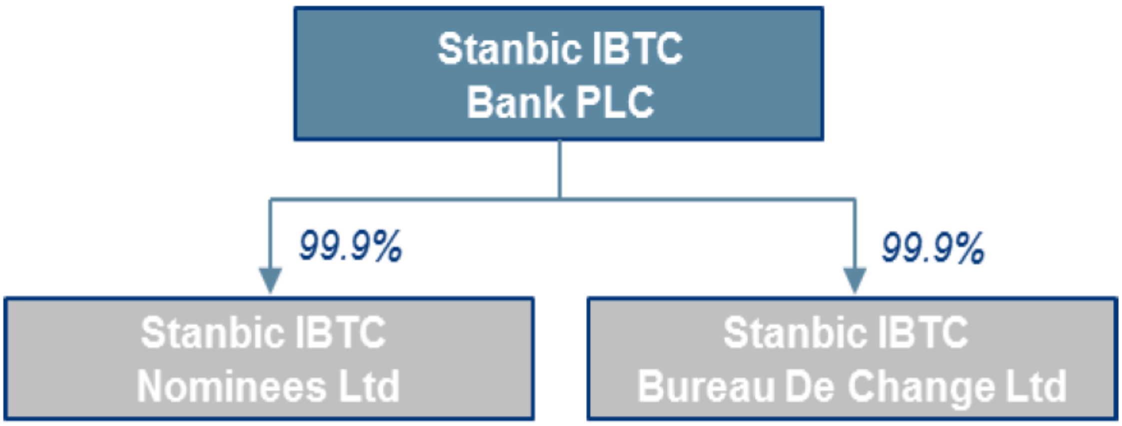
Stanbic IBTC Bank PLC (SIBTC bank or "the bank") is a wholly owned subsidiary of Stanbic IBTC Holdings PLC, a member of Standard Bank Group Limited. The principal activity of the Bank is the provision of banking and related financial services to corporate and individual customers. The bank offers its 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 bank 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.

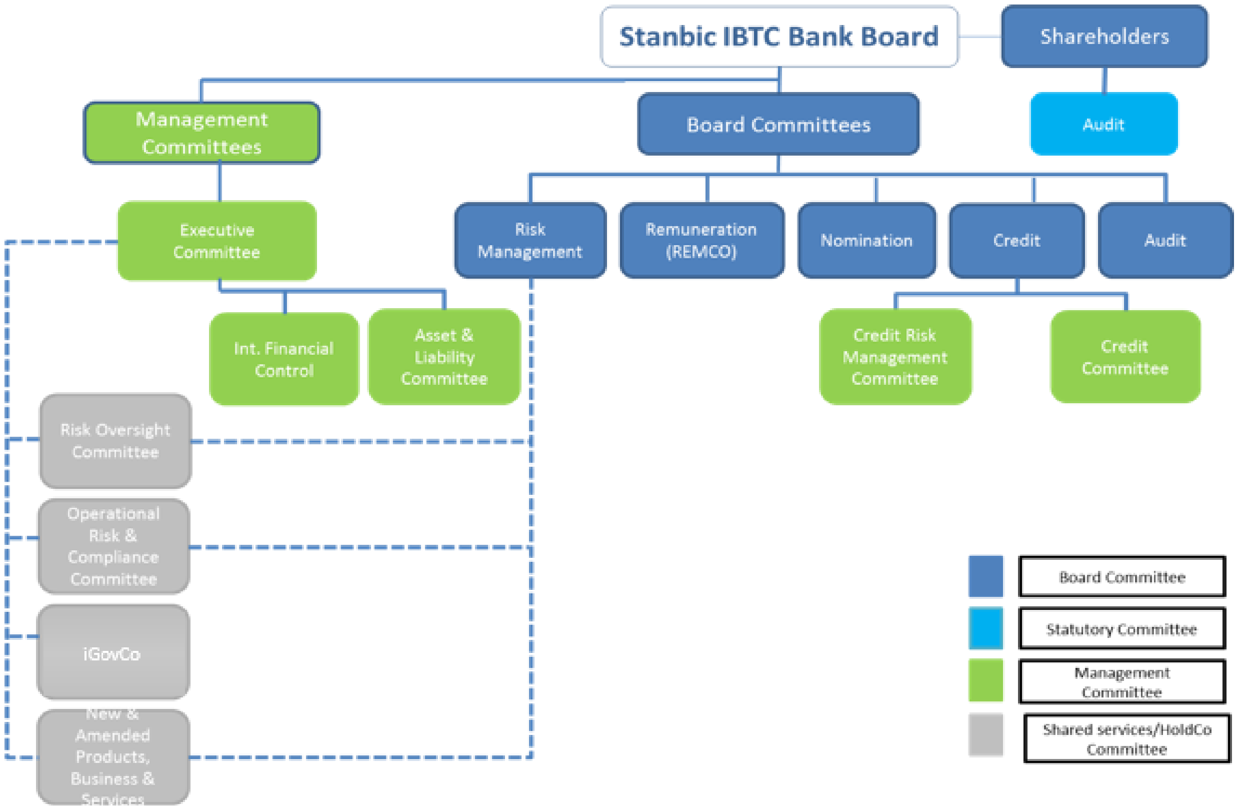
An important element that underpins the bank's approach to the management of all risk is independence and appropriate segregation of responsibilities between Business and Risk. All principal risks are supported by the Risk department.

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 bank 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 bank 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-collaterised 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 2016 was N99bn (2015: N80bn) while Total eligible Tier 2 Capital as at 31 December 2016 was N28bn (2015: N24bn).
Investment in unconsolidated subsidiaries and associations are deducted from Tier 1 and 2 capital to arrive at total regulatory capital, which was N127bn as at 31 December 2016.

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 as at 31 December 2016

	31 Dec 2016 N'million	31 Dec 2015 N'million
Tier 1		
	108,228	87,355
Paid-up share capital	1,875	1,875
Irredemable Preference Shares	-	-
Share premium	42,469	42,469
General reserve (Retained Profit)	40,664	22,033
SMEEIS reserve	1,039	1,039
Statutory reserve	22,153	19,907
Other reserves	28	32
Non controlling interests	-	-
Less: regulatory deduction	9,084	7,371
Goodwill	-	-
Deferred tax assets	8,321	7,321
Other intangible assets	713	-
Investment in the capital of financial subsidiaries	50	50
Excess exposure(s) over single obligor without CBN approval	-	-
Exposures to own financial holding company	-	-
Unsecured lending to subsidiaries within the same group	-	-
Unsecured lending to subsidiaries within the same group	-	-
Eligible Tier I capital	99,144	79,984
Tier II		
	28,149	24,520
Hybrid (debt/equity) capital instruments	-	-
Subordinated term debt	27,964	23,699
Other comprehensive income (OCI)	185	821
Less: regulatory deduction	50	50
Reciprocal cross-holdings in ordinary shares of financial institutions	-	-
Investment in the capital of banking and financial institutions	-	-
Investment in the capital of financial subsidiaries	50	50
Exposures to own financial holding company	-	-
Unsecured lending to subsidiaries within the same group	-	-
Eligible Tier II capital	28,099	24,470
Total regulatory capital	**127,243**	**104,454**
Risk weighted assets:		
Credit risk	458,266	438,694
Operational risk	146,986	128,524
Market risk	1,917	2,004
Total risk weight	**607,169**	**569,222**
Total capital adequacy ratio	21.0%	18.4%
Tier I capital adequacy ratio	16.3%	14.1%

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)		
	2016	**2015**
National		
Long- Term IDR	AAA(nga)	AAA(nga)
Short- Term IDR	F1+(nga)	F1+(nga)
Sovereign risk		
Foreign-Currency Long-Term IDR	B+	B+
Local-Currency Long-Term IDR	B+	B+
Country Ceiling	B+	B+

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

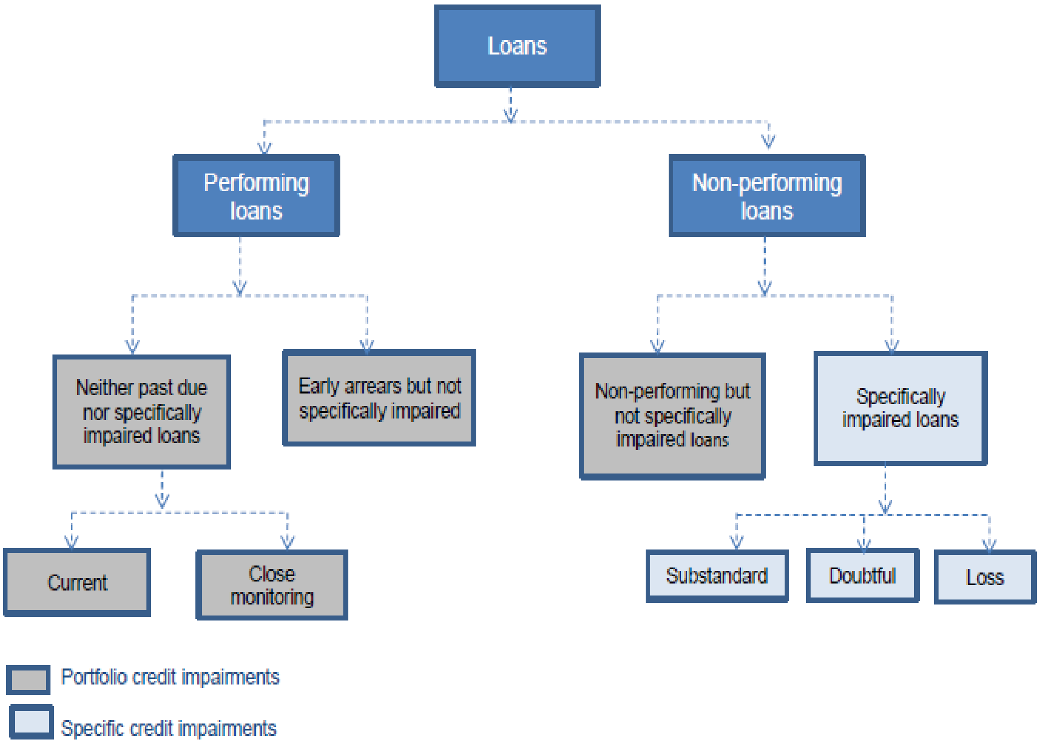


Table 2: Maximum Exposure to credit risk by credit quality- 2016

December 2016			Performing loans		Non-performing loans											
			Neither past due nor specifically impaired		Not specifically impaired		Specifically impaired loans									
							Non-performing loans									
	Total Loans and Advances to Customers N'million	Balance sheet impairments for performing loans N'million	Normal monitoring N'million	Close monitoring N'million	Early arrears N'million	Non-performing 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	152,360	3,510	86,221	25,092	22,371	-	8,035	4,803	5,836	18,675	7,426	11,249	11,249	60	18,675	12.3
Mortgage loans	8,924	51	5,396	1,472	1 798	-	189	27	42	258	94	164	164	64	258	2.9
Instalment sale and finance leases	16,532	275	6,141	5,277	3,417	-	1,111	68	518	1,697	917	781	781	46	1,697	10.3
Card debtors	1,793	48	1,185	-	380	-	68	92	68	228	14	214	214	94	228	12.7
Other loans and advances	125,111	3,135	73,500	18,343	16,777	-	6,667	4,616	5,209	16,491	6,401	10,090	10,090	61	16,491	13.2
Corporate & Transactional Banking	222,956	7,591	194,856	5,995	22,104	-	-	-	-	-	0	-	-	-	-	-
Corporate loans	222,956	7,591	194,856	5,995	22,104	-	-	-	-	-	0	-	-	-	-	-
Gross loans and advances	**375,316**	11,101	281,078	31,088	44,476	-	8,035	4,803	5,836	18,675	7,426	11,249	11,249	60	18,675	5.0

Less:	
Impairment for loans and advances	(22,351)
Net loans and advances	352,965
Add the following other banking activities exposures:	
Cash and cash equivalents	289,312
Derivatives	14,317
Financial investments (excluding equity)	217,518
Asset held for sale	-
Loans and advances to banks	15,264
Trading assets	15,657
Pledged assets	28,303
Other financial assets	26,665
Total on-balance sheet exposure	960,001
Unrecognised financial assets:	
Letters of credit	15,620
Guarantees	38,523
Loan commitments	30,193
Total exposure to credit risk	**1,044,337**

Table 3: Maximum Exposure to credit risk by credit quality- 2015

December 2015			Performing loans			Non-performing loans										
			Neither past due nor specifically impaired		Not specifically impaired		Specifically impaired loans									
	Total Loans and Advances to Customers N'million	Balance sheet impairments for performing loans N'million	Normal monitoring N'million	Close monitoring N'million	Early arrears N'million	Non-performing 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 exposures:	
Cash and balances with central bank	193,945
Derivatives	911
Asset held for sale	262
Financial investments	145,485
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
Unrecognised financial assets:	
Letters of credit	19,638
Guarantees	30,335
Loan commitments	29,902
Total exposure to credit risk	**935,617**

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 2016						
Personal and Business Banking	**16,824**	**3,923**	**1,624**	**-**	**-**	**22,371**
Mortgage loans	1,580	142	77	-	-	1,799
Instalment sales and finance lease	1,800	1,054	562	-	-	3,416
Card debtors	200	131	49	-	-	380
Other loans and advances	13,244	2,596	936	-	-	16,776
Corporate and Transactional Banking	-	8,675	13,430	-	-	22,105
Corporate loans	-	8,675	13,430	-	-	22,105
Total	**16,824**	**12,598**	**15,054**	**-**	**-**	**44,476**
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

Table 5: Past dues exposures and impairment by geography

As at 31 Dec. 2016

	Gross Exposure N million	**Past Due Exposure N million**	**Amount Impaired N million**
South South	**15,021**	**1,756**	**1,315**
South West	**308,662**	**9,523**	**5,652**
South East	**7,153**	**487**	**375**
North West	**25,605**	**3,664**	**2,273**
North Central	**24,560**	**3,191**	**1,588**
North East	**1,819**	**54**	**46**
Outside Nigeria	**7,760**	**-**	**-**
Total	**390,580**	**18,675**	**11,249**

As at 31 Dec. 2015

	Gross Exposure N million	Past Due Exposure 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	-	-
Total	406,210	27,036	18,691

Table 6: Past dues exposures and impairment by industry

As at 31 Dec. 2016

	Gross Exposure N million	Past Due Exposure N million	Amount Impaired N million
Agriculture	**29,424**	**3,128**	**1,799**
Business services	**4,548**	**967**	**753**
Communication	**22,500**	**2,643**	**1,119**
Community, social & personal services	**2**	**-**	**-**
Construction & real estate	**38,066**	**322**	**176**
Electricity, gas & water supply	**-**	**-**	**-**
Financial intermediaries & insurance	**16,870**	**-**	
Government	**14,631**	**119**	**94**
Hotels, restaurants and tourism	**35**	**23**	**14**
Manufacturing	**101,242**	**1,726**	**585**
Mining & quarrying	**65,578**	**2,114**	**1,704**
Private households	**52,511**	**4,313**	**3,462**
Transport, storage & distribution	**12,140**	**1,885**	**614**
Wholesale & retail Trade	**33,033**	**1,435**	**929**
Total	**390,580**	**18,675**	**11,249**

As at 31 Dec. 2015

	Gross Exposure N million	Past Due Exposure N million	Amount Impaired 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 & real estate	25,018	121	71
Electricity, gas & water supply	7,421	7,421	4,570
Financial intermediaries & insurance	33,028	-	
Government	13,978	-	
Hotels, restaurants and tourism	133	-	-
Manufacturing	76,911	46	28
Mining & quarrying	67,349	3,954	3,651
Private households	62,820	3,947	3,126
Transport, storage & distribution	16,250	4,156	2,891
Wholesale & retail Trade	38,715	2,879	1,979
Total	406210	27036	18691

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 amounted to N34.8 billion as at 31 December 2016 (Dec 2015: N28.7 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, 66% (Dec 2015: 67%) is collateralised. Of the group's total exposure, 64% (Dec 2015: 62%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

Table 7: 2016 Breakdown by Collateral

	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 2016								
Corporate	291,256	68,300	222,956	-	-	46,763	88,940	87,254
Sovereign	172,648	172,648		-	-	-	-	-
Bank	340,218	340,218		-	-	-	-	-
Retail	166,074	48,399	117,675	-	-	41,972	41,710	33,994
Retail Mortgage	8,924	-	8,924	-	-	-	-	8,924
Other retail	157,150	48,399	108,751	-	-	41,972	41,710	25,070
Total	**970,196**	**629,565**	**340,631**	**-**	**-**	**88,735**	**130,649**	**121,247**
Add: Financial assets not exposed to credit risk	66,299							
Less: Impairments for loans and advances	(22,351)							
Less: Unrecognised off balance sheet items	(54,143)							
Total exposure	**960,001**							
Reconciliation to statement of financial position:								
Cash and balances with central bank	289,312							
Derivatives	14,317							
Financial investments	217,518							
Loans and advances	368,229							
Trading assets	15,657							
Pledged assets	28,303							
Other financial assets	26,665							
Total	**960,001**							

Table 8: 2015 Breakdown by Collateral

	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							

Concentration of risks of financial assets with credit risk exposure

a) Geographical sectors

Table 9: Breakdown by Geography

At 31 December 2016	**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**
South South	-	-	-		13,445	-	**13,445**
South West	5,001	1,208	-	-	293,196	-	**299,405**
South East	-	-	-	-	6,575	-	**6,575**
North West	-	-	-	-	22,837	-	**22,837**
North Central	10,656	12,529	28,303	217,518	15,171	7,504	**291,681**
North East	-	-	-	-	1,741	-	**1,741**
Outside Nigeria	-	580	-	-	-	7,760	**8,340**
Carrying amount	**15,657**	**14,317**	**28,303**	**217,518**	**352,965**	**15,264**	**644,024**

At 31 December 2015	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
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
	36,590	911	86,570	145,747	353,513	26,782	650,113

b) Industry Sector

Table 10: Breakdown by Industry Sector

At 31 December 2016	**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**
Agriculture	-	1	-	-	26,205	-	**26,206**
Business services	-	-	-	-	3,741	-	**3,741**
Communication	-	-	-	-	21,015	-	**21,015**
Community, social & personal services	-	-	-	-	2	-	**2**
Construction and real estate	-	26	-	-	37,546	-	**37,572**
Electricity	-	-	-	-	-	-	**-**
Financial intermediaries & insurance	5,001	582	-	-	1,538	7,504	**14,625**
Government (including Central Bank)	10,656	12,529	28,303	217,518	14,421	7,760	**291,187**
Hotels, restaurants and tourism	-	-	-	-	21	-	**21**
Manufacturing	-	1,097	-	-	99,510	-	**100,607**
Mining	-	-	-	-	58,244	-	**58,244**
Private households	-	-	-	-	48,215	-	**48,215**
Transport, storage and distribution	-	-	-	-	11,331	-	**11,331**
Wholesale & retail trade	-	82	-	-	31,176	-	**31,258**
Carrying amount	**15,657**	**14,317**	**28,303**	**217,518**	**352,965**	**15,264**	**644,024**

At 31 December 2015	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
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

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 2016	**7,666**	**18,923**	**568,822**	**48,613**	**644,024**
At 31 December 2015	4,141	40,720	536,000	69,252	650,113

Concentration of risks of off balance-sheet engagements

a) Geographical sectors

Table 12: Breakdown by Geography

At 31 December 2016	**Bonds and guarantees**	**Letters of credit***	**Total**
	N'million	**N'million**	**N'million**
South South	850	-	**850**
South West	35,176	15,620	**50,796**
South East	18	-	**18**
North West	90	-	**90**
North Central	2,388	-	**2,388**
North East	-	-	**-**
Outside Nigeria	-	-	**-**
Total	38,523	15,620	**54,143**

At 31 December 2015	Bonds and guarantees	Letters of credit	Total
	N'million	N'million	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
Outside Nigeria	-	-	-
Total	30,335	19,638	49,973

*Amount excludes letters of credit for which cash collateral has been received.

b) Industry sectors

Table 13: Breakdown by Industry Sector

	31 Decemebr 2016			31 Decemebr 2015		
	Bonds and guarantees	Letters of credit	2016 Total	Bonds and guarantees	Letters of credit	2015 Total
	N' million	N' million	N'million	N' million	N' million	N' million
Agriculture	-	1	1	-	60	60
Business services	437	253	690	416	-	416
Communication	155	118	273	269	-	269
Construction and real estate	19,248	-	19,248	9,098	-	9,098
Electricity	-	-	-			
Telecommunications		-	-			-
Financial intermediaries & insurance	154	31	185	3,708	1,420	5,128
Hotels, restaurants and tourism	-	-	-	10	-	10
Manufacturing	10,698	10,462	21,160	8,450	6,425	14,875
Mining	2,845	1,366	4,211	1,080	9,581	10,661
Private households	486	-	486	-	-	-
Transport, storage and distribution	22	-	22	12	-	12
Wholesale & retail trade	4,478	3,389	7,867	7,292	2,152	9,444
Carrying amount	38,523	15,620	54,143	30,335	19,638	49,973

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 2016.

Table 14: Credit Exposure and Risk Weighted Asset as at 31 December 2016

Asset Class	Exposure Amount N'million	CRM N'million	Net Exposure N'million	RWA N'million
Sovereigns and Central Banks	377,878	-	377,878	-
State Govt and Local Authorities	-	-	-	-
Public Sector Entities (PSEs)	14,665	7	14,658	14,645
Multilateral Development Banks (MDB)	-	-	-	-
Supervised Institutions	121,879	-	121,879	78,131
Corporate and Other Persons	254,872	-	254,872	222,882
Regulatory Retail Portfolio	36,243	12,305	23,938	26,090
Secured by Mortgages on Residential Properties	4,603	5,688	(1,086)	4,138
Exposures Secured by Mortgages on Commercial Real Estates	35,503	426	35,077	33,905
Past Due Exposures	7,346	640	6,707	7,340
Other Balance Sheet Exposures	98,207	-	98,207	32,107
Off Balance Sheet Exposures	52,554	241	52,314	39,817
Regulatory Risk Reserve	-	-	-	(789)
Total	**1,003,751**	**19,307**	**984,444**	**458,266**

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 diversified normal VaR stood at N35m and N372m respectively with an annual average of N141m which translates to a conservative VaR base limit utilisation of 15% on average.

Table 15: Diversified Normal VaR Exposures

Diversified Normal VaR Exposures (NGN'm)						
Desk	Maximum	Minimum	Average	31-Dec-16	31-Dec-15	Limit
Bankwide	372	35	141	41	201	931
FX Trading	122	1	25	35	4	246
Money Markets trading	368	12	118	9	195	379
Fixed Income trading	84	2	24	4	9	284
Credit Trading	-	-	-	-	-	230
Derivatives	-	-	-	-	-	37

Analysis of PV01

The table below shows the PV01 of the money markets banking and the individual trading desks. The money markets trading desk PV01 exposure decreased to N218k from that of the previous year as a result of T-bills sale of N71bn, the money markets banking book PV01 exposure stood at N77bn lower than that of the previous year as a result of the purchase of T-bills while the fixed income trading desk PV01 exposure was N104k. Overall trading PV01 exposure was N322k against a limit of N5.9m 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-16	31-Dec-15	Limit
Money market trading book	218	911	2,998
Fixed income trading book	104	316	2,755
Credit trading book	0	-	10
Derivatives trading book	-	-	205
Total trading book	322	1,227	5,968
Money market banking book	8,430	3,969	9,700

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 400 basis points and downward 200 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-16	Stress Condition	Utilisation (%) Dec-15	Limit
LCY Parallel Rate Shock	+400bps	+5.86	+350bps	+7.59	10%
	-200bps	-3.91	-400bps	-10.69	
FCY Parallel Rate Shock	+100bps	+7.30	+100bps	+5.12	
	-100bps	-6.55	-100bps	-2.67	

31 December 2016		NGN	USD	Other	Total
Increase in basis points		400	100	100	
Sensitivity of annual net interest income	NGNm	3,827	601	(65)	4 363
Decrease in basis points		200	100	100	
Sensitivity of annual net interest income	NGNm	(2,556)	(546)	65	(3 037)
31 December 2015		**NGN**	**USD**	**Other**	**Total**
Increase in basis points		350	100	100	
Sensitivity of annual net interest income	NGNm	3,119	460	(4)	3,575
Decrease in basis points		400	100	100	
Sensitivity of annual net interest income	NGNm	(4,392)	(242)	4	(4,630)

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 2016

Concentrations of currency risk – on- and off-balance sheet financial instruments						
At 31 December 2016	**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	128,379	149,898	3,172	7,144	719	289,312
Trading assets	15,657	-	-	-	-	15,657
Pledged assets	28,303	-	-	-	-	28,303
Derivative assets	14,282	35	-	-	-	14,317
Financial investments	217,917	-	-	-	-	217,917
Asset held for sale	-	-	-	-	-	-
Loans and advances to banks	12,917	2,347	-	-	-	15,264
Loans and advances to customers	195,786	156,475	72	631	1	352,965
Other financial assets	26,045	614	4	2	-	26,665
	639,286	**309,369**	**3,248**	**7,777**	**720**	**960,400**
Financial liabilities						
Trading liabilities	5,325	-	-	-	-	5,325
Derivative liabilities	11,753	35	-	-	-	11,788
Deposits and current accounts from banks	53,692	-	-	74	-	53,766
Deposits and current accounts from customers	407,603	157,050	2,308	1,363	349	568,673
Other borrowings	20,849	58,784	-	-	-	79,633
Subordinated debt	15,713	12,251	-	-	-	27,964
Other financial liabilities	48,341	75,236	882	3,251	144	127,854
	563,276	**303,356**	**3,190**	**4,688**	**493**	**875,003**
Net on-balance sheet position	76,010	6,013	58	3,089	227	85,397
Off balance sheet	25,009	26,944	228	2,220	742	55,143

*Others include ZAR, JPY, CHF, CAD, GHS.

Table 19: 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 (restated)	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
Exchange rates applied						
Year-end spot rate*					**2016**	2015
US Dollar					305	199.3
GBP					377.33	294.93
Euro					321.62	216.86

Sensitivity analysis

A significant 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 2016				
USD (20% movement)	**1,203**	**(1,203)**	**842**	**(842)**
GBP (10% movement)	**6**	**(6)**	**4**	**(4)**
EUR (5% movement)	**154**	**(154)**	**108**	**(108)**
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

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 charge)
Interest Rate (FGN Bond & T-Bills)	15	190
Foreign Exchange Risk (Net Open Position)	138	1,726
Total	153	1,917

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.
- digitization risk - risk exposures arising from rapid rollout of disruptive innovations or new technologies which may have financial, legal, conduct and reputational implications. Digital risk is both a business issue and a technology issue.

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 2016 is based on the last three (3) years (2014, 2015, and 2016) gross income data as defined by the guideline.

Table 22: Operational Risk Capital Charge and Risk Weighted Asset

Item	2014	2015	2016
Gross Income N'million	75,337	68,901	90,939
Aggregate gross income N'million	235,178		
Beta Factor	15%		
Gross Income X Beta Factor	35,277		
Number of year with positive annual gross income	3		
Operational Risk Capital Charge	11,759		
Operational Risk Weighted Asset	146,986		

7 List of figures and tables

Figures

Tables