Guaranty Trust Bank plc

GUARANTY TRUST BANK PLC

Consolidated financial statements for the year ended 31 December 2009.

Orange Rules

Contents

Consolidated statement of financial position

As at 31 December 2009

In thousands of Nigerian Naira	*Notes*	December 2009	December 2008
Assets			
Cash and cash equivalents	5, 8 19	255,944,975	274,633,776
Non pledged trading assets	8, 20	134,926,969	20,230,784
Pledged assets	8, 21	22,112,657	55,738,491
Derivative assets held for risk management	8, 12	-	4,617,841
Loans and advances to banks	5, 8, 22	146,002	34,364
Loans and advances to customers	5, 8, 23	574,586,579	421,773,158
Investment securities	5, 8, 24	19,159,408	110,198,995
Trading properties	25	5,070,666	15,085,846
Property and equipment	26	41,281,423	34,963,335
Intangible assets	27	2,337,921	2,232,974
Deferred tax assets	28	410,864	36,847
Other assets	29	22,200,121	23,572,417
Total assets		1,078,177,585	963,118,828
Liabilities			
Deposits from banks	5, 8, 30	31,187,065	62,989,263
Deposits from customers	5, 8, 31	666,921,855	469,249,902
Debt securities issued	5, 8, 32	67,373,122	50,102,687
Current tax liabilities		3,483,561	9,484,919
Deferred tax liabilities	28	6,557,821	3,646,484
Other liabilities	33	90,521,190	171,591,469
Liabilities on insurance contracts		1,476,642	794,546
Other borrowed funds	5, 8, 35	12,390,288	14,221,064
Total liabilities		879,911,544	782,080,334
Equity			
Share capital and share premium	36	128,403,440	126,538,065
Retained earnings	36	10,215,217	13,635,667
Other components of equity	36	54,505,445	36,822,637
Total equity attributable to owners of the Bank		**193,124,102**	**176,996,369**
Non controlling interest	36	5,141,939	4,042,125
Total equity		**198,266,041**	**181,038,494**
Total liabilities and equity		**1,078,177,585**	**963,118,828**

Signed on behalf of the Board of Directors on 19 May 2010 by:

Director	**Director**
Segun Agbaje	**Titi Osuntoki**

The notes on pages 8 to 91 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2009

In thousands of Nigerian Naira	***Notes***	**December 2009 12 months**	**December 2008 10 months**
Interest income	9	128,605,231	71,733,888
Interest expense	9	(44,227,069)	(22,358,280)
Net interest income		84,378,162	49,375,608
Fee and commission income	10	27,886,901	20,830,453
Fee and commission expense		(349,726)	(175,208)
Net fee and commission income		27,537,175	20,655,245
Net trading income	11	7,443,430	6,892,004
Net income from other financial instruments at fair value through profit or loss	12	(140,764)	2,684,703
Other operating income	13	4,000,278	1,427,742
		11,302,944	11,004,449
Premium from insurance contracts		5,362,384	4,037,112
Premium ceded to re-insurers		(2,199,214)	(1,583,973)
Net premiums from insurance contracts		3,163,170	2,453,139
Operating income		126,381,451	83,488,441
Net impairment loss on financial assets	14	(33,276,125)	(4,757,818)
Net operating income after net impairment loss on financial assets		93,105,326	78,730,623
Personnel expenses	15	(18,484,414)	(12,751,408)
Operating lease expenses		(969,720)	(661,414)
Depreciation and amortization	26, 27	(5,950,871)	(3,976,597)
Other operating expenses	16	(32,687,787)	(23,706,518)
Total expenses		(58,092,792)	(41,095,937)
Profit before income tax		35,012,534	37,634,686
Income tax expense	17	(6,409,456)	(7,720,982)
Profit for the year		28,603,078	29,913,704

The notes on pages 8 to 91are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2009

In thousands of Nigerian Naira	***Notes***	**December 2009 12 months**	**December 2008 10 months**
Other comprehensive income net of income tax:			
Foreign currency translation differences for foreign operations		256,529	(30,598)
Net change in fair value of available for sale financial assets		503,447	475,161
Income tax relating to component of other comprehensive income	28	94,387	(148,091)
Other comprehensive income for the year, net of tax		854,363	296,472
Total comprehensive income for the year		29,457,441	30,210,176
Profit attributable to:			
Owners of the Bank		28,591,685	29,206,701
Non-controlling interest		11,393	707,003
Profit for the year		28,603,078	29,913,704
Basic earnings per share (Naira)	18	1.53	1.96
Total comprehensive income attributable to:			
Owners of the Bank		29,547,706	29,503,173
Non-controlling interest		(90,265)	707,003
Total comprehensive income for the year		29,457,441	30,210,176

The notes on pages 8 to 91 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

In thousands of Nigerian Naira	**Share capital**	**Share premium**	**Regulatory risk reserve**	**Other regulatory reserves**	**Treasury shares**	**Bonus reserve**	**Fair value reserve**	**Foreign currency translation reserve**	**Retained earnings**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2009	7,461,500	119,076,565	4,917,986	33,010,195	(2,842,918)	1,865,375	218,661	(346,662)	13,635,667	4,042,125	181,038,494
Total comprehensive income for the year:											
Profit for the year	-	-	-	-	-	-	-	-	28,591,685	11,393	28,603,078
Other comprehensive income, net of tax											
Foreign currency translation difference	-	-	-	-	-	-	-	358,862	-	(101,658)	257,204
Fair value reserve	-	-	-	-	-	-	597,159	-	-	-	597,159
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**597,159**	**358,862**	**-**	**(101,658)**	**854,363**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**597,159**	**358,862**	**28,591,685**	**(90,265)**	**29,457,441**
Transactions with equity holders, recorded directly in equity:											
Bonus shares issued during the year	1,865,375	-	-	-	-	(1,865,375)	-	-	-	-	-
Transfers for the year	-	-	7,370,282	8,986,588	-	2,331,719	-	-	(18,688,589)	-	-
Cash paid by non-controlling interest	-	-	-	-	-	-	-	-	-	1,747,988	1,747,988
Dilution in non-controlling interest	-	-	-	-	-	-	-	-	-	(36,634)	(36,634)
Diminution in Small & Medium Enterprise investments	-	-	-	(1,065,425)	-	-	-	-	1,065,425	-	-
Acquisition/disposal of own shares	-	-	-	-	968,998	-	-	-	-	-	968,998
Dividend to equity holders	-	-	-	-	-	-	-	-	(14,922,999)	(521,275)	(15,444,274)
Dividend on own share adjusted	-	-	-	-	-	-	-	-	534,028	-	534,028
Total contributions by and distributions to equity holders	**1,865,375**	**-**	**7,370,282**	**7,921,163**	**968,998**	**466,344**	**-**	**-**	**(32,012,135)**	**1,190,079**	**(12,229,894)**
Balance at 31 December 2009	**9,326,875**	**119,076,565**	**12,288,268**	**40,931,358**	**(1,873,920)**	**2,331,719**	**815,820**	**12,200**	**10,215,217**	**5,141,939**	**198,266,041**

Consolidated Statement of Changes in Equity

In thousands of Nigerian Naira

	Share capital	Share premium	Regulatory risk reserve	Other regulatory reserves	Treasury shares	Bonus reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Non-controlling interest	Total Equity
Balance at 1 March 2008	6,839,708	119,076,565	4,290,147	24,588,219	(1,271,874)	621,792	(127,869)	(296,604)	4,597,359	3,335,075	161,652,518
Total comprehensive income for the period:											
Profit or loss	-	-	-	-	-	-	-	-	29,206,701	707,003	29,913,704
Other comprehensive income, net of tax											
Foreign currency translation difference	-	-	-	-	-	-	-	(50,058)	-	-	(50,058)
Fair value reserve	-	-	-	-	-	-	346,530	-	-	-	346,530
Total other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**346,530**	**(50,058)**	**-**	**-**	**296,472**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**346,530**	**(50,058)**	**29,206,701**	**707,003**	**30, 210,176**
Transactions with equity holders, recorded directly in equity:											
Bonus shares issued during the period	621,792	-	-	-	-	(621,792)	-	-	-	-	-
Transfers for the period	-	-	627,839	8,421,976	-	1,865,375	-	-	(10,915,190)	-	-
Cash paid by non-controlling interest	-	-	-	-	-	-	-	-	-	395,842	395,842
Dilution in non-controlling interest	-	-	-	-	-	-	-	-	-	(257,735)	(257,735)
Acquisition/disposal of own shares	-	-	-	-	(1,571,044)	-	-	-	-	-	(1,571,044)
Dividend to equity holders	-	-	-	-	-	-	-	-	(9,575,591)	(138,060)	(9,713,651)
Dividend on own share adjusted	-	-	-	-	-	-	-	-	322,388	-	322,388
Total contributions by and distributions to equity holders	**621,792**	**-**	**627,839**	**8,421,976**	**(1,571,044)**	**1,243,583**	**-**	**-**	**(20,168,393)**	**47**	**(10,824,200)**
Balance at 31 December 2008	**7,461,500**	**119,076,565**	**4,917,986**	**33,010,195**	**(2,842,918)**	**1,865,375**	**218,661**	**(346,662)**	**13,635,667**	**4,042,125**	**181,038,494**

Consolidated statement of cash flows

For the year ended 31 December 2009

In thousands of Nigerian Naira	***Notes***	**December 2009**	**December 2008**
Cash flows from operating activities			
Profit for the period		28,603,078	29,913,704
Adjustments for:			
Depreciation of property and equipment and amortization	26, 27	5,950,871	3,976,597
Gain on disposal of property and equipment		(81,665)	(37,382)
Loss /(Gain) on disposal of trading properties	11	1,932,177	(1,918,556)
Impairment on financial assets		33,276,125	4,757,818
Foreign exchange gains	13	329,016	(1,377,423)
Interest paid on borrowings and finance lease		6,299,029	4,299,471
Dividend received		(358,620)	(230,398)
Income tax expense	17	6,409,456	7,720,982
		82,359,467	47,104,813
Change in trading assets		(114,696,185)	135,919,452
Change in pledged assets		34,222,993	35,634,850
Change in derivative assets		4,617,841	(2,285,560)
Change in loans and advances to banks and customers		(180,104,546)	(120,078,303)
Change in insurance receivables		(419,891)	(187,556)
Change in other assets		1,548,813	2,526,237
Change in deposits from banks		(31,802,198)	(12,666,210)
Change in deposits from customers		197,671,953	89,532,197
Change in investment contract liabilities		528,708	249,872
Change in insurance contract liabilities		682,096	169,474
Change in other liabilities		(81,151,870)	114,460,007
		(86,542,819)	290,379,273
Income tax paid		(9,969,873)	(2,597,543)
Net (used in)/cash provided by operating activities		(96,512,692)	287,781,730

Consolidated statement of cash flows

For the year ended 31 December 2009

In thousands of Nigerian Naira	***Notes***	**December 2009**	**December 2008**
Cash flows from investing activities			
Net sale/(purchase) of investment securities		89,709,960	(100,866,736)
Interest and dividends received		358,620	230,398
Purchase of property and equipment	26	(11,691,338)	(8,713,159)
Proceeds from the sale of property and equipment		218,696	134,035
Purchase of intangible assets	27	(806,306)	(614,381)
Purchase of trading properties	25	(2,195,080)	(4,304,560)
Proceeds from disposal of trading properties		10,278,083	3,200,000
Net cash provided by/(used in) investing activities		85,872,635	(110,934,403)
Cash flows from financing activities			
Increase in debt securities issued	32	13,203,169	-
Repayment of long term borrowings		(2,737,048)	(4,043,518)
Interest paid on long term borrowings		(5,912,567)	(2,183,844)
Increase in long term borrowings		-	-
Finance lease proceeds		85,870	-
Finance lease repayments		-	(225,187)
Interest paid on finance lease		(386,462)	(281,925)
Sale/(purchase) of own shares net of dividend received		1,503,026	(1,248,656)
Dividends paid to owners	36	(14,922,999)	(9,575,591)
Dividends paid to non-controlling interest	36	(521,275)	(138,060)
Increase in non-controlling interest		1,747,988	395,842
Dilution in non-controlling interest		(36,634)	(257,735)
Net cash provided by financing activities		(7,976,932)	(17,558,674)
Net (decrease) /increase in cash and cash equivalents		(18,616,989)	159,288,653
Cash and cash equivalents at beginning of period		274,633,776	110,594,499
Effect of exchange rate fluctuations on cash held		(71,812)	4,750,624
Cash and cash equivalents at end of period	19	255,944,975	274,633,776

The notes on pages 8 to 91 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Reporting entity

Guaranty Trust Bank Plc ("the Bank") is a company domiciled in Nigeria. The address of the Bank's registered office is Plot 1669, Oyin Jolayemi, Victoria Island, Lagos. The consolidated financial statements for the year ended 31 December 2009 are prepared for the Bank and its subsidiaries (together referred to as "the Group" and separately referred to as "Group entities"). The Group is primarily involved in investment, corporate and retail banking, mortgage finance, insurance and asset management services.

2. Statement of compliance with international financial reporting standards

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). They have been prepared in addition to the Group's statutory financial statements (not included herein), which were prepared in accordance with Statements of Accounting Standards applicable in Nigeria (Nigerian GAAP).

These financial statements were authorised for issue by the directors on **19 May 2010**.

3. Basis of preparation

(a) Reporting period

The 2009 consolidated financial statements have been prepared for a 12 month period. However the comparative 2008 consolidated financial statements have been prepared for a 10 month period as a result of the change in accounting year end of the Bank from 28 February to 31 December. The change in accounting year end was due to the adoption of the 31 December mandatory year end for banks in Nigeria and to align the Bank's accounting year end with that of its subsidiaries.

(b) Functional and presentation currency

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

(c) Basis of measurement

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

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

Notes to the consolidated financial statements

(d) Use of estimates and judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

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

(e) Changes to accounting policies

Effective 1 January 2009 the Group has adopted the following:

- IFRS 7 – Improving disclosures about financial instruments, an amendment to IFRS 7 – Financial instruments disclosures which has resulted in additional disclosures being made regarding liquidity risk and the fair value measurement in respect of financial instruments.

- IAS 1 – Presentation of financial statements (revised), which has resulted in the reformatting of the statement of recognised income and expense into the statement of comprehensive income and the addition of a statement of changes in equity. This does not change the recognition, measurement or disclosure of specific transactions and events required by IFRS.

- IFRS 8 – The Group determines and presents operating segments based on the information that internally is provided to the Executive Management Committee, which is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 Operating segments. Previously operating segments were determined and presented in accordance with IAS 14 Segment reporting. The new accounting policy in respect of operating segment disclosures is presented as follows.

  Comparative segment information has been re-presented in conformity with the transitional requirements of this standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

  An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Executive Management Committee to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Executive Management Committee include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Group's headquarters), head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

Notes to the consolidated financial statements

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

The accounting policies have been applied consistently by Group entities.

(a) Basis of consolidation
(i) Subsidiaries
Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

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

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

The assessment of whether the Group has control over an SPE is carried out at inception and normally no further assessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Day-to-day changes in market conditions normally do not lead to a reassessment of control. However, sometimes changes in market conditions may alter the substance of the relationship between the Group and the SPE and in such instances the Group determines whether the change warrants a reassessment of control based on the specific facts and circumstances. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

(iii) Accounting method of consolidation
The acquisition method of accounting is used to account for the purchase of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed, plus any costs directly related to the acquisition. The excess of the cost of an acquisition over the Group's share of the fair value of the identifiable net assets acquired is recorded as goodwill. See accounting policy on goodwill.

Notes to the consolidated financial statements

(iv) Funds management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

(v) Transactions eliminated on consolidation

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

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at each reporting date are retranslated to the functional currency at exchange rates as at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period using the rates prevalent at the beginning, adjusted for effective interest and payments during the period, and the amortised cost in the functional currency at the period end using the rates prevalent at the period end. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Nigerian Naira at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Nigerian Naira at exchange rates at the dates of the transactions or at average rates of exchange where these approximate to actual rates.

Foreign currency differences on the translation of foreign operations are recognised in other comprehensive income. Since 1 March 2004, the Group's date of transition to IFRS, such differences have been recognised in the foreign currency translation reserve. However, if the operation is not wholly owned the relevant proportionate share of the difference is allocated instead to the non-controlling interest. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised in other comprehensive income and foreign currency translation reserve.

Notes to the consolidated financial statements

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

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

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

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and liabilities measured at amortised cost calculated on an effective interest rate basis.

- interest on available-for-sale investment securities calculated on an effective interest basis

Interest income and expense on all trading assets and liabilities are recognized as interest in profit or loss account.
Fair value changes on trading assets and liabilities carried at fair value through profit or loss, are presented in net trading income through profit or loss.

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

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

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

(e) Insurance premium
Insurance premiums are recognised in the period earned.

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

Notes to the consolidated financial statements

(g) Net income from other financial instruments at fair value through profit or loss
Net income from other financial instruments at fair value through profit or loss relates to derivatives held for risk management purposes that do not form part of qualifying hedge relationships and financial assets and liabilities designated at fair value through profit or loss, and include all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(h) Dividends
Dividend income is recognised when the right to receive income is established. Dividends on trading equities are reflected as a component of net trading income. Dividend income on available-for-sale securities are recognised as a component of other operating income.

(i) Lease payments
Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(j) Income tax expense
Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on taxable income or loss for the year, using tax rates enacted or substantively enacted at the financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

Notes to the consolidated financial statements

(k) Financial assets and liabilities

(i) Recognition

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

(ii) Classification

See accounting policies 4(l), (m), (n) and (o).

(iii) De-recognition

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

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

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

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.
The Group writes off certain loans and investment securities when they are deemed to be uncollectible (see note 23).

(iv) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

(v) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') remain on the statement of financial position; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or

Notes to the consolidated financial statements

deposits due to customers, as appropriate. Securities purchased under agreements to resell (reverse repos') are recorded as money market placement. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

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

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

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

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and discounted cash flow analysis. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.
The best evidence of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (.i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the instrument is closed out.

(viii) Identification and measurement of impairment
At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably. The Group considers evidence of impairment for loans and advances and held-to-maturity investments at both a specific asset and collective

Notes to the consolidated financial statements

level. Assets showing signs of deterioration are assessed for individual impairment. All individually significant loans and advances and held-to maturity investments found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the obligor, default or delinquency by a borrower resulting in a breach of contract, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below cost is objective evidence of impairment.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ix) Designation at fair value through profit or loss
The Group designates financial assets and liabilities at fair value through profit or loss in the following circumstances:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Note 8 sets out the amount of each class of financial asset or liability that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

Notes to the consolidated financial statements

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

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

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

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, as non-derivative financial assets, other than those designated at fair value through profit or loss (i.e. trading) category are reclassified if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

- If the financial asset would not have met the definition of loans and receivable, then it may be reclassified out of the trading category only in rare circumstances.

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

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

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Notes to the consolidated financial statements

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

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

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for- sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

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

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

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

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

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

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

Notes to the consolidated financial statements

(p) Derivatives held for risk management purposes

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

(q) Trading properties

Trading properties (inventory) are shown at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of trading properties is determined on the basis of specific identification of their individual costs.

(r) Property and equipment

(i) Recognition and measurement

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

Leasehold improvements	Over the shorter of the useful life of the item or lease term
Buildings	50 years
Computer hardware	3 years
Furniture and equipment	5 years
Motor vehicles	4 years
Other transportation equipment	10 years

Notes to the consolidated financial statements

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

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

(s) Intangible assets

(i) Goodwill
Goodwill arises on the acquisition of subsidiaries. Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative, it is recognised immediately in profit or loss.

Acquisitions of non-controlling interests
Goodwill arising on the acquisition of a non-controlling interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets at the date of acquisition.

Subsequent measurement
Goodwill is measured at cost less accumulated impairment losses.

(ii) Software
Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

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

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is five years. This is reassessed annually.

(t) Leased assets – lessee
Leases in terms of which the Group assumes substantially all the risks and rewards incidental to ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised on the Group's statement of financial position.

Notes to the consolidated financial statements

(u) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets other than goodwill and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of goodwill is estimated at each reporting date. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.
The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(v) Deposits and debt securities issued

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

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

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

(w) Provisions

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

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Notes to the consolidated financial statements

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

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

(y) Employee benefits

(i) Defined contribution plans
Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Defined benefit plans
The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield determined by reference to market yields at the reporting date on high quality government bonds. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

(iii) Termination benefits
Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

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

Notes to the consolidated financial statements

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

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

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

(z) Insurance contracts and investment contracts

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

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

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

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

Notes to the consolidated financial statements

been reported to the Group, based on assessments of individual cases reported to the Group and statistical analyses for the claims incurred but not reported.

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

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

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

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

(aa) Share capital and reserves

(i) Share issue costs
Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

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

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

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

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(ac) Segment reporting
An operating segment is a component of the Group that engages in business activities from which it can earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Executive Management Committee to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

(ad) New standards and interpretations not yet adopted
A number of new standards, amendments to standards and interpretations are not yet effective for the period ended 31 December 2009, and have not been applied in preparing these consolidated financial statements:

- Revised IFRS 3 *Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Group's operations:
  - The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2011 consolidated financial statements.

- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2011 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

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

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comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

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

The Group is currently in the process of evaluating the potential effect of t his standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Group's 2011 consolidated financial statements, with retrospective application required. The amendments are not expected to have a significant impact on the consolidated financial statements.

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5. Financial risk management

(a) Introduction and overview

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

- credit risk
- liquidity risk
- market risks
- operational risks

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

Risk management philosophy

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

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

Risk management framework

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

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

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

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

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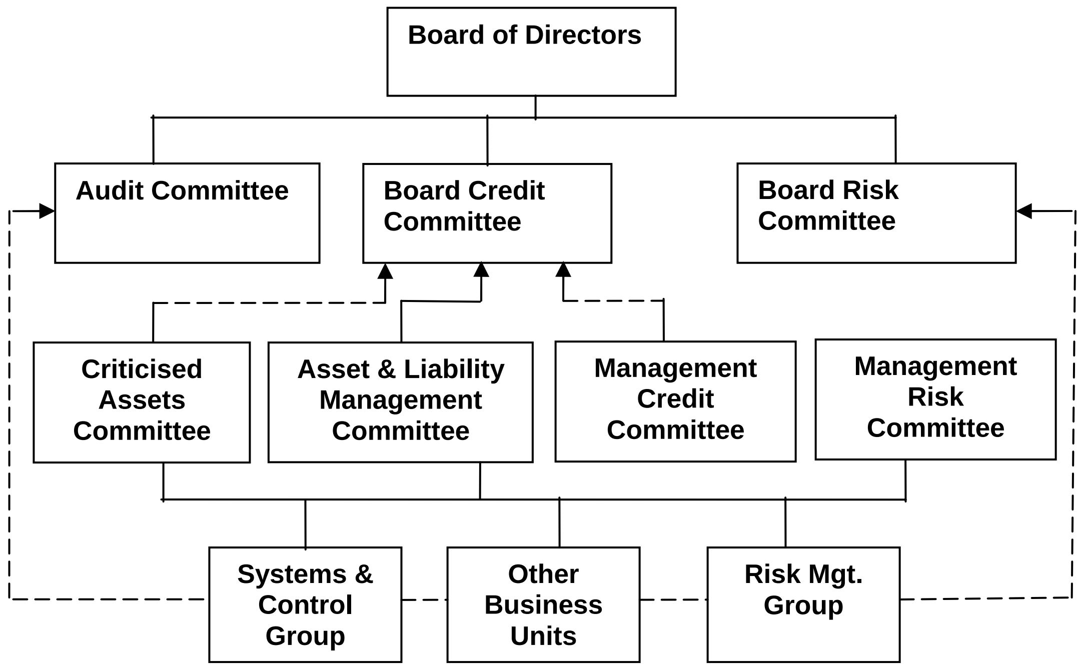
These committees meet on a regular basis while others are set up on an ad-hoc basis as dictated by the circumstances.

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

The Risk Management Organogram of the Group is as follows:



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

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

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

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

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

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

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

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

Risk management Overview
The Group operates a robust and functional Enterprise-wide Risk Management (ERM) Division that manages all aspects of risk – including threats and opportunities. The risk management infrastructure therefore encompasses a holistic, comprehensive and integrated approach to identifying, managing and reporting (i) the 3 main inherent risk groups – Credit, Market and Operational; (ii) residual risks such as Settlement and Legal risks; (iii) additional core risks being Reputation and Strategy risks; and (iv) monitoring of the Bank's subsidiaries' risks. In addition to this, in compliance with the Central Bank of Nigeria's 'Risk-based Supervision' guidelines, and also to align with Basel II Capital Accord / best global practices, we are in the process of incorporating a strategic framework for even more efficient measurement and management of the bank's risks and capital. To this end, we have gone through the process of engaging with appropriate solution providers and plan, in the second quarter of 2010, to commence implementation of Basel II recommended capital measurement approaches (and the modelling and data collation required for these), economic capital to cope with unexpected losses, and other qualitative and quantitative measures that will assist us with enhancing

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our risk management workflows and creating a platform for more efficient risk-adjusted decision-making based on our aggregate exposures.

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

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

- maintenance of an efficient loan portfolio
- institutionalization of sound credit culture in the Bank
- adoption of international best practices in credit risk management
- creation of Credit Risk Management professionals and specialists in every industry within which the Bank operates.

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

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

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

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

For Credit Risk Capital Adequacy computation under Basel ll Pillar l, the Group will commence with the use of the Standardized Approach for Credit Risk Measurement.

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

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

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- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Heads. Larger facilities require approval by the Management Credit Committee, Deputy Managing Director, Managing Director and the Board Credit Committee/Board of Directors as appropriate.

- *Reviewing and assessing credit risk.* Management Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

- *Developing and maintaining the Group's risk grading* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The current risk grading framework consists of six grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for approving the risk grades lies with the Board Credit Committee. The risk grades are subject to regular reviews by the Risk Management Group.

- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Risk Management Group on the credit quality of local portfolios and appropriate corrective action is taken.

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

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

Credit risk measurement
Guaranty Trust Bank Group undertakes lending activities after careful analysis of the borrowers' character, capacity to repay, cash flow, credit history, industry and other factors. The Group acknowledges that there are diverse intrinsic risks inherent in the vagaries of its business segments and, as a result, applies different parameters to adequately dimension the risks in each business segments. The Bank's rating grades reflect the range of parameters developed to predict the default probabilities of each rating class. Currently, the six grade internal risk rating system deals with all credit risk counterparties and this covers all the Bank's credit exposure to corporate, commercial, retail and public sectors. The rating system, which has been applied since 1990, reflects quality of each credit transaction after considering the financial and non financial parameters of the obligors as well as the quality of the transaction and the credit risk mitigants. The Group also employs Moody's Rating Scale concurrently with its six grade rating system. The former is currently being validated. On the six grade rating scale, the first 3 (1-3) ratings cover active credits or newly proposed acceptable credits (ratings 1 & 2 represents the investment grade classes) while the last three (4-6) ratings apply to delinquent

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credits which are due to be called in or already handed over to solicitors for collection. Specifically, the ratings definitions are highlighted below:

Grade 1 – Superior Credits: These are recognised as credits with overwhelming capacity to repay obligations. Attributes such as strong position in the industry, good track record, strong brand name, strong equity and assets, focused management with integrity, adequate cash flow and full cash cover are major factors to be considered.

Grade 2 – Above Average: They possess most of the attributes of superior credits but may have weaknesses, which should not significantly impair repayment capacity.

Grade 3 – Acceptable Credits: They have most of the attributes of above average credits but may have one or more weaknesses which, if not closely managed, could impair repayment capacity. Weaknesses such as short track record, low market share, highly cyclical demand, low capitalisation and price control on its products are considered.

Grade 4 – Watch list Credits: These are existing facilities that have shown signs of deterioration because they have well defined weaknesses, which could affect the ability of borrower to repay. Weaknesses such as, but not restricted to, overdrawn accounts without significant movement for up to 3 months, evidence of funds diversion, loss in borrowers' profit, poor information disclosure, delays in payment of principal and interest are considered.

Grade 5 – Doubtful & Substandard Credits: This is applied when a strong doubt exists that full repayment of principal and interest will occur. Major weaknesses here are unpaid principal and/or interest that are past due for 90 days or more, losses experienced consistently for 2 years, eroded borrower's networth due to a major business failure or disaster and security offered has deteriorated in value and full repayment is not guaranteed from normal operating sources.

Grade 6 – Bad & Lost: This applies when all or part of the outstanding loan is uncollectible based on existing conditions at the time. Major weaknesses include outstanding principal and/or interest for more than 180 days, legal process does not guarantee full recovery, borrower is under receivership or in the process of liquidation, borrower cannot be located and documentation is too inadequate to pursue recovery through legal means.

The Credit Risk Management Group centrally handles assessment of risk ratings and this is usually done on a quarterly basis with advice to relationship managers on the current risk ratings of their customers' facilities and the criteria employed to arrive at such ratings.

Risk Limit Control and Mitigation Policies

Guaranty Trust Bank applies limits to control credit risk concentration and ensure proper diversification of its risk assets portfolio. The Bank maintains limits for individual borrowers and groups of related borrowers, as well as industries. Obligor limits are set by the regulators and it is currently at 20% of the Bank's shareholder's funds. The obligor limit covers exposures to counterparties and related parties. Although the Bank is guided by this regulatory limit, we apply additional parameters internally in determining the suitable limits that an individual borrower should have. These include: obligor rating, position in the industry and perceived requirements of key players (e.g. import finance limit may be determined by the customer's import cycle and volume during each cycle), financial analysis, etc. The Bank imposes industry/economic sector limits to guide against concentration risk as a result of exposures to sets of counterparties operating in a particular industry. The industry limits are arrived at after rigorous analysis of the risks inherent in the

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industry. The limits are usually recommended by the Bank's Portfolio Management Unit under Credit Risk Management Group. The limits set for each industry or economic sector depend on the historical performance of the sector as well as the intelligence report on the outlook of the sector. During the year, limits can be realigned (outright removal, reduction or increase) to meet the exigencies of the prevailing macroeconomic events. The Bank also sets internal credit approval limits for various levels of officers in the credit process. Approval decisions are guided by the Bank's strategic focus as well as the stated risk appetite and the other limits established by the board or regulatory authorities such as Aggregate Large Exposure Limits, Single Obligor Limits, Geographical Limits, Industry/ Sectoral limits etc. The lending authority in the Bank flows through the management hierarchy with the final authority residing with the Board of Directors as indicated below:

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

The above limits are subject to the following overriding approvals:

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

(iv) Credit definitions

Impaired loans and securities
Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These are loans and securities specifically impaired and are graded 6 in the Group's internal credit risk grading system.

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

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

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

Write-off policy
The Group writes off a loan / security balance (and any related allowances for impairment losses) when Group Management Credit Committee determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions are generally based on a product specific past due status.

Notes to the consolidated financial statements

Credit Risk (Continued)

All loans and advances are categories as either:

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

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

		Loans and advances to customers		Loans and advances to banks		Investment securities	
31 December		***December***	***December***	***December***	***December***	***December***	***December***
In thousands of Nigerian Naira	***Note***	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Carrying amount	22, 23, 24	574,586,579	421,773,158	146,002	34,364	19,159,408	110,198,995
Assets at amortised cost							
Individually impaired							
Grade 6: Impaired		19,753,409	3,196,405	90,212	90,212	1,870,052	-
Gross amount		19,753,409	3,196,405	90,212	90,212	1,870,052	-
Allowance for impairment		(19,497,227)	(3,196,405)	(90,212)	(90,212)	(1,329,627)	-
Carrying amount		256,182	-	-	-	540,425	-
Collectively impaired							
Grade 1-3: Low-fair risk		533,487,712	335,024,270	146,418	34,482	-	-
Grade 4-5: Watch list		1,123,619	2,157,988	-	-	-	-
Gross amount		534,611,331	337,182,258	146,418	34,482	-	-
Allowance for impairment		(2,730,098)	(1,019,419)	(416)	(118)	-	-
Carrying amount		531,881,233	336,162,839	146,002	34,364	-	-
Past due but not impaired							
Grade 1-3: Low-fair risk		3,525,925	35,919	-	-	-	-
Carrying amount		3,525,925	35,919	-	-	-	-
Past due comprises:							
90 -180 days		3,525,925	35,919	-	-	-	-
Carrying amount		3,525,925	35,919	-	-	-	-
Neither past due nor impaired							
Grade 1-3: Low-fair risk		38,923,239	85,574,400	-	-	-	-
Carrying amount		38,923,239	85,574,400	-	-	-	-
Available-for-sale assets (AFS)							
Grade 1-3: Low-fair risk		-	-	-	-	18,618,983	110,198,995
Total carrying amount		574,586,579	421,773,158	146,002	34,364	19,159,408	110,198,995

Notes to the consolidated financial statements

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade:

	Loans and advances to customers		Loans and advances to bank		Investment securities	
In thousands of Nigerian Naira	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
December 2009						
Grade 6: Individually impaired	19,753,409	256,182	90,212	-	1,870,052	540,425
Total	19,753,409	256,182	90,212	-	1,870,052	540,425
December 2008						
Grade 6: Individually impaired	3,196,405	-	90,212	-	-	-
Total	3,196,405	-	90,212	-	-	-

(v) Credit collateral

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

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

All collateral offered must have the following attributes:

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

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

The main collateral types acceptable to the Bank for loans and advances include:
- Mortgages over residential properties
- Charges over business premises, fixed and floating assets as well as the inventory.
- Charges over financial instruments such as equities, treasury bills etc.

Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing

Notes to the consolidated financial statements

activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2009.

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

	Loans and advances to customers		Loans and advances to Banks	
In thousands of Nigerian Naira	***December* 2009**	***December* 2008**	***December* 2009**	***December* 2008**
Against individually impaired	10,461,743	-	-	-
Against collectively impaired	868,592,310	587,031,122	380,547	61,500
Against past due but not impaired	9,630,919	204,464	-	-
Against neither past due nor impaired	102,120,206	99,614,099	-	-
Total	990,805,178	686,849,685	380,547	61,500

	Loans and advances to customers		Loans and advances to banks	
	***December* 2009**	***December* 2008**	***December* 2009**	***December* 2008**
Against individually impaired:				
Property	972,639	-	-	-
Debt securities	219,665	-	-	-
Equities	4,211,101	-	-	-
Cash	147,132	-	-	-
Guarantees	33,215	-	-	-
ATC, stock hypothecation and ISPO*	3,023,977	-	-	-
Others	1,854,014	-	-	-
Against collectively impaired:				
Property	334,427,054	252,119,891	240,006	5,000
Debt securities	272,951,535	71,033,979	-	-
Equities	57,392,203	85,967,963	-	4,000
Cash	66,359,645	56,661,361		
Guarantees	48,653,488	85,470,222		
Negative pledge	13,803,558	-		
ATC, stock hypothecation and ISPO*	73,659,029	31,760,471		
Others	1,345,798	4,017,235	140,541	52,500
Against past due but not impaired:				
Property	600,024	195,773	-	-
Debt securities	233,333	-	-	-
Equities	8,797,562	-	-	-
Cash	-	8,691	-	-

Notes to the consolidated financial statements

	Loans and advances to customers		Loans and advances to banks	
	December 2009	*December* 2008	*December* 2009	*December* 2008
Against neither past due nor impaired:				
Property	65,644,896	58,152,060	-	-
Debt securities	26,562,977	28,292,115	-	-
Equities	183,778	2,296,670	-	-
Cash	7,954,180	8,294,527		
Guarantees	147,204	1,787,894		
Negative pledge	1,180,000	-		
ATC, stock hypothecation and ISPO*	-	17,411		
Others	447,171	773,422	-	-
	990,805,178	686,849,685	380,547	61,500

*ISPO: Irrevocable standing payment order
*ATC: Authority to collect

Notes to the consolidated financial statements

Credit risk (continued)

(vi) Credit concentration

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

		Loans and advances to customers		Loans and advances to Banks		Investment securities	
In thousands of Nigerian Naira	*Note*	December 2009	December 2008	December 2009	December 2008	December 2009	December 2008
Carrying amount	22, 23, 24	574,586,579	421,773,158	146,002	34,364	19,159,408	110,198,995
Concentration by sector							
Corporate		294,675,066	197,170,286	-	-	-	-
Commercial		214,674,806	155,937,419	-	-	7,227,931	7,102,898
Bank		-	-	146,002	34,364	-	-
Retail		65,236,707	68,665,453	-	-	-	-
Government		-	-	-	-	11,931,477	103,096,097
		574,586,579	421,773,158	146,002	34,364	19,159,408	110,198,995
Concentration by location							
Nigeria		552,736,871	411,957,342	146,580	34,364	19,026,708	99,363,122
Rest of West Africa		19,075,965	9,764,167	-	-	-	10,835,873
Europe		2,773,743	51,649	-	-	132,700	-
		574,586,579	421,773,158	146,002	34,364	19,159,408	110,198,995

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

5 (c) Liquidity risk

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

Management of liquidity risk

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

- Maintenance of minimum levels of liquid and marketable assets above the regulatory requirement of 25%. The Group has set for itself more stringent in-house limit of 35%, to which it adheres.
- Monitoring of its cash flow and financial position trends. The Bank also makes forecasts of anticipated deposits and withdrawals to determine their potential effect on the Bank.
- Regular measurement & monitoring of its liquidity position/ratios in line with regulatory requirements and in-house limits
- Regular monitoring of non-earning assets
- Monitoring of deposit concentration

Notes to the consolidated financial statements

- Ensure diversification of funding sources
- Monitoring of level of un-drawn commitments
- Maintaining a contingency funding plan.

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

(ii) Exposure to liquidity risk

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

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

	December 2009	**December 2008**
At end of period	51.94%	63.92%
Average for the period	42.61%	45.90%
Maximum for the period	51.94%	63.92%
Minimum for the period	37.25%	40.11%

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Financial risk management (continued)

The following table shows the undiscounted cash flows on the Group's financial assets and liabilities and on the basis of their earliest possible contractual maturity. The Gross nominal inflow / (outflow) disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment.

(iii) Residual contractual maturities of financial assets and liabilities

In thousands of Nigerian Naira	*Note*	Carrying amount	Gross nominal inflow/(outflow)	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years
31-Dec-09								
Cash and cash equivalents	19	255,944,975	256,596,055	254,335,628	2,260,427	-	-	-
Trading securities	20	134,926,969	136,256,974	115,880,936	19,363,639	1,012,399	-	-
Pledged assets	21	22,112,657	22,278,502	22,278,502	-	-	-	-
Loans and advances to banks	22	146,002	148,922	148,922	-	-	-	-
Loans and advances to customers	23	574,586,579	690,894,682	306,276,187	23,264,331	35,386,453	298,008,069	27,959,642
Investment securities	24	19,159,408	19,159,408	-	-	11,931,477	-	7,227,931
		1,006,876,590	1,125,334,543	698,920,175	44,888,397	48,330,329	298,008,069	35,187,573
Non-derivative liabilities								
Deposits from banks	30	31,187,065	31,254,174	19,961,714	11,292,461	-	-	-
Deposits from customers	31	666,921,855	673,566,465	665,894,463	2,373,983	4,110,196	1,187,823	-
Debt securities issued	32	67,373,122	78,505,666	1,887,572	-	-	76,618,094	-
Other borrowed funds	35	12,390,288	13,376,893	57,720	-	-	13,319,173	-
		777,872,330	796,703,198	687,801,469	13,666,444	4,110,196	91,125,090	-
Gap (asset - liabilities)				11,118,706	31,221,953	44,220,133	216,882,979	25,187,573
Cumulative liquidity gap				11,118,706	42,340,659	86,560,792	303,443,771	328,631,344

Notes to the consolidated financial statements

In thousands of Nigerian Naira	***Note***	**Carrying amount**	**Gross nominal inflow/(outflow)**	**Less than 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 years**	**More than 5 years**
31-Dec-08								
Cash and cash equivalents	19	274,633,776	274,895,798	274,895,798	-	-	-	-
Trading securities	20	20,230,784	20,230,784	20,230,784	-	-	-	-
Pledged assets	21	55,738,491	57,196,208	39,132,000	3,514,171	14,550,038	-	-
Derivative assets held for risk management		4,617,841	4,617,841	518,224	958,223	-	3,141,394	-
Loans and advances to banks	22	34,364	36,443	10,149	20,910	3,330	2,054	-
Loans and advances to customers	23	421,773,158	542,579,730	106,305,828	70,631,177	85,831,044	215,409,262	64,402,419
Investment securities	24	110,198,995	141,391,403	57,116,550	2,575,342	25,315,825	51,620,500	4,763,185
		887,227,409	1,040,948,207	498,209,333	77,699,823	125,700,237	270,173,210	69,165,604
Non-derivative liabilities								
Deposits from banks	30	62,989,263	63,619,156	63,619,156	-	-	-	-
Deposits from customers	31	469,249,902	471,286,951	466,143,748	1,925,633	2,374,679	842,891	-
Debt securities issued	32	50,102,687	62,420,160	1,798,871	-	-	60,621,289	-
Other borrowed funds	35	14,221,064	18,331,401	163,880	-	220,295	8,881,649	9,065,577
		596,562,916	615,657,668	531,725,655	1,925,633	2,594,974	70,345,829	9,065,577
Gap (asset - liabilities)				(33,516,322)	75,774,190	123,105,263	199,827,381	60,100,027
Cumulative liquidity gap				(33,516,322)	42,257,868	165,363,131	365,190,512	425,290,539

Notes to the consolidated financial statements

Financial risk management (continued)

5(d) Settlement risk

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

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

5(e) Market risks

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

Management of market risks

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

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

Exposure to market risks – trading portfolios

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

Notes to the consolidated financial statements

Financial risk management (continued)

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

Notes to the consolidated financial statements

Market risks

			Repricing period				
In thousands of Nigerian Naira	*Note*	Carrying amount	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years
31 December 2009							
Cash and cash equivalents	19	255,944,975	253,701,375	2,243,600	-	-	-
Trading Securities	20	134,926,969	115,018,299	18,937,544	971,126	-	-
Pledged assets	21	22,112,657	22,112,657	-	-	-	-
Derivative assets held for risk management	12	-	-	-	-	-	-
Loans and advances to banks	22	146,002	146,002	-	-	-	-
Loans and advances to customers	23	574,586,579	488,656,459	-	750,000	64,928,000	20,252,120
Investment Securities	24	19,159,408	815,820	-	11,931,477	-	6,412,111
		1,006,876,590	880,450,612	21,181,144	13,652,603	64,928,000	26,664,231
Deposits from banks	30	31,187,065	19,936,793	11,250,272	-	-	-
Deposits from customers	31	666,921,855	659,709,685	2,309,041	3,902,857	1,000,272	-
Debt securities issued	32	67,373,122	1,887,572	-	-	65,485,550	-
Other borrowed funds	35	12,390,288	57,720	-	-	12,332,568	-
		777,872,330	681,591,770	13,559,313	3,902,857	78,818,390	-
		229,004,260	198,858,842	7,621,831	9,749,746	(13,890,390)	26,664,231
31 December 2008							
Cash and cash equivalents	19	274,633,776	274,633,776	-	-	-	-
Trading Securities	20	20,230,784	20,230,784	-	-	-	-
Pledged assets	21	55,738,491	38,696,662	3,411,817	13,630,012	-	-
Derivative assets held for risk management	12	4,617,841	-	4,617,841	-	-	-
Loans and advances to banks	22	34,364	34,364	-	-	-	-
Loans and advances to customers	23	421,773,158	417,266,356	249,365	11,869	3,456,147	789,421
Investment Securities	24	110,198,995	39,685,267	2,492,266	23,549,605	41,296,400	3,175,457
		887,227,409	790,547,209	10,771,289	37,191,486	44,752,547	3,964,878
Deposits from banks	30	62,989,263	62,989,263	-	-	-	-
Deposits from customers	31	469,249,902	464,553,019	1,863,516	2,209,003	624,364	-
Debt securities issued	32	50,102,687	-	-	-	50,102,687	-
Other borrowed funds	35	14,221,064	162,661	-	209,306	7,133,855	6,715,242
		596,562,916	527,704,943	1,863,516	2,418,309	57,860,906	6,715,242
		290,664,494	262,842,266	8,907,773	34,773,177	(13,108,359)	(2,750,364)

Notes to the consolidated financial statements

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

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

Interest rate movement affect reported equity in the following ways:

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

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

At 31 December 2009, if interest rates on

- floating rate assets and liabilities held at amortised cost and
- assets and liabilities accounted at fair value through profit or loss

had increased or decreased by 200 basis points with all other variables held constant, the impact on profit or loss would have been as set out in the table below:

	Dec '09		Dec '08	
	Pre-tax N'000	**Post-tax N'000**	**Pre-tax N'000**	**Post-tax N'000**
Decrease	(4,580,085)	(3,741,647)	(5,720,933)	(4,547,249)
Increase	4,580,085	3,741,647	5,720,933	4,547,249

Exposure to foreign currency risk

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

Notes to the consolidated financial statements

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

Financial instruments by currency *In thousands of Nigerian Naira*	***Note***	**Total**	**Naira**	**US $**	**GBP**	**Euro**	**Others**
31 December 2009							
Cash and cash equivalents	19	255,944,975	120,205,290	98,941,742	8,536,115	18,278,993	9,982,835
Trading Securities	20	134,926,969	127,348,071	48,500	-	-	7,530,398
Pledged assets	21	22,112,657	22,112,657	-	-	-	-
Loans and advances to banks	22	146,002	146,002	-	-	-	-
Loans and advances to customers	23	574,586,579	445,065,495	111,020,786	869,675	11	17,630,612
Investment Securities	24	19,159,408	19,026,708	-	132,700	-	-
		1,006,876,590	733,904,223	210,011,028	9,538,490	18,279,004	35,143,845
Deposits from banks	30	31,187,065	6,050,578	22,804,696	1,717,084	511,647	103,060
Deposits from customers	31	666,921,855	587,749,175	41,514,735	8,655,036	2,746,484	26,256,425
Debt securities issued	32	67,373,122	13,271,338	54,101,784	-	-	-
Other borrowed funds	35	12,390,288	-	12,390,288	-	-	-
		777,872,330	607,071,091	130,811,503	10,372,120	3,258,131	26,359,485

Financial instruments by currency *In thousands of Nigerian Naira*	***Note***		**Naira**	**US $**	**GBP**	**Euro**	**Others**
31 December 2008							
Cash and cash equivalents	19	274,633,776	87,349,798	133,012,150	13,961,478	28,586,395	11,723,955
Trading Securities	20	20,230,784	10,730,028	-	-	-	9,500,756
Pledged assets	21	55,738,491	55,738,491	-	-	-	-
Derivative assets held for risk		-	-	-	-	-	-
management	12	4,617,841	-	4,617,841	-	-	-
Loans and advances to banks	22	34,364	34,364	-	-	-	-
Loans and advances to customers	23	421,773,158	290,033,162	128,823,152	-	8	2,916,835
Investment Securities	24	110,198,995	108,863,878	-	-	-	1,335,117
		887,227,409	552,749,721	266,453,143	13,961,478	28,586,403	25,476,663
Deposits from banks	30	62,989,263	59,442,112	3,061	32	-	3,544,058
Deposits from customers	31	469,249,902	389,812,925	45,994,586	10,064,442	2,223,573	21,154,375
Debt securities issued	32	50,102,687	-	50,102,687	-	-	-
Other borrowed funds	35	14,221,064	-	14,221,064	-	-	-
		596,562,916	449,255,037	110,321,398	10,064,474	2,223,573	24,698,433

Notes to the consolidated financial statements

5(f) Operational risks

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

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

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

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

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

5(g) Capital management

Regulatory capital

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

In implementing current capital requirements, Central Bank of Nigeria requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

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

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

Notes to the consolidated financial statements

adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Investments in unconsolidated subsidiaries and associates are deducted from Tier 1 or Tier 2 capital in arriving at the regulatory capital. Various limits are applied to elements of the capital base. The qualifying tier 2 capital cannot exceed tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital (1.25% of risk assets and hybrid instruments - convertible bonds). Banking operations are categorised mainly as trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-financial position exposures.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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

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

In thousands of Nigerian Naira	*Note*	December 2009	December 2008
Tier 1 capital			
Ordinary share capital	36	9,326,875	7,461,500
Share premium	36	119,076,565	119,076,565
Retained earnings	36	10,215,217	13,635,667
Other reserves	36	54,505,445	36,822,637
Non-controlling interests	36	5,141,939	4,042,125
Shareholders' funds		198,266,041	181,038,494
Add/(Less):			
Fair value reserve for available-for-sale securities	36	(815,820)	(218,661)
Intangible assets	27	(2,337,921)	(2,232,974)
Shareholders' funds		195,112,300	178,586,859
Tier 2 capital			
Fair value reserve for available-for-sale securities		815,820	218,661
Collective allowances for impairment	22,23	2,730,514	1,019,537
Total		3,546,334	1,238,198
Total regulatory capital		198,658,634	179,825,057
Risk-weighted assets		843,412,738	796,955,069
Capital ratios			
Total regulatory capital expressed as a percentage of total risk-weighted assets		23.55%	22.56%
Total tier 1 capital expressed as a percentage of risk-weighted assets		23.13%	22.41%

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

Notes to the consolidated financial statements

specific operations and activities is undertaken independently of those responsible for the operation, by Group Risk and Group Credit, and is subject to review by the Group Credit Committee or ALMAC as appropriate.

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

6. Use of estimates and judgements

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

Key sources of estimation uncertainty

Allowances for credit losses

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

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

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held to maturity investment securities with similar economic characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held to maturity investment securities, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances are estimated.

Determining fair values

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

Notes to the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements

customers, investment securities, deposits from banks and customers, debt securities and other borrowed funds.

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

December 2009 *In thousands of Nigerian Naira*	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Non pledged trading assets	20	134,926,969	-	-	134,926,969
Pledged assets	21	22,112,657	-	-	22,112,657
Derivative assets held for risk management	12	-	-	-	-
Loans and advances to banks	22	-	-	236,743	236,743
Loans and advances to customers	23	-	-	596,359,962	596,359,962
Investment securities	24	-	-	19,159,408	19,159,408
		157,039,626	-	615,756,113	772,795,739
Deposits from banks	30	-	-	31,188,044	31,188,044
Deposits from customers	31	-	-	670,624,103	670,624,103
Debt securities issued	32	-	-	69,010,388	69,010,388
Other borrowed funds	35	-	-	13,335,840	13,335,840
		-	-	784,158,375	784,158,375

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

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

Notes to the consolidated financial statements

7. Operating segments

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

1. Interest income on impaired assets is not recognised under Nigerian GAAP while IFRS requires that such interest income be recognised in the income statement.

2. Provision for loan loss is determined based on Central Bank of Nigeria Prudential Guidelines under Nigeria GAAP while an incurred loss model is used in determine the impairment loss under IFRS..

3. Credit related fees are recognised in the profit and loss account at the time of occurrence under Nigeria GAAP while under IFRS, credit related fees are recognised as part of effective interest or over the period of the contract depending on the nature of the contract.

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

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

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

Notes to the consolidated financial statements

7 Operating segments (Continued)
Information about operating segments

31 December 2009

In thousands of Nigerian Naira	Corporate Banking	Retail Banking	Commercial Banking	Insurance	Asset Management	Total
Revenue:						
Derived from external customers	80,783,626	34,375,104	43,930,108	3,044,419	417,161	162,550,418
Derived from other business segments	(10,116,981)	17,667,347	(7,550,366)			-
Total Revenue	70,666,645	52,042,451	36,379,742	3,044,419	417,161	162,550,418
Interest expenses	(21,993,554)	(11,987,532)	(6,455,657)	(19,689)	(84,033)	(40,540,465)
Fee and commission expenses	(177,587)	(75,567)	(96,572)	-	-	(349,726)
Net operating income	48,495,504	39,979,352	29,827,513	3,024,730	333,128	121,660,227
Expense:						
Operating expenses	(5,747,710)	(29,265,853)	(13,325,120)	(1,492,287)	(325,972)	(50,156,942)
Net impairment loss on financial assets	(20,757,796)	(4,113,874)	(12,503,053)	(151,506)	(500)	(37,526,729)
Depreciation and amortization	(1,347,739)	(3,132,346)	(1,369,811)	(119,286)	(44,371)	(6,013,553)
Total Cost	(27,853,245)	(36,512,073)	(27,197,984)	(1,763,079)	(370,843)	(93,697,224)
Profit before income tax	20,642,259	3,467,279	2,629,529	1,261,651	(37,715)	27,963,003
Assets and liabilities:						
Total assets	579,112,665	201,722,742	266,639,477	16,794,411	2,234,423	1,066,503,718
Total liabilities	(267,940,346)	(376,408,810)	(225,203,464)	(4,123,706)	(582,364)	(874,258,690)
Net Assets/ (Liabilities)	311,172,319	(174,686,068)	41,436,013	12,670,705	1,652,059	192,245,028

Notes to the consolidated financial statements

7 Operating segments (Continued)
Information about operating segments

31 December 2008

In thousands of Nigerian Naira	Corporate Banking	Retail Banking	Commercial Banking	Insurance	Asset Management	Total N'000
Revenue:						
Derived from external customers	48,933,723	28,034,656	20,160,922	3,304,477	172,028	100,605,806
Derived from other business segments	(8,715,577)	5,196,875	3,518,702	-	-	-
Total Revenue	40,218,146	33,231,531	23,679,624	3,304,477	172,028	100,605,806
Interest expenses	(8,989,017)	(6,262,359)	(4,214,499)	(1,625)	-	(19,467,500)
Fee and commission expenses	(88,270)	(50,571)	(36,367)	-	-	(175,208)
Net operating income	31,140,859	26,918,601	19,428,758	3,302,852	172,028	80,963,098
Expense:						
Operating expenses	(7,883,445)	(20,927,395)	(6,331,430)	(1,204,550)	(693,785)	(37,040,605)
Net impairment loss on financial assets	(3,269,726)	(619,841)	(688,950)	-	-	(4,578,517)
Depreciation and amortization	(678,316)	(2,345,000)	(875,630)	(95,470)	(20,431)	(4,014,847)
Total Cost	(11,831,487)	(23,892,236)	(7,896,010)	(1,300,020)	(714,216)	(45,633,969)
Profit before income taxation	19,309,372	3,026,365	11,532,748	2,002,832	(542,188)	35,329,129
Assets and liabilities:						
Total assets	462,554,611	238,475,196	239,624,167	16,567,466	1,962,253	959,183,693
Total liabilities	(302,953,452)	(347,089,034)	(122,717,701)	(4,135,163)	(254,443)	(777,149,793)
Net Assets/ (Liabilities)	159,601,159	(108,613,838)	116,906,466	12,432,303	1,707,810	182,033,900

Notes to the consolidated financial statements

7. Operating segments (Continued)

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

In thousands of Nigerian Naira	**2009**	**2008**
Revenues		
Total revenue from reportable segments	162,550,418	100,605,806
Adjustments to reconcile segment results to amounts reported in these IFRS financial statements	8,461,326	5,242,426
Unconsolidated amounts	(53,498)	173,697
Consolidated revenue	170,958,246	106,021,929
Profit or loss		
Total profit or loss for reportable segments	27,963,003	35,329,129
Adjustments to reconcile segment results to amounts reported in these IFRS financial statements	8,615,224	696,143
Unconsolidated amounts	(1,565,693)	1,609,414
Consolidated profit before income tax	35,012,534	37,634,686
Assets		
Total assets for reportable segments	1,066,503,718	959,183,693
Adjustments to reconcile segment results to amounts reported in these IFRS financial statements	12,518,216	5,286,618
Unconsolidated amounts	(844,349)	(1,351,483)
Consolidated total assets	1,078,177,585	963,118,828
Liabilities		
Total liabilities for reportable segments	874,258,690	777,149,793
Adjustments to reconcile segment results to amounts reported in these IFRS financial statements	1,126,598	1,943,083
Unconsolidated amounts	4,526,256	2,987,458
Consolidated total liabilities	879,911,544	782,080,334

Notes to the consolidated financial statements

Geographical segments

The Group operates in three geographic regions, being:

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

December 2009 *In thousands of Nigerian Naira*	**Nigeria**	**Rest of West Africa**	**Europe**	**Total**
Derived from external customers	161,427,576	9,037,167	493,503	170,958,246
Derived from other segments	195,068	-	-	195,068
Total Revenue	161,622,644	9,037,167	493,503	171,153,314
Interest expense	(41,554,711)	(2,338,781)	(333,577)	(44,227,069)
Fee and commission expenses	(349,726)	-	-	(349,726)
Net interest margin	119,718,207	6,698,386	159,926	126,576,519
Profit before income tax	33,636,839	2,492,102	(1,116,407)	35,012,534
Assets and liabilities:				
Total assets	1,042,444,775	36,249,852	(517,042)	1,078,177,585
Total liabilities	(844,393,126)	(33,951,625)	(1,566,793)	(879,911,544)
Net assets/(liabilities)	198,051,649	2,298,227	(2,083,835)	198,266,041

December 2008 *In thousands of Nigerian Naira*	**Nigeria**	**Rest of West Africa**	**Europe**	**Total**
Derived from external customers	101,203,089	4,488,238	217,518	105,908,845
Derived from other segments	113,084	-	-	113,084
Total Revenue	101,316,173	4,488,238	217,518	106,021,929
Interest expense	(17,678,686)	(1,107,879)	(3,571,715)	(22,358,280)
Fee and commission expenses	(175,208)			(175,208)
Net interest margin	83,462,279	3,380,359	(3,354,197)	83,488,441
Profit before income tax	40,947,193	1,156,722	(4,469,229)	37,634,686
Assets and liabilities:				
Total assets	864,479,467	36,861,091	61,778,270	963,118,828
Total liabilities	(691,510,606)	(32,171,805)	(58,397,923)	(782,080,334)
Net assets/(liabilities)	172,968,861	4,689,286	3,380,347	181,038,494

Notes to the consolidated financial statements

8. Financial assets and liabilities

Accounting classification measurement basis and fair values

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

In thousands of Nigerian Naira	*Note*	Trading	Designated at fair value	Held-to-maturity	Loans at amortised cost	Available-for-sale	Other amortized cost	Total carrying amount	Fair value
31 December 2009									
Cash and cash equivalents	19	-	-	-	-	-	255,944,975	255,944,975	257,800,998
Non pledged trading assets	20	134,926,969	-	-	-	-	-	134,926,969	134,926,969
Pledged assets	21	-	-	-	-	22,112,657	-	22,112,657	22,112,657
Derivative assets held for risk management	12	-	-	-	-	-	-	-	-
Loans and advances to banks	22	-	-	-	146,002	-	-	146,002	236,743
Loans and advances to customers	23	-	-	-	574,586,579	-	-	574,586,579	596,359,962
Investment securities	24	-	-	7,132,700	-	12,026,708	-	19,159,408	19,159,408
		134,926,969	**-**	**7,132,700**	**574,732,581**	**34,139,365**	**255,944,975**	**1,006,876,590**	**1,030,596,737**
Deposits from banks	30	-	-	-	-	-	31,187,065	31,187,065	31,188,044
Deposits from customers	31	-	-	-	-	-	666,921,855	666,921,855	670,624,103
Debt securities issued	32	-	-	-	-	-	67,373,122	67,373,122	69,010,388
Other borrowed funds	35	-	-	-	-	-	12,390,288	12,390,288	13,335,840
		-	**-**	**-**	**-**	**-**	**777,872,330**	**777,872,330**	**784,158,375**
31 December 2008									
Cash and cash equivalents	19	-	-	-	-	-	274,633,776	274,633,776	269,650,366
Non pledged trading assets	20	20,230,784	-	-	-	-	-	20,230,784	20,230,784
Pledged assets	21	-	-	-	-	55,738,491	-	55,738,491	55,738,491
Derivative assets held for risk management	12	-	4,617,841	-	-	-	-	4,617,841	4,617,841
Loans and advances to banks	22	-	-	-	34,364	-	-	34,364	34,125
Loans and advances to customers	23	-	-	-	421,773,158	-	-	421,773,158	398,408,045
Investment securities	24	-	-	-	-	110,198,995	-	110,198,995	110,198,995
		20,230,784	**4,617,841**	**-**	**421,807,522**	**165,937,486**	**274,633,776**	**887,227,409**	**858,878,647**
Deposits from banks	30	-	-	-	-	-	62,989,263	62,989,263	63,015,820
Deposits from customers	31	-	-	-	-	-	469,249,902	469,249,902	583,288,445
Debt securities issued	32	-	-	-	-	-	50,102,687	50,102,687	50,636,996
Other borrowed funds	35	-	-	-	-	-	14,221,064	14,221,064	15,949,847
			-	**-**	**-**	**-**	**596,562,916**	**596,562,916**	**712,891,108**

Notes to the consolidated financial statements

Accounting classification measurement basis and fair values (continued)

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

9. Net interest income

31 December	**12 months**	**10 months**
In thousands of Nigerian Naira	**2009**	**2008**
Interest income		
Cash and cash equivalents	9,805,634	3,897,437
Loans and advances to banks and customers	103,426,804	60,369,874
Investment securities	15,372,793	7,466,577
Total interest income	128,605,231	71,733,888
Interest expense		
Deposit from banks	1,426,391	1,377,410
Deposit from customers	36,888,111	16,427,475
Securities trading	-	603,477
Other borrowed funds	1,289,924	833,722
Debt securities	4,622,643	3,116,196
Total interest expense	44,227,069	22,358,280
Net interest income	84,378,162	49,375,608

Interest income for the period ended 31 December 2009 includes ₦ 1,902,997,523 (December 2008:₦ 395,453,740) accrued on impaired financial assets.

10. Fee and commission income

31 December	**12 months**	**10 months**
In thousands of Nigerian Naira	**2009**	**2008**
Retail banking customer fees and commissions	6,537,166	4,384,361
Corporate banking credit related fees and commissions	4,686,494	5,212,316
Investment banking fees and commissions	413,006	19,028
Brokerage	9,995	624
Income from financial guarantee contracts issued	4,058,457	2,064,836
Other fees and commissions	12,181,783	9,149,288
Total fee and commission income	27,886,901	20,830,453

Notes to the consolidated financial statements

Corporate banking credit related fees and commissions relate to fees charged to corporate customers other than fees included in determining the effective interest rates relating to loans and advances carried at amortized cost.

11. Net trading income

31 December	**12 months**	**10 months**
In thousands of Nigerian Naira	**2009**	**2008**
Bonds	2,818,958	1,204,532
Treasury bills	195,587	1,367,668
Equities	(4,084)	(734,582)
Properties	(1,932,177)	1,918,556
Foreign exchange	6,365,146	3,135,830
Net trading income	7,443,430	6,892,004

12. Derivative instruments held for risk management purposes

The Group uses derivatives not designated in a qualifying hedge relationship to manage its exposure to interest rate risks. The instruments used are interest rate swaps; however during the year ended December 2009 management closed out the swap contracts with the original counterparties to the swap. The table below shows the details and the fair values:

31 December	**12 months**	**10 months**
In thousands of Nigerian Naira	**2009**	**2008**
Notional amount ($350,000)	-	48,838,125
Assets	-	13,806,685
Liabilities	-	(9,188,844)
Net balance	-	4,617,841

31 December	**12 months**	**10 months**
In thousands of Nigerian Naira	**2009**	**2008**
Carrying value, beginning of period	4,617,841	2,332,281
Net income from derivatives held for risk management	(140,764)	2,684,703
Foreign exchange gain	431,662	114,322
Settlement	(4,908,739)	(513,465)
Carrying value, end of year/period	-	4,617,841

Notes to the consolidated financial statements

13. Other operating income

31 December *In thousands of Nigerian Naira*	**12 months** **2009**	**10 months** **2008**
Mark to market gain/(loss) on trading investments	3,889,009	(170,031)
Dividends on available for sale equity securities	358,620	181,898
Foreign exchange gain/(loss)	(329,016)	1,377,423
Gain on disposal of fixed assets	81,665	35,563
Other income	-	2,889
	4,000,278	1,427,742

14. Net impairment loss on financial assets

31 December *In thousands of Nigerian Naira*	**12 months** **2009**	**10 months** **2008**
Collective impairment charges on loans and advances	1,715,978	(452,639)
Specific impairment charges on loans and advances	29,987,146	4,674,321
Impairment charges on available for sale equities	1,329,627	-
Impairment charges on other assets	139,858	439,628
Impairment charges on insurance receivable	103,516	96,508
	33,276,125	4,757,818

15. Personnel expenses

31 December *In thousands of Nigerian Naira*	**Note**	**12 months** **2009**	**10 months** **2008**
Wages and salaries		16,644,158	11,852,313
Contributions to defined contribution plans		658,175	408,321
Cash-settled share-based payment		41,891	349,531
(Decrease)/increase in liability for defined benefit plans	34	(177,419)	1,926,546
Increase in liability for share appreciation rights		1,266,803	(2,012,179)
Other staff costs		50,806	226,876
		18,484,414	12,751,408

Notes to the consolidated financial statements

Personnel expenses (continued)

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

In thousands	*Number of shares*
SARs granted to senior management employees at 31 December 2009	292,922
SARs granted to senior management employees at 31 December 2008	232,282

Employee expenses for share-based payments

31 December	**Note**	**12 months**	**10 months**
In thousands of Nigerian Naira		**2009**	**2008**
Effect of changes in the fair value of SARs		1,266,803	(2,012,179)
Expense from rights exercised during the year		41,891	349,531
Dividend payment to members of the scheme		203,491	226,876
Total expense recognized as personnel expenses		1,512,185	(1,435,772)
Total carrying amount of liabilities for cash-settled arrangements	33	4,540,285	2,994,045

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

	Note	**December**	**December**
In thousands of Nigerian Naira		**2009**	**2008**
Balance, beginning of period		2,994,045	4,939,198
Effect of changes in fair value of SAR at year end		1,266,803	(2,012,179)
Options exercised during the year		(20,032)	(51,976)
Share rights granted during the year		299,469	119,002
Balance, end of period	33	4,540,285	2,994,045

Notes to the consolidated financial statements

16. Other operating expenses

31 December *In thousands of Nigerian Naira*	**12 months 2009**	**10 months 2008**
Other premises and equipment costs	5,425,201	1,623,880
Contract services	4,536,452	3,060,132
Insurance premium	2,401,427	1,957,280
General administrative expenses	19,248,697	16,267,501
Claims and benefits incurred on insurance contracts	1,076,010	797,725
	32,687,787	23,706,518

17. Income tax expense recognised in the profit or loss

31 December *In thousands of Nigerian Naira*	**12 months 2009**	**10 months 2008**
Current tax expense		
Current year	3,036,487	5,973,772
Prior year's under provision	741,262	257,492
	3,777,749	6,231,264
Deferred tax expense		
Origination of temporary differences	3,083,658	1,505,916
Reversal of temporary differences	(451,951)	(16,198)
Total income tax expense	6,409,456	7,720,982

Reconciliation of effective tax rate

In thousands of Nigerian Naira	***December* 2009**	***December* 2009**	***December* 2008**	***December* 2008**
Profit before income tax		35,012,534		37,634,683
Income tax using the domestic corporation tax rate	30.00%	10,503,760	30.00%	11,290,405
Effect of tax rates in foreign jurisdictions	-0.08%	(27,347)	-0.10%	(29,395)
Balancing charge	0.00%	1,229	0.00%	(1,541)
Non-deductible expenses	4.51%	1,578,631	7.50%	2,841,378
Education tax levy	0.84%	295,454	1.20%	438,839
Tax exempt income	-18.81%	(6,585,178)	-19.00%	(7,120,441)
Tax losses utilized	-0.28%	(98,355)	0.10%	44,245
Under provided in prior years	2.12%	741,262	0.70%	257,492
Total income tax expense in comprehensive income	18.31%	6,409,456	20.52%	7,720,982

Notes to the consolidated financial statements

Income tax recognised
In other comprehensive income

31 December *In thousands of Nigerian Naira*	**12 months 2009**	**10 months 2008**
Available-for-sale investment securities	94,387	148,091

18. Basic earnings per share

The calculation of basic earnings per share at 31 December 2009 was based on the profit attributable to ordinary shareholders of ₦28,591,685,000 (December 2008: ₦29,206,701,000) and a weighted average number of ordinary shares outstanding of 18,653,748,614 (December 2008: 14,922,998,891), calculated as follows:

Weighted average number of ordinary shares

In millions of shares	**December 2009**	**December 2008**
Issued ordinary shares at beginning of year	14,923	13,679
Effect of bonus issue	3,731	1,244
Weighted average number of ordinary shares at end of year	18,654	14,923

Profit attributable to ordinary shareholders

31 December *In thousands of Nigerian Naira*	**12 months 2009**	**10 months 2008**
Profit for the period attributable to equity holders of the Bank	28,591,685	29,206,701

Number of ordinary shares

In millions of shares	**December 2009**	**December 2008**
Issued ordinary shares	18,654	14,923

Notes to the consolidated financial statements

19. Cash and cash equivalents

In thousands of Nigerian Naira	December 2009	December 2008
Cash and balances with banks	123,310,667	168,183,158
Unrestricted balances with central banks	18,883,307	47,771,840
Money market placements	113,751,001	58,678,778
	255,944,975	274,633,776

20. Non pledged trading assets

In thousands of Nigerian Naira	December 2009	December 2008
Trading bonds	103,866,570	15,990,113
Trading treasury bills	30,262,467	1,282,392
Equities	797,932	2,958,279
	134,926,969	20,230,784

21. Pledged assets

In thousands of Nigerian Naira	December 2009	December 2008
Treasury bills	6,722,047	49,304,977
Government bonds	15,390,610	6,433,514
	22,112,657	55,738,491

Included in pledged assets are treasury bills of ₦3,639,133,000 (December 2008: ₦31,500,000,000) on repurchase agreements to secure inter-bank takings from other banks which have been included in deposits from banks in Note 30. These transactions have been conducted under terms that are usual and customary to standard lending and repurchase activities.

As at 31 December 2009, the Bank held no collateral, which it was permitted to sell or repledge in the absence of default by the owner of the collateral (December 2008: nil).

Notes to the consolidated financial statements

22. Loans and advances to banks

In thousands of Nigerian Naira	December 2009	December 2008
Loans and advances to banks	236,630	124,694
Less specific allowances for impairment	(90,212)	(90,212)
Less collective allowances for impairment	(416)	(118)
	146,002	34,364

Specific impairment allowance on loans and advances to banks

In thousands of Nigerian Naira	December 2009	December 2008
Balance beginning of year/period	90,212	90,212
Impairment loss for the year/period:		
- Charge for the year/period	-	-
Balance end of year/period	90,212	90,212

Collective impairment allowance on loans and advances to banks

In thousands of Nigerian Naira	December 2009	December 2008
Balance at beginning of year/period	118	78
Impairment loss for the year/period:		
- Charge for the year/period	298	40
Balance end of year/period	416	118

Notes to the consolidated financial statements

23. Loans and advances to customers

December 2009 *In thousands of Nigerian Naira*	**Gross amount**	**Specific impairment**	**Portfolio impairment**	**Total impairment**	**Carrying amount**
Loans to individuals	16,900,899	(1,027,333)	(64,857)	(1,092,190)	15,808,709
Loans to corporate entities and other organizations	579,913,005	(18,469,894)	(2,665,241)	(21,135,135)	558,777,870
	596,813,904	(19,497,227)	(2,730,098)	(22,227,325)	574,586,579

December 2008 *In thousands of Nigerian Naira*	**Gross amount**	**Specific impairment**	**Portfolio impairment**	**Total impairment**	**Carrying amount**
Loans to individuals	44,148,240	(312,187)	(164,275)	(476,462)	43,671,778
Loans to corporate entities and other organizations	381,840,742	(2,884,218)	(855,144)	(3,739,362)	378,101,380
	425,988,982	(3,196,405)	(1,019,419)	(4,215,824)	421,773,158

Specific impairment allowance on loans and advances to banks and customers

In thousands of Nigerian Naira	**December 2009**	**December 2008**
Balance beginning of year/period	3,196,405	382,332
Impairment loss for the year/period:		
- Charge for the year/period	30,250,732	5,035,842
- Recoveries	(263,586)	(361,521)
Net impairment for the year/period	29,987,146	4,674,321
Effect of foreign currency movements	15,765	(2,053)
Write-offs	(13,702,089)	(1,858,195)
Balance end of year/period	19,497,227	3,196,405

Notes to the consolidated financial statements

Collective impairment allowance on loans and advances to customers

In thousands of Nigerian Naira	December 2009	December 2008
Balance beginning of year/period	1,019,419	1,475,363
Impairment loss for the year/period:		
- Charge for the year/period	1,715,921	-
- Allowance no longer required	(241)	(452,679)
Net impairment for the year/period	1,715,680	(452,679)
Effect of foreign currency movements	(5,001)	(3,265)
Balance end of year/period	2,730,098	1,019,419

Loans and advances to customers include the following finance lease receivables for leases of certain property and equipment where the Group is the lessor:

In thousands of Nigerian Naira	December 2009	December 2008
Gross investment in finance leases, receivable:		
Less than one year	6,093	7,567
Between one and five years	-	18,811
	6,093	26,378
Unearned finance income	(23)	(2,302)
Net investment in finance leases	6,070	24,076

The net investment in finance leases comprises:

Less than one year	6,070	7,333
Between one and five years	-	16,743
	6,070	24,076

Notes to the consolidated financial statements

24. Investment securities

Available for sale Securities *In thousands of Nigerian Naira*	**December 2009**	**December 2008**
Treasury bills	-	43,142,049
Bonds	4,931,477	59,954,048
Equity securities with readily determinable fair values	5,436,747	5,606,787
Unquoted equity securities at cost	2,988,111	1,496,111
	13,356,335	110,198,995
Specific impairment for equities	(1,329,627)	-
	12,026,708	110,198,995

Held to maturity securities *In thousands of Nigerian Naira*	**December 2009**	**December 2008**
State government bonds	7,000,000	-
Corporate bond	132,700	-
	7,132,700	-
Investment securities	19,159,408	110,198,995

Specific impairment for equities *In thousands of Nigerian Naira*	**December 2009**	**December 2008**
Balance at 1 March	-	-
- Charge for the year	1,329,627	-
Balance at 31 December	1,329,627	-

Notes to the consolidated financial statements

25. Trading properties

Trading properties represent the cost of real estate properties designated for resale to customers by group entities trading in properties. The movement on the trading properties account during the year was as follows:

In thousands of Nigerian Naira	**December 2009**	**December 2008**
Balance, beginning of year	15,085,846	12,062,730
Additions	2,195,080	4,304,560
Disposals	(12,210,260)	(1,281,444)
Balance at 31 December	5,070,666	15,085,846

Notes to the consolidated financial statements

26 Property and equipment

In thousands of Nigerian Naira	**Leasehold improvement and buildings**	**Furniture & equipment**	**Motor vehicle**	**Other transport equipment**	**Capital work-in - progress**	**Total**
Cost						
Balance at 1 January 2009	13,719,394	17,115,380	4,865,053	2,545,136	11,273,863	49,518,826
Exchange difference on translation of opening balances	3,265	(22,223)	21,459	-	(43,708)	(41,207)
Additions	1,369,242	3,005,037	1,581,460	-	5,735,599	11,691,338
Disposals	(28,852)	(47,406)	(632,018)	-	-	(708,276)
Transfers	2,863,095	950,715	13,309	-	(3,827,119)	-
Balance at 31 December 2009	17,926,144	21,001,503	5,849,263	2,545,136	13,138,635	60,460,681
Balance at 1 March 2008	10,800,780	13,821,777	3,513,244	2,545,136	10,337,872	41,018,809
Exchange difference on translation of opening balances	19,803	22,246	7,226	-	(17,395)	31,880
Additions	184,829	2,355,458	1,784,674	-	4,388,198	8,713,159
Disposals	-	(31,021)	(440,091)	-	(14,068)	(485,180)
Transfers	2,473,824	946,920	-	-	(3,420,744)	-
Reclassifications	240,158	-	-	-	-	240,158
Balance at 31 December 2008	13,719,394	17,115,380	4,865,053	2,545,136	11,273,863	49,518,826

Notes to the consolidated financial statements

In thousands of Nigerian Naira	Leasehold improvement and buildings	Furniture & equipment	Motor vehicle	Other transport equipment	Capital work-in - progress	Total
Depreciation						
Balance at 1 January 2009	1,677,219	10,273,124	2,159,749	445,399	-	14,555,491
Exchange difference on translation of opening balances	(2,190)	(67,869)	15,559	-	-	(54,500)
Charge for the year	629,564	3,137,142	1,228,293	254,513	-	5,249,512
Disposal	(5,187)	(40,900)	(525,158)	-	-	(571,245)
Balance at 31 December 2009	2,299,406	13,301,497	2,878,443	699,912	-	19,179,258
Balance at 1 March 2008	1,334,096	8,123,536	1,744,931	233,304	-	11,435,867
Exchange difference on translation of opening balances	(3,550)	8,991	(1,246)	-	-	4,195
Charge for the year	346,673	2,166,474	778,710	212,095	-	3,503,952
Disposal	-	(25,877)	(362,646)	-	-	(388,523)
Balance at 31 December 2008	1,677,219	10,273,124	2,159,749	445,399	-	14,555,491
Carrying amounts:						
Balance at 31 December 2009	15,626,738	7,700,006	2,970,820	1,845,224	13,138,635	41,281,423
Balance at 31 December 2008	12,042,175	6,842,256	2,705,304	2,099,737	11,273,863	34,963,335

Notes to the consolidated financial statements

27. Intangible assets

In thousands of Nigerian Naira	**Goodwill**	**Purchased Software**	**Total**
Cost			
December 2009			
Balance at 1 January 2009	354,328	3,310,075	3,664,403
Additions	-	806,306	806,306
Exchange translation differences	-	-	-
Balance at 31 December 2009	354,328	4,116,381	4,470,709
December 2008			
Balance at 1 March 2008	189,817	2,860,205	3,050,022
Additions	164,511	449,870	614,381
Exchange translation differences	-	-	-
Balance at 31 December 2008	354,328	3,310,075	3,664,403
Amortization and impairment losses			
Balance at 1 January 2009	-	1,431,429	1,431,429
Amortization for the period	-	701,359	701,359
Reclassifications	-	-	-
Balance at 31 December 2009	-	2,132,788	2,132,788
Balance at 1 March 2008	-	958,784	958,784
Amortization for the period	-	472,645	472,645
Reclassifications	-	-	-
Balance at 31 December 2008	-	1,431,429	1,431,429
Carrying amounts			
Balance at 31 December 2009	354,328	1,983,593	2,337,921
Balance at 31 December 2008	354,328	1,878,646	2,232,974

No impairment losses on goodwill were recognised during the 12 months to 31 December 2009 (10 months to 31 December 2008: nil).

Notes to the consolidated financial statements

28. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of Nigerian Naira		December 2009			December 2008	
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment, and software	8,566	(4,473,018)	(4,464,452)	6,891	(3,127,241)	(3,120,350)
Available-for-sale securities	-	104,865	104,865	29,956	(15,678)	14,278
Allowances for loan losses	-	(2,063,834)	(2,063,834)	-	495,306	495,306
Tax loss carry forward	-	-	-	-	-	-
Employee benefits	-	(349,454)	(349,454)	-	713,961	713,961
Other assets	-	223,620	223,620	-	(1,625,081)	(1,625,081)
Others	402,298	-	402,298	-	(87,751)	(87,751)
Net tax assets/(liabilities)	410,864	(6,557,821)	(6,146,957)	36,847	(3,646,484)	(3,609,637)

There were no unrecognised deferred tax assets or liabilities as at 31 December 2009 (31 December 2008: nil).

Notes to the consolidated financial statements

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

December 2009		**Recognised in**		
In thousands of Nigerian Naira	**Balance at 1 January**	**Profit or loss**	**Other comprehensive income**	**Balance at 31 December**
Property and equipment, and software	(3,120,350)	(1,345,139)	-	(4,465,489)
Available-for-sale securities	14,278	399,534	93,712	507,524
Allowances for loan losses	495,306	(2,914,351)	-	(2,419,045)
Tax loss carry forward	-	-	-	-
Employee benefits	713,961	(1,063,415)	-	(349,454)
Other assets	(1,625,081)	1,861,921	-	236,840
Others	(87,751)	429,743	675	342,667
	(3,609,637)	(2,631,707)	94,387	(6,146,957)

December 2008	**Balance at**	**Profit or loss**	**Other**	**Balance at**
In thousands of Nigerian Naira	**1 March**		**comprehensive income**	**31 December**
Property and equipment, and software	(2,334,039)	(786,311)	-	(3,120,350)
Available-for-sale securities	(86,928)	229,837	(128,631)	14,278
Allowances for loan losses	372,293	123,013	-	495,306
Tax loss carry forward	175,995	(175,995)	-	-
Employee benefits	263,190	450,771	-	713,961
Other assets	(361,737)	(1,263,344)	-	(1,625,081)
Others	(602)	(67,689)	(19,460)	(87,751)
	(1,971,828)	(1,489,718)	(148,091)	(3,609,637)

29. Other assets

In thousands of Nigerian Naira	**December 2009**	**December 2008**
Due from banks	-	1,796,264
Accounts receivable and prepayments	16,543,846	14,124,287
Restricted deposits with central banks	5,760,774	7,812,617
Others	-	50,749
Insurance receivables	1,003,120	686,745
	23,307,740	**24,470,662**
Impairment on other assets	(914,045)	(774,187)
Impairment on insurance receivable	(193,574)	(124,058)
	22,200,121	23,572,417

Notes to the consolidated financial statements

Restricted deposits with central banks are not available for use in the Group's day-to-day operations.

The Bank had restricted balances of ₦5,760,774,000 with the Central Bank of Nigeria (CBN) as at 31 December 2009 (December 2008: ₦7,812,617,000). This balance is made up of CBN cash reserve requirement. The cash reserve ratio represents a mandatory 1% cash deposit which should be held with the Central Bank of Nigeria as a regulatory requirement.

Insurance receivable comprises:

In thousands of Nigerian Naira	**December 2009**	**December 2008**
Due from contract holders	236,020	139,227
Due from agents and brokers	553,815	526,510
Due from reinsurers	213,285	21,008
	1,003,120	686,745

Movement in impairment on other assets:

In thousands of Nigerian Naira	**December 2009**	**December 2008**
Balance at 1 March	774,187	981,367
Charge for the year	139,858	439,628
Recoveries	-	(646,808)
Balance at 31 December	914,045	774,187

Movement in impairment on insurance receivables:

In thousands of Nigerian Naira	**December 2009**	**December 2008**
Balance at 1 March	124,058	27,550
Charge for the year	103,516	96,508
Recoveries	(34,000)	-
Balance at 31 December	193,574	124,058

Notes to the consolidated financial statements

30. Deposits from banks

In thousands of Nigerian Naira	December 2009	December 2008
Money market deposits	4,041,988	31,519,939
Other deposits from banks	27,145,077	31,469,324
	31,187,065	62,989,263

31. Deposits from customers

In thousands of Nigerian Naira	December 2009	December 2008
Retail customers:		
Term deposits	136,298,536	66,012,806
Current deposits	87,345,922	92,676,275
Savings	60,053,329	45,211,678
Corporate customers:		
Term deposits	181,866,261	87,585,751
Current deposits	201,357,807	177,760,411
Others	-	2,981
	666,921,855	469,249,902

32. Debt securities issued

In thousands of Nigerian Naira	December 2009	December 2008
Debt securities at amortized cost:		
Eurobond debt security	54,169,953	50,102,687
Corporate bonds	13,203,169	-
	67,373,122	50,102,687

Debt securities of ₦54,169,953,000 (USD350,000,000 measured at amortised cost) represents US Dollar denominated guaranteed notes issued by the Group in January 2007 with tenure of 5 years. Interest on the notes is payable semi-annually at 8.5% per annum plus margin of 10.7 basis points (0.1% per annum).

The amount of N13,203,169,000 represents fixed rate senior unsecured non-convertible bonds issued by the Bank in December 2009. The debt security is redeemable in December 2014 and coupon is payable half yearly at 13.5% per annum. The amount represents the first tranche of a N200 billion debt issuance programme.

Notes to the consolidated financial statements

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities during 2009 (2008: nil).

33. Other liabilities

In thousands of Nigerian Naira	Note	December 2009	December 2008
Cash settled share based payment liability		4,540,285	2,994,045
Liability for defined contribution obligations		115,976	-
Recognized liability for defined benefit obligations	34	(1,339,164)	410,125
Deferred income on financial guarantee contracts		660,110	1,386,803
Creditors and accruals		604,711	21,987
Certified cheques		12,594,704	13,297,171
Lease obligation (a)		2,211,130	2,125,260
Due to foreign banks (b)		60,283,827	119,883,550
Other current liabilities		9,734,517	30,886,142
Liabilities to customers under investment contracts		1,115,094	586,386
		90,521,190	171,591,469

(a) As at 31 December 2009, the group was obligated under a non-cancellable finance lease for other transportation equipment for which the future minimum lease payments extend over a number of years. This is analysed as follows:

	December 2009	December 2008
Not more than one year	721,595	608,534
Over one year but less than five years	2,345,184	1,825,601
Over five years	0	760,682
Less future finance charges	(855,649)	(1,069,557)
	2,211,130	2,125,260

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

Notes to the consolidated financial statements

34. Defined benefit obligations

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

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

In thousands of Nigerian Naira	**December 2009**	**December 2008**
Unfunded obligations	-	-
Present value of funded obligations	(1,952,810)	(1,851,860)
Total present value of defined benefit obligations	(1,952,810)	(1,851,860)
Fair value of plan assets	3,291,974	1,441,735
Present value of net asset/(obligations)	1,339,164	(410,125)
Unrecognized actuarial gains and losses	-	-
Recognized asset/(liability) for defined benefit obligations	1,339,164	(410,125)

Plan assets consist of the following:

In thousands of Nigerian Naira	**December 2009**	**December 2008**
Equity securities	1,037,061	773,617
Government bonds	158,788	241,212
Offshore investments	398,799	336,854
Cash and bank balances	1,697,326	90,052
	3,291,974	1,441,735

Movement in the present value of defined benefit obligations:

In thousands of Nigerian Naira	**December 2009**	**December 2008**
(Deficit)/surplus on defined benefit obligations at 1 January	(410,125)	1,501,265
Interest costs	(237,696)	(104,058)
Current service costs	(225,287)	(128,710)
Expected return on planned assets	172,890	241,668
Net actuarial gain/(loss) for the year - obligations	359,019	(499,024)
Net actuarial gain/(loss) for the year - plan Assets	108,493	(1,436,422)
Contributions paid	1,571,870	15,156
(Deficit)/surplus for defined benefit obligations at end 31 December	1,339,164	(410,125)

Notes to the consolidated financial statements

Movement in plan assets:

In thousands of Nigerian Naira	December 2009	December 2008
Fair value of plan assets at 1 January	1,441,735	2,636,488
Contributions paid into/(withdrawn from) the plan	1,571,870	15,156
Benefits paid by the plan	(3,014)	(15,156)
Actuarial gain/(loss)	108,493	(1,436,422)
Expected return on plan assets	172,890	241,669
Fair value of plan assets at 31 December	3,291,974	1,441,735

Expense recognised in profit or loss:

In thousands of Nigerian Naira	Note	December 2009	December 2008
Current service costs		225,287	128,710
Interest on obligation		237,696	104,058
Expected return on planned assets		(172,890)	(241,668)
Net actuarial (gain)/loss recognised in the year		(467,512)	1,935,446
To profit or loss	15	(177,419)	1,926,546
Actual return on plan assets		(281,383)	1,179,597

Actuarial assumptions
Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	December 2009	December 2008
Expected return on plan assets at 1 January	12%	12%
Future salary increases	12%	12%
Retirement age for both male and female	60 years	60 years
Retirement Rate: 50 – 59	2.00%	2.00%
Withdrawal Rate: 18 – 29	4.50%	4.50%
Withdrawal Rate: 30 – 44	6.00%	6.00%
Withdrawal Rate: 45 – 49	2.50%	2.50%

Assumptions regarding future mortality before retirement are based on A49/52 ultimate table published by the Institute of Actuaries of United Kingdom.

Notes to the consolidated financial statements

The overall expected long-term rate of return on assets is 12%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based entirely on current market yields on Nigerian Government Bonds. The component of the rate of remuneration increase based on seniority and promotion is an average of 2% per annum. The inflation component has been worked out at 10% per annum.
For members in active service as at the valuation date, the projected unit credit method of valuation as required under the IFRS has been adopted.

Historical information *In thousands of Nigerian Naira*	**December 2009**	**December 2008**	**February 2008**	**February 2007**	**February 2006**
Present value of the defined benefit obligation	(1,952,810)	(1,851,860)	(1,135,223)	(950,210)	(748,140)
Fair value of plan assets	3,291,974	1,441,735	2,636,488	2,390,030	1,338,420
Surplus/(deficit)	1,339,164	(410,125)	1,501,265	1,439,820	590,280

35. Other borrowed funds

In thousands of Nigerian Naira	**December 2009**	**December 2008**
Due to IFC (see note (i) below)	8,507,690	9,267,822
Due to EIB (see note (iii) below)	-	209,696
Due to ADB (see note (iv) below)	3,882,598	4,743,546
	12,390,288	14,221,064

(i). The amount of ₦8,507,690,000 (USD 56,785,000) represents the outstanding balance on various facilities granted by the International Finance Corporation (IFC) between March 2001 and January 2007 repayable over 7 to 10 years at interest rates varying from 2.75% to 4.75% above LIBOR rates.

(ii). The amount of ₦209,696,000 (USD 1,502,874) represents the dollar facility granted by the European Investment Bank (EIB) in June 2005 for a period of 4 years. Interest is payable half yearly at 2.5% above LIBOR rates. The amount was fully repaid during the year.

(iii). The amount of ₦3,882,598,000 (USD 25,667,000) represents the dollar facility granted by the African Development Bank (ADB) in May 2006 for a period of 7 years. The principal amount is repayable in 12 equal instalments after a moratorium of 1 year, while interest is payable half yearly at a rate per annum determined by the Bank to be the sum of LIBOR or its successor rate for such interest periods plus 245 basis points per annum.

Notes to the consolidated financial statements

36. Capital and reserves

Share capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to vote at meetings of the Group. All ordinary shares and GDR shares rank pari-passu with the same rights and benefits at meetings of the Group.

	In thousands of Nigerian Naira	**December 2009**	**December 2008**
(a)	Authorised - 30,000,000,000 Ordinary shares of 50k each (31 December 2008: 30,000,000,000 of 50k each)	15,000,000	15,000,000

	In thousands of Nigerian Naira	**December 2009**	**December 2008**
(b)	Issued and fully paid-up - 18,653,748,614 Ordinary shares of 50k each (31 December 2008: 14,922,998,891 of 50k each)	9,326,875	7,461,500

The movement on the issued and fully paid-up share capital account during the year was as follows:

	In thousands of units	**December 2009**	**December 2008**
(c)	Balance, beginning of year	14,922,999	13,679,416
	Bonus shares capitalized	3,730,750	1,243,583
	Balance, end of year	18,653,749	14,922,999

Share premium
Share premium is the excess paid by shareholders over the nominal value for their shares.

Other regulatory reserves
The other regulatory reserve includes movements in the statutory reserves and the small and medium scale industries reserve.

(i) Statutory Reserves: Nigerian banking regulations require the Bank to make an annual appropriation to a statutory reserve. As stipulated by S.16(1) of the Banks and Other Financial Institution Act of 1991 (amended), an appropriation of 30% of profit after tax is made if the statutory reserve is less than paid-up share capital and 15% of profit after tax if the statutory reserve is greater than the paid up share capital. However, the Bank transferred 30% of its profit after tax to statutory reserves as at year end (2008: 30%).

Notes to the consolidated financial statements

(ii) Small and Medium Scale Industries Reserve (SMEEIS): The SMEEIS reserve is maintained to comply with the Central Bank of Nigeria (CBN) requirement that all licensed banks set aside a portion of the profit after tax in a fund to be used to finance equity investment in qualifying small and medium scale enterprises. Under the terms of the guideline (amended by CBN letter dated 11 July 2006), the contributions will be 10% of profit after tax and shall continue after the first 5 years but banks' contributions shall thereafter reduce to 5% of profit after tax. However, this is no longer mandatory.

During the year, an amount of ₦1,065,425,000 representing diminution in value of SMEEIS investment was charged to profit or loss.

Treasury shares
Treasury shares represent the Bank's shares of 753,049,097 (2008: 641,542,946) held by the Staff Investment Trust and two other subsidiary companies as at 31 December 2009.

Bonus reserves
Subsequent to the balance sheet date, the Board of Directors has approved the transfer of ₦2,331,719,000 (2008: ₦1,865,375,000) from the Group's profit for the year to issue bonus shares in the ratio of 1 new ordinary share for every 4 held, subject to declaration by the shareholders at the Annual General Meeting (2008: 1 new ordinary share for every 4 ordinary shares held).

Fair value reserve
The fair value reserve includes the net cumulative change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

Regulatory risk reserve
The regulatory risk reserves warehouses the difference between the impairment on balance on loans and advances under the Nigeria GAAP and based on Central Bank of Nigeria prudential guidelines compared with the loss incurred model used in calculating the impairment balance under IFRS.

Retained earnings
Retained earnings are the carried forward recognised income net of expenses plus current period profit attributable to shareholders.

Non-controlling interest
The entities accounting for the non-controlling interest balance is shown below:

In thousands of Nigerian Naira	**December 2009**	**December 2008**
GTB (Gambia) Limited	268,899	257,778
GTB (Sierra Leone) Limited	168,317	168,709
GT Assurance Plc	3,580,884	3,294,813
GTB (Ghana) Limited	366,832	320,825
GT Homes Limited	757,005	-
GTB Asset Management Limited	2	-
	5,141,939	4,042,125

Notes to the consolidated financial statements

37. Dividends

The following dividends were declared and paid by the Group during the year ended 31 December 2009:

In thousands of Nigerian Naira	**December 2009**	**December 2008**
Balance, beginning of period	-	-
Interim dividend declared	-	-
Final dividend declared	14,922,999	9,575,591
Payment during the period	(14,922,999)	(9,575,591)
Balance, end of period	-	-

Subsequent to the balance sheet date, the board of directors has proposed a dividend of ₦0.75 per share on the issued share capital of 18,653,748,614 ordinary shares of 50k each, amount being ₦13,990,311,460 subject to the approval of the shareholders at the next annual general meeting. (31 December 2008: ₦1 per share on the issued share capital of 14,922,998,891 ordinary shares of 50k each, amount being ₦14,922,998,891)

38. Leasing

As lessor

The Group acts as lessee under operating and finance leases, providing financing for its customers and leasing assets for their own use. In addition, assets leased by the Group may be sublet to other parties. Details of finance lease commitments have been included in other liabilities.

As lessee

Operating lease commitments

The Group leases offices, branches and other premises under operating lease arrangements. The leases have various terms and renewal rights. The lease rentals are paid in advance and recognised on straight line basis over the lease period. The outstanding balance is accounted for as prepaid lease rentals. There are no contingent rents payable.

39. Contingencies

Claims and litigation

The Group in its ordinary course of business is presently involved in 154 (December 2008: 98) cases as a defendant and 35 cases (December 2008: 32) as a plaintiff. The total amount claimed in the 154 cases against the Group is estimated at ₦ 122,746,173,027 (December 2008: ₦ 8,489,470,462) while the total amount claimed in the 35 cases instituted by the Bank is ₦ 4,270,189,728 and $16,352,426 (2008: ₦ 472,820,325). The Directors having sought the opinion of the Group's solicitors are of the opinion that none of the aforementioned cases is likely to have material adverse effect on the Group. The Directors are not aware of any other pending and or threatened claims or litigation which may be material to the financial statements.

Notes to the consolidated financial statements

Contingent liabilities and commitments
In common with other banks, the Group conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. Contingent liabilities and commitments comprise acceptances, endorsements, guarantees and letters of credit.

Nature of instruments
An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. Endorsements are residual liabilities of the Group in respect of bills of exchange, which have been paid and subsequently rediscounted.
Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Other contingent liabilities include transaction related customs and performances bonds and are, generally, short-term commitments to third parties which are not directly dependent on the customer's creditworthiness. Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity dates but are cancellable by the lender subject to notice requirements. Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers. The following tables summarise the nominal principal amount of contingent liabilities and commitments with off-financial position risk.

Acceptances, bonds, guarantees and other obligations for the account of customers:

a. These comprise:

In thousands of Nigerian Naira	**December 2009**	**December 2008**
Contingent liabilities:		
Acceptances and guaranteed commercial papers	1,684,681	146,373,722
Transaction related bonds and guarantees	250,006,249	170,281,067
Guaranteed facilities	90,406	259,016
	251,781,336	316,913,805
Commitments:		
Short term foreign currency related transactions	14,712,413	25,420,700
Clean line facilities for letters of credit	66,196,010	71,788,236
Other commitments	130,501	9,656,209
	81,038,924	106,865,145

c. All the transaction related bonds and guarantees are fully collaterised. The cash component out of the balance was ₦ 16,477,432,157 (31 December 2008: ₦26,120,245,000).

d. The Bank granted clean line facilities for letters of credit during the period to guarantee the performance of customers to third parties.

Notes to the consolidated financial statements

40. Group entities

i. Significant subsidiaries

	Country of incorporation	Ownership interest December 2009	Ownership interest December 2008
Guaranty Trust Bank Gambia Limited	Gambia	77.9%	77.9%
Guaranty Trust Bank Sierra Leone Ltd	Sierra Leone	84.3%	84.3%
Guaranty Trust Assurance Plc	Nigeria	71.2%	73.7%
Guaranty Trust Bank Ghana Limited	Ghana	96.0%	70.0%
Guaranty Trust Registrars Limited	Nigeria	99.9%	99.9%
Guaranty Trust Homes Limited	Nigeria	75.1%	100%
Guaranty Trust Bank UK Limited	United Kingdom	100%	100%
GTB Asset Management Limited	Nigeria	99.9%	99.9%
Guaranty Trust Bank Liberia Limited	Liberia	100%	100%
Special purpose entities:			
Staff Investment Trust	Nigeria	100%	100%
Guaranty Trust Bank Finance BV	Netherlands	100%	100%

41. Related parties

Related party transactions
Parties are considered to be related if one party has the ability to control the other party or exercise influence over the other party in making financial and operational decisions, or one other party controls both. The definition includes subsidiaries, associates, joint ventures and the Group's pension schemes, as well as key management personnel.

Parent
The parent company, which is also the ultimate parent company, is Guaranty Trust Bank Plc (GTB Plc).

Subsidiaries
Transactions between Guaranty Trust Bank Plc and its subsidiaries also meet the definition of related party transactions. Where these are eliminated on consolidation, they are not disclosed in the consolidated financial statements.

Transactions with key management personnel
The Group's key management personnel, and persons connected with them, are also considered to be related parties. The definition of key management includes the close members of family of key personnel and any entity over which key management exercise control. The key management personnel have been identified as the executive and non-executive directors of the Group. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealings with Guaranty Trust Bank Plc and its subsidiaries.

Notes to the consolidated financial statements

Key management personnel and their immediate relatives engaged in the following transactions with the Group during the year:

Loans and advances: *In thousands of Nigerian Naira*	**December 2009**	**December 2008**
Secured loans	10,016,822	11,542,887

Deposits: *In thousands of Nigerian Naira*	**December 2009**	**December 2008**
Total deposits	645,853	1,350,655

Interest rates charged on balances outstanding are at rates that would be charged in the normal course of business. The secured loans granted are secured over real estate, equity and other assets of the respective borrowers. No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the year end.

Key management personnel compensation for the period comprises:

In thousands of Nigerian Naira	**December 2009**	**December 2008**
Short-term employee benefits	-	357,341
Post-employment benefits	(55,138)	684,820
Share-based payments	-	114,156
Increase /(decrease) in share appreciation rights	612,789	(802,053)
	557,651	354,264

Directors' remuneration

In thousands of Nigerian Naira	**December 2009**	**December 2008**
Fees as directors	103,712	81,457
Other allowances	132,064	72,920
	235,776	154,377
Executive compensation	406,665	293,079
	642,441	447,456

42. Subsequent events

There were no events subsequent to the financial position date which require adjustment to, or disclosure in, these financial statements.

Notes to the consolidated financial statements

43. Prior period corresponding balances

Certain prior period balances have been reclassified in line with current period presentation due to the following reasons:

- Insurance contracts liabilities was reclassified from other liabilities to liabilities on insurance contracts in order to reflect the Group's increased activity in its insurance business.

- Mark to market loss on trading investments was reclassified to other operating income in order to properly categorise it based on its nature.

- Impairment charges on other assets and insurance receivables were reclassified from operating expenses to net impairment loss on financial assets for appropriate disclosure purposes.

(a) Other liabilities

In thousands of Nigerian Naira	**December 2008**
Balance previously reported	172,386,015
Reclassification to liabilities on insurance contracts (see note (b) below)	(794,546)
Balance as restated	171,591,469

(b) Liabilities on insurance contracts

In thousands of Nigerian Naira	**December 2008**
Balance previously reported	-
Reclassification from other liabilities (see note (a) above)	794,546
Balance as restated	794,546

(c) Fee and commission expense

In thousands of Nigerian Naira	**December 2008**
Balance previously reported	-
Reclassification from other operating expenses (see note (d) below)	175,208
Balance as restated	175,208

(d) Other operating expenses

In thousands of Nigerian Naira	**December 2008**
Balance previously reported	23,620,137
Reclassification to fee and commission expense (see note (c) above)	(175,208)
Reclassification to impairment charge on other assets (see note (e) below)	(439,628)
Reclassification to impairment charge on insurance receivable (see note (e) below)	(96,508)
Reclassification from claims incurred on insurance contracts (see note (f) below)	797,725
Balance as restated	23,706,518

Notes to the consolidated financial statements

(e) Net impairment loss on financial assets

In thousands of Nigerian Naira	**December 2008**
Balance previously reported	4,221,682
Reclassification from other operating expenses (see note (d) above)	439,628
Reclassification from other operating expenses (see note (d) above)	96,508
Balance as restated	4,757,818

(f) Claims incurred on insurance contracts

In thousands of Nigerian Naira	**December 2008**
Balance previously reported	797,725
Reclassification to other operating expenses (see note (d) above)	(797,725)
Balance as restated	-

(g) Net trading income

In thousands of Nigerian Naira	**December 2008**
Balance previously reported	6,721,973
Reclassification to other operating income (see note (h) below)	170,031
Balance as restated	6,892,004

Notes to the consolidated financial statements

(h) Other operating income

In thousands of Nigerian Naira	**December 2008**
Balance previously reported	1,597,773
Reclassification from other net trading income (see note (g) above)	(170,031)
Balance as restated	1,427,742

KPMG

KPMG Professional Services
22a Gerrard Road, Ikoyi
PMB 40014, Falomo
Lagos, Nigeria

Telephone 234 (1) 271 8955
Fax 234 (1) 462 0704
Internet www.ng.kpmg.com

Independent Auditor's Report
To the members of Guaranty Trust Bank Plc

We have audited the accompanying consolidated financial statements of Guaranty Trust Bank Plc and its subsidiaries (the "Group"), which comprise the consolidated financial position as at 31 December 2009, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes as set out on pages 1 to 91.

Directors' responsibility for the financial statements
The directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

Opinion
In our opinion, the consolidated financial statements give a true and fair of the financial position of Guaranty Trust Bank Plc and its subsidiaries ("the Group) as at 31 December 2009, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
We draw attention to the fact that these consolidated financial statements are prepared in addition to the Group's statutory consolidated financial statements as described in Note 2 to the consolidated financial statements.

KPMG
19 May 2010
Lagos, Nigeria.

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
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