

WEMA BANK PLC

Annual reports and financial statements
31 December 2012

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Report of the Directors

The directors present their annual report on the affairs of Wema Bank Plc (the "Bank"), audited financial statements and independent auditor's report for the financial year ended 31 December, 2012.

Legal form

The Bank was incorporated in Nigeria under the Companies Act of Nigeria as a private limited liability company on 2 May 1945 and was converted to a public company in April 1987. The Bank's shares, which are currently quoted on the Nigerian Stock Exchange, were first listed in February 1991. The Bank was issued a universal banking license by the Central Bank of Nigeria on January 2001. Arising from the consolidation in the banking industry, Wema Bank Plc acquired National Bank of Nigeria Plc in December 2005. Currently, the bank has opted for a Regional Commercial Banking License under the new CBN licensing regime to operate within the South- South and South West geopolitical zones of Nigeria and the Federal Capital Territory.

Reporting entity

Wema Bank Plc (the "Bank") is a Company domiciled in Nigeria. The address of the Bank's registered office is 54 Marina, Lagos, Nigeria. The Bank is primarily involved in investment, corporate, commercial and retail banking. The Bank has Akintola Williams Deloitte as auditors, Wema Registrar and Oluwole Ajimisinmi as registrar and Legal Adviser and Company Secretary respectively.

Principal activity

The principal activity of the Bank is the provision of banking and other financial services to corporate and individual customers. Such services include granting of loans and advances, corporate finance and money market activities.

The Bank had one associated company; Associated Discount House. The transaction of this Associate has been accounted for in the financial statements in line with IFRS.

Operating results

Highlights of the Bank's operating results for the year under review are as follows:

	2012	2011	% Change
<i>In thousands of Nigerian Naira</i>			
Gross earnings	30,716,386	22,773,921	35
Loss before taxation	(4,942,211)	(3,770,021)	(31)
Income tax expense	(98,418)	(458,905)	78
Loss for the year	(5,040,629)	(4,228,926)	(19)
Other comprehensive income for the year, net of income tax	50,812	(8,040)	732
Total comprehensive income for the year	(4,989,816)	(4,236,966)	(18)

The Global Economy

Global economic growth remained muted in 2012 and is expected to remain subdued in the near-term. Mature economies are still healing from the scars of the 2008-2009 crises. But unlike in 2010 and 2011, emerging markets did not pick up the slack in 2012, and are not to do so in 2013. According to the International Monetary Fund (IMF), the global economy grew by 3% in 2012 and is expected to grow marginally by 3.5% in 2013, which is lower than earlier forecasts. Europe's economic growth continues to lag and several European countries are already considered to be in recession. Economic policies initiated in 2012 to specifically target greater fiscal integration and coordinated financial supervision failed to deliver expected growth in these economies.

In the United States, the unresolved “fiscal cliff” and unemployment challenges suppressed economic growth in 2012. Nonetheless, economic growth came in stronger than the forecast of 2.3% anchored on improved industrial activities and rise in private consumer spending.

Japan witnessed a rebound from the challenges triggered by the earthquake and tsunami of 2011, and the attendant nuclear disaster, with growth inching up by 2% from 0.6% in 2011 but exports declined as a result of political tensions with China.

Africa

Africa achieved a robust 5% growth rate in 2012, well above the global average, despite the global slowdown. Recovery in many countries in the continent was underpinned by a variety of factors, including high global commodity demand, rising domestic demand associated with rising incomes and urbanization, increasing public spending especially on infrastructure projects and increased trade and investment with emerging economies.

In North Africa, political instability continued to cripple economic activities, though the region grew by 5.2% in 2012 with Libya growing at 121.9% as the country continues to recover from the civil war. Economic performance in West Africa moderated to 6.3% in 2012 from 6.5% in 2011. Growth in Nigeria, the continent's second-largest economy, slowed to 6.4% from 7.4% in 2011, reflecting a reduced fiscal stimulus and slowing oil investment resulting from security concerns across the Niger Delta and the Boko Haram insurgency in Northern Nigeria.

Macroeconomic Review

In January 2012, a partial removal of subsidy on petroleum products was introduced by the Federal Government, while the savings from oil revenues in excess of the budget were accrued into the Sovereign Wealth Fund. In addition, the Federal Government introduced tariffs on the importation of sugar, rice and flour while granting import reliefs on importation of agricultural machinery as a way to drive local output.

The economy witnessed an increase in general price levels as inflationary pressures, which receded in the third quarter, re-emerged to reach a year high of 12% in December 2012 from 10.9% in December 2011. The inflationary pressures were driven by several events ranging from the partial removal of subsidy on Premium Motor Spirit (PMS), increased electricity tariff and flooding in twelve states which disrupted supply channels across the country.

Also, during the year, the Capital Market benefitted from the improvement and stability of the economy and the positive credit rating of the country by Standard & Poors and other international rating agencies. The upgrading of Nigeria's Credit Rating from B+ to BB- with stable outlook, lent credence to the Central Bank's emphasis on stability and its role as a counter-balance to Government's fiscal spending and growing investment opportunities available in the country.

The performance of the domestic economy was not as robust as 2011 but overall, the Nigerian economy proved resilient against negative external market conditions with GDP hovering between 6% and 7% throughout the year. The Central Bank of Nigeria (CBN) maintained its tight monetary policy stance, which significantly moderated inflation and stabilized the value of the domestic currency.

The Banking Industry

The 2012 financial year can be summarized as the year of a return to stability and record profits for the Banking industry as it evolved into a more dynamic and performance driven industry. Banks were able to capitalize on the reform policies of the CBN especially the Cashless Policy initiatives and the tight monetary policy stance which saw the Monetary Policy Rate remain at 12% all year through, while the Cash Reserve Ratio was reviewed upward from 8% to 12%.

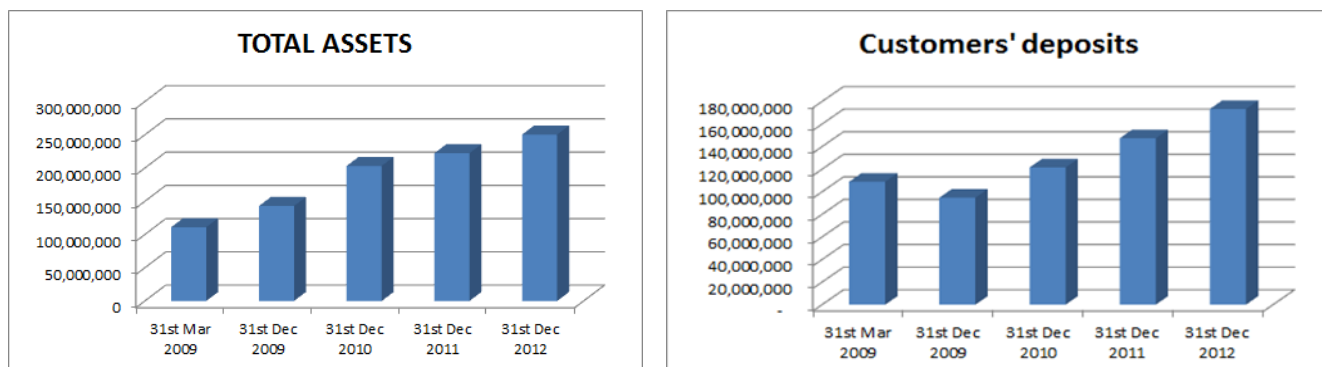
The Net Open Position (NOP) remained unchanged through the year. Combined with aggressive Open Market Operations to mop up excess liquidity, the CBN's Forex management measures helped to ensure the currency showed remarkable strength and stability all year as banks made impressive returns on Forex transactions. High NIBOR rates, due to the liquidity squeeze and an influx of Foreign Portfolio Inflows characterized the industry in 2012. Credit to the real sector stagnated over the period due to the CBN's conservative monetary policies.

Service delivery quality of the banks improved as more banks explored other payment platforms other than cash, such as NEFT, RTGS and mobile banking modes. With the general improvement in electronic payment systems, a number of banks were able to boost non-interest earnings significantly.

The Implementation of the International Financial Reporting Standards and improving regulatory oversight further helped to entrench best practices while best in class risk management platforms opened up new business opportunities.

The Bank's Financial Results

As the banking industry continued to adapt to the changing regulatory and economic policies and reforms, your bank remained focused on its core areas of expertise such as retail banking and commercial banking by further leveraging on existing business relationships in different industries of the economy. However, as a result of capital constraints, we were unable to fully exploit the enormous business opportunities in the economy. Further impact of our impairment charges and asset write-offs led to erosion of profits which resulted in a Loss after Tax of ₦5.04 billion.



Highlights of 2012 Performance

- Total Assets rose by 10% to ₦246 Billion (Dec 2011: ₦223 Billion)
- Deposits grew by 16% to ₦175 Billion (Dec 2011: ₦147 Billion)
- Gross Earnings up by 20% to ₦30.7 Billion (Dec 2011: ₦25.6 Billion)
- Net Interest Income up by 17% to ₦11.7 Billion (Dec 2011: ₦10 Billion)
- Operating Expenses up 1% year on year to ₦17.8 Billion (Dec 2011: ₦17.6 Billion)
- Loss Before Tax of ₦4.9 Billion up by 17% (Dec 2011: ₦4.2 Billion)

2012 Ratios

- 65% Liquidity ratio (Dec 2011: 64%)
- Net Interest margin of 8.2% (Dec 2011: 8.9%)
- NPL ratio of 14.2% (Dec 2011: 15%)

Loan Portfolio

The Bank closed the 2012 financial year with Net Loans and Advances of ₦73.7 Billion. The loan book has witnessed the following:

- 10% growth in loan volumes in the 2012 financial year
- Average asset yield of 20%
- NPL ratio down from 15% to 14%; expected to drop further to 7% in Q1-2013

Growth in the Bank's loan book was restricted in 2012. This was due to regulatory constraints on lending as a result of the low capital adequacy ratios. The Bank was only able to undertake certain renewals for existing loans and undrawn commitments.

Deposit Liabilities

The Bank recorded improvements in its Deposit Liability volumes in 2012 with an average growth rate of 15% over a 5-year period; above inflation rate and at par with industry growth rate. Deposit growth has largely been attributed to low cost stable funds from the Bank's Retail & Commercial Businesses with an average direct cost of funds of 6%.

Earnings

The Bank's earning capacity also improved despite the constraints on asset growth in 2012. Gross Earnings increased by 20% to ₦30.7 Billion in 2012 which was largely driven by income from money market investments (Treasury Bills and Placements). In 2013, the Bank expects a significant portion of its growth in earnings to be driven by improved yields from Risk Asset creation in the Commercial and Retail Banking space.

Outlook for the Bank

The transformation program that commenced in 2009 is almost complete. The 2013 financial year is significant as it is the year the Bank is expected to return to strong financial performance. The successful completion of the Capital Raising exercise will undoubtedly release the potential within the Bank and I believe that the 2013 financial year will be a successful year.

The Bank continues to leverage on its innovative and agile workforce to deliver the expected results in 2013. We reorganized our internal business model to focus on our strengths and to allow us take advantage of business opportunities, we erstwhile could not. We will continue to play majorly in the Commercial and Retail Banking space and we are consolidating our position in the Public Sector. The Bank continues to build capacity as we navigate new business areas underpinned by a robust Risk Management framework.

Environmental and Social Risk Management Report

Environmental and Social Risk Management describes the main areas of concern that have developed as the central factors in measuring the sustainability and ethical impact of an investment in a company or business. Within these areas are a broad set of concerns that are increasingly being included in the non-financial factors in the valuation of equity, real estate, corporations and all fixed income investments. Environmental and Social Risk Management is the catch-all term for the criteria used in what has become known as Socially Responsible Investment.

As the furore surrounding the threat of climate change and the depletion of resources grows, so have investors become increasingly aware of the need to factor sustainability issues into their investment choices. The issues often represent externalities, i.e. impacts on the functioning and revenues of the company that are not exclusively affected by market mechanisms. As with all areas, major possible concerns include climate change, energy, food safety and production, human rights, corruption and poverty.

These environmental and social issues in combination with today's complex business structures, resources and customer networks, highlight the importance of attentiveness to stakeholders. For most companies, there are categories of stakeholders with whom positive relationships are important for long-term success: investors and lenders, customers, employees, suppliers. Communities also have significant impacts on companies as well as stakeholders.

Environmental and Social Risk Management Performance

The Bank shall attempt to minimize the direct and indirect impacts of its operations on the environment and shall continuously work to improve environmental and social risk management performance. The Environmental and Social Risk Management Program of the Bank shall shelter all business operations targeted at achieving minimum adverse impact on the environment in the course of her business activities.

We proactively manage our environmental and social risk, seeking to go beyond compliance towards best practice performance. The bank shall improve the way it identifies and manage these risks, reducing our direct environmental footprint and embedding environmental and social risk assessments into the screening processes applied to our corporate transactions.

Our Sustainability Management unit shall be mandated to create a consistent approach to environmental and social risk management by facilitating policy and performance standards, as well as monitoring and evaluating the bank's performance. The unit supports business areas and shall raise awareness through relevant stakeholder engagement including the following:

- I. Recycling and Waste Disposal Management
- II. Procurement from sustainable sources
- III. Health and Safety Management
- IV. Responsible low energy and water consumption
- V. Facility management contractor compliance

National Endangered Zones

The Bank shall not finance any project or provide loans where the use of proceeds is targeted at critical natural environments, except the sponsor or borrower, as applicable, has proven the following to Wema Bank's satisfaction:

- Project-related land acquisition and/or restrictions on land use may result in the physical displacement of people as well as their economic displacement. Consequently, requirements of this Performance Standard in respect of physical and economic displacement may apply simultaneously.
- For persons whose livelihoods are natural resource-based and where project-related restrictions on access envisaged apply, implementation of measures will be made to either allow continued access to affected resources or provide access to alternative resources with equivalent livelihood-earning potential and accessibility.

Direct Environmental and Social Impacts (Operations)

The Bank shall be committed to reducing direct environmental impacts through the implementation of the following practices:

- Monitoring and reduction of our energy use and gas emissions.
- Investing in energy efficient technologies, where cost effective
- Monitoring and reduction of water usage where possible
- Ensure the space we occupy is designed, occupied and operated with objectives of best practice environmental performance.
- Develop process for assessing environmental impacts in our operations

Indirect Environmental and Social Impacts (Customers)

We acknowledge that our lending and investing activities have impacts on the environment. Our lending policy shall require that risks assessment and annual review for relevant credit applications be considered at deal initiation.

- As our understanding of environmental risk grows, we shall continually seek to enhance our governance processes, reporting practices and staff training to ensure we strengthen our risk management policies and procedures.
- Develop processes to assess the environmental issues associated with our products and identify ways to encourage an improved environmental outcome.
- We shall actively seek to identify opportunities to assist our customers to meet their environmental goals through the provision of appropriate financial products and services.
- Where possible, we shall integrate environmental considerations into the investment decision making processes across all asset classes in line with their commitments.

Indirect Environmental and Social Impacts (Suppliers)

Wema Bank identifies that its operations have an indirect impact on the environment through the goods and services it acquires from its suppliers (e.g. branch development, installation of power plant, waste management, etc.). Therefore, it has:

- Implemented a Corporate Social Responsible procurement policy, which sets out its approach to procurement.
- Resolved with suppliers to reduce indirect environmental and social impact of its activities and to encourage suppliers to do the same.

Purpose

The framework will guide our activities in sectors that are exposed to significant Environmental or Social risks i.e. lending to customers with E&S Risk Management practices i.e. user friendly and value adding.

The Environmental and Social Risk Policy shall ensure that all projects include adequate provision for actions and costs necessary to prevent, control and mitigate negative impacts on the environment and to improve environmental quality.

As part of Wema Bank's commitment to sustainability, the Bank will focus on raising awareness of environmental and social risk issues among employees across its operations. Training frontline employees to ensure environmental and social risks are considered alongside business risks when lending decisions are made.

Principles

Wema Bank's environmental and social risk management procedures identify our obligation to manage the environmental and social aspects and impacts that our activities, products and services have on society and to respond strategically to the risks which global environmental and social pressures have on our ability to create sustainable value for our stakeholders. The policy will require:

- Develop and manage systems to enable effective risk and opportunity identification, and the management of performance improvement. This includes setting clear targets and reporting against them.
- Put on best practice for a financial services company, benchmarked against peers.
- Actively contribute to developing environmental and social codes of industry practices.
- Seek business solutions and products that provide sustainable development outcomes for our customers and the wider business community.
- Compliance with all relevant environmental and social governance and legislations.
- Certify environmental and social risk assessment input into the credit granting process. Where a project that we intend to finance requires specific environmental or social management a legally binding action plan is developed together with the client.

Human Rights

Wema Bank has a corporate responsibility to respect human rights, which means to act with due diligence to avoid infringement on the rights of employees and other stakeholders. The Bank also has a responsibility to establish access to effective remedy, judicial or non-judicial, should any human rights related disgruntlement occur.

Wema Bank expressly supports Human Rights as contained in the 1948 United Nations Universal Declaration of Human Rights (UDHR) and the Human Rights Chapter as stated in the Constitution of the Federal Republic of Nigeria. The policy applies to all Wema Bank employees and offers protection on the grounds of ethnic/national origin, color of skin, gender, physical disability, age, health and marital status.

Wema Bank operates zero tolerance to any form of discrimination or harassment targeted at any of these protected groups. All allegations of discrimination or harassment are handled seriously and confidentially. Harassment is deemed any behavior that threatens, humiliates, intimidates, patronizes, denigrates, bullies or distresses the victim. Discrimination is deemed any form of unequal treatment whether by imposing extra burdens or denying benefits.

Wema Bank does not condone discriminatory practices with respect to employment; the Bank promotes and embraces diversity in all aspects of its business operations. The Bank supports the human rights of the individual and is committed to maintaining a positive, professional and safe work environment for staff and other stakeholders. Management owns the responsibility to protect the human rights of staff and other stakeholders.

Employees and Human Rights

All temporary and permanent staff are employed under a written contract of employment detailing the terms and conditions of employment. The Human Capital Management (HCM) policy further details guiding principles of employment for staff knowledge.

Integrity, openness, and mutual respect are important values for the Bank. We are convinced that a work environment that is characterized by a diverse workforce, inclusion, and equal opportunities is vital for sustainable satisfaction of our staff, as well as our acceptance as a responsible financial institution.

Wema Bank will ensure that within the sphere of all our operations, no staff, customer, contractor or business associate is subject to discrimination, either directly or indirectly, on the grounds of ethnic/national origin, color of skin, gender, physical disability, age, health or marital status. Management will also ensure that fair access is given to business related information, services, premises and employment opportunities.

Wema Bank believes it is in our best business interest to offer both employees and potential employees a fair and consistent environment in which they can contribute their best effort and talent. The Bank, using fair, objective and innovative employment practices, will ensure all staff enjoys their right to be free from harassment, discrimination or other forms of unwanted behavior.

Safe Working Environment

Wema Bank, as an employer, cares for the health and wellbeing of its staff, customers, contractors and business associates. Operational safety and health protection are significant in our business. It is our goal to embed a work-life balance culture for our employees, and a positive safety culture for our staff, suppliers and contractors alike. Every Manager and employee has a duty of care to help identify, evaluate, and eliminate any kind of risk to a safe working place.

Business Ethics

Our operating standards require that business is conducted with honesty and integrity, and in full compliance with all applicable laws and regulatory requirements. Company policies establish clear ethical standards and guidelines for how we do business and establish accountability. All company employees are required to obey the law and comply with specific standards relating to regulation, ethics, and general business conduct. The Company has clear accountability mechanisms in place to monitor and report on compliance with these directives.

Employee Awareness and Community Involvement

Wema Bank shall support the personal philanthropy of its employees and encourages them to become involved in the communities they serve. Promote the efficient use of resources, reducing and preventing pollution and enhancing biodiversity protection. Look for opportunities to partner sponsorships and community programs with selected organizations that are actively working to protect the environment and educate the community about environmental issues.

Complaints

All complaints of breach of human rights will be managed via the Bank's grievance procedure which is set out in the HCM policy manual. All cases will be treated seriously and confidentially.

Gender Inclusion

Diversity, we recognize, is along many dimensions. As part of our commitment to diversity, the Bank is committed to addressing gender equality and actively facilitating a more diverse and representative workforce and management structure.

People are recruited from all around the country. We recruit women candidates and retain women employees from traditionally underrepresented groups and for non-traditional positions. We believe that our employees from many different cultural and linguistic backgrounds provide us with valuable knowledge for understanding different markets. Care is taken to ensure that neither job description nor job specifications are discriminatory.

We seek to achieve a minimum of 30% female representation at Senior Management levels subject to identification of candidates with appropriate skills. Senior Management positions for the purpose of this statement refer to the levels of Assistant General Manager Designate to MD/CEO and all Heads of Department.

Board selection seeks to achieve a minimum of 30% female representation at Board level subject to identification of candidates with appropriate skills. The Bank is also committed to a culture of that embraces gender diversity in the recruitment of qualified senior management professionals.

Banking the Unbanked

Wema Bank has launched 3 products targeted at improving access to financial services for different customer segments. The products are Royal Kiddies, Purple Account and Moment Account which are targeted at children, young adults and those that were previously unbanked respectively.

The benefits to the Customers are the ability to save in a formal and structured financial institution; access to funds using Debit Card & Mobile banking, where desired; low account opening and minimum operating balance; and minimal account opening documentation.

The Bank has also engaged industry subject matter experts and product managers to develop and launch Mobile & Agency Banking products that will increase access to Banking services in the country. The mobile product will tap into the large and growing mobile telephony platform while the agency banking platform will use small niche operators to improve access to Banking services.

The Bank remains committed to improving access to financial services and will continue to work with the Central Bank, regulatory agencies and the Bankers' Committee to implement the Financial Inclusion strategy as adopted.

Collaborative Partnerships

It is also imperative that the bank engages or partners with International Development Agencies. The partnership(s) are primarily to source for information, learn and understand global best practices and also get assistance in the implementation of the program.

After a detailed review of the offerings of some identified multilateral agencies, Non-Governmental Organizations and other institutions that provide support on Sustainable Banking, the bank has earmarked some organizations that are; specialists in Sustainable Reporting (GRI), those that provide frameworks and guides for institutions (UN, etc.) and those that have clearly defined policies and procedures that institutions should follow like Equator Principles.

The organizations chosen include the United Nations Global Compact, United Nations Environment Programme – Finance Initiative, United Nations Principles for Responsible Investments, Global Reporting Initiative and the Equator Principles.

Environmental and Social Governance

We have clearly defined environmental and social management systems in place, commensurate with the nature and the level of environmental and social risks associated with its business activities and consistent with its performance requirements.

The Bank has adopted the following environmental and social risk management process in all projects:

- There are specific steps in environmental and social risk management process for the corresponding stages of the credit appraisal process.
- The use of these procedures shall enable staff to determine what level of environmental and social risk management is necessary for each transaction, and to carry out the necessary investigation. Although these procedures are intended for use in analyzing new potential transactions at the time of application by the customer, they can equally well be applied to an existing portfolio, to identify existing loans which may present an environmental and social risk to the bank.

BOD, BRMC and MRC

The environmental and social risk management committee is subject to the oversight and guidance provided by the Board of Directors (BOD), Board Risk Management Committee (BRMC) and Management Risk Committee (MRC) to ensure its initiatives follow established standards and are aligned with the Bank's wide goals. Each business unit area reports and escalates issues to the MRC and BRMC as required by this Policy and at the direction of the Chief Risk Officer.

The Bank's environmental and social risk management is subject to the oversight and guidance of other board and management-level committees as directed by MRC and BRMC to align the environmental and social risk management activities with oversight of other specialized risk categories (e.g. legal, regulatory, financial, operational, information technology and people risks).

Environmental and Social Risk Management Committee

The Bank has constituted an Environmental and Social Risk Management Committee to provide oversight for the management of environmental and social risks. The committee is domiciled in Enterprise Risk Management.

Public Reporting

The Bank shall disclose material environmental performance by reporting at least annually to our shareholders in our environmental indicators and management of material risks and opportunities. In addition, we shall comply with our reporting obligations under the relevant environmental obligations.

Directors' Shareholding

The following directors of the Bank held office during the year and had direct interests in the issued share capital of the Bank as recorded in the register of Directors shareholding as noted below:

No.	Names	Position	Date of appointment/Resignation	Number of Ordinary Shares held	Direct Shareholding Ordinary Shares held
				31 Dec. 2012	31 Dec. 2011
1.	Chief Samuel Bolarinde	Chairman	-	285,714	13,977
2.	Mr. Segun Oloketuyi	MD/CEO	-	-	-
3.	Mr. Adebode Adefioye	Director	-	6,988	6,988
4.	Chief Opeyemi Bademosi	Director	-	-	-
5.	Mr. Ademola Adebise	Executive Director	-	10,265	10,265
6.	Mr. Nurudeen Fagbenro	Executive Director	-	9,478,955	2,999,954
7.	Mr. Moruf Oseni	Executive Director	Appointed with effect from May 02, 2012	-	-
8.	Dr. Ayo Akinyelure	Director	Resigned with effect from Jan 1, 2012	37,331	37,331
9.	Professor Taiwo Osipitan	Director	Resigned with effect from July 2012	1,000,000	483,444
10.	Mr. Ramesh Hathiramani	Director	Appointed with effect from Sept 2011	2,222,222	-
11.	Mr. Abubakar Lawal	Director	Appointed with effect from Sept 2011	-	-
12.	Hon. Chief Ayodele Awodeyi	Director	Appointed with effect from May 11, 2012	-	-
13.	Mr. Samuel Durojaiye	Director	Appointed with effect from May 02, 2012	-	-
14.	Ms. Tina Vukor-Quarshie	Director	Appointed with effect from Aug 2012	-	-
15.	Mr. Adeyinka Asekun	Director	Appointed with effect from Aug 2012	-	-

Retirement of Directors

In accordance with the provision of sections 249(2) of the Companies and Allied Matters Act and Articles 89 of the Articles of Association of the Bank, Messrs Ramesh Hathiramani, Abubakar Lawal, Ayodele Awodeyi, Adeyinka Asekun, Tina Vukor-Quarshie and Samuel Durojaiye were appointed to the Board between the last Annual General Meeting and now. These directors hereby retired from office and being eligible have offered themselves for re-election at this General Meeting.

In accordance with the provisions of Section 259 of the Companies and Allied Matters Act of Nigeria, one third of the directors of the Bank shall retire from office. The directors to retire every year shall be those who have been longest in office since their last election. In accordance with the provisions of this section, Chief Opeyemi Bademosi will retire by rotation and being eligible, offer himself for re-election.

In accordance with Article 93(ii) of the Articles of Association of the Bank, the Chairman of the Board, Chief Samuel Bolarinde, having attained the age of 70 years on 18 September, 2012, hereby retires from the Board with effect from this Annual General Meeting.

Directors' Interests in Contracts

None of the directors has notified the Bank for the purpose of Section 277 of the Companies and Allied Matters Act of Nigeria of any interest in contracts deliberated upon during the year under consideration.

Property and Equipment

Information relating to changes in property and equipment is given in Note 27 to the financial statements. In the directors' opinion, the net realisable value of the Bank's properties is not less than the carrying value in the financial statements.

Shareholding Analysis

The shareholding pattern of the Bank as at 31 December 2012 is as stated below:

Share Range	No of Shareholders	(%)	No of Shares Held	Percentage Holding %
1 – 9,999	205,574	81.65%	512,954,482	4.00%
10,000 – 50,000	35,657	14.16%	699,810,193	5.46%
50,001 – 100,000	5,138	2.04%	368,035,558	2.87%
100,001 – 500,001	4,446	1.77%	850,820,285	6.64%
500,001 – 1,000,000	425	0.17%	307,562,139	2.40%
1,000,001 – 5,000,000	431	0.17%	872,337,270	6.80%
5,000,001 – 10,000,000	38	0.02%	266,364,220	2.08%
10,000,001 – 50,000,000	43	0.02%	946,079,205	7.38%
50,000,001 – 100,000,000	6	0.00%	405,915,430	3.17%
100,000,001 – 500,000,000	13	0.00%	2,177,555,688	16.98%
500,000,001 – 1,000,000,000	4	0.00%	2,299,745,741	17.94%
1,000,000,001 – 5,000,000,000	1	0.00%	3,114,069,669	24.29%
Foreign Shareholders	-	-	-	-
Total	<u>254,775</u>	<u>100.00%</u>	<u>12,821,249,880</u>	<u>100.00%</u>

The shareholding pattern of the Bank as at 31 December 2011 is as follows:

Share Range	No. of Shareholders	(%)	No. of Shares Held	Percentage Holding %
1 - 9,999	206,601	81.34%	510,803,107	3.98%
10,000 – 50,000	36,428	14.34%	709,313,938	5.53%
50,001 – 100,000	5,330	2.10%	375,538,249	2.93%
100,001 – 500,001	4,647	1.83%	888,896,496	6.93%
500,001 – 1,000,000	460	0.18%	325,395,847	2.54%
1,000,001 – 5,000,000	439	0.17%	880,011,428	6.86%
5,000,001 – 10,000,000	42	0.02%	296,262,675	2.31%
10,000,001 – 50,000,000	43	0.02%	963,727,383	7.52%
50,000,001 – 100,000,000	6	0.00%	410,331,228	3.20%
100,000,001 – 500,000,000	9	0.00%	1,177,055,000	9.18%
500,000,001 – 1,000,000,000	3	0.00%	1,952,010,407	15.22%
1,000,000,001 – 5,000,000,000	2	0.00%	4,331,904,121	33.79%
Foreign Shareholders	-	-	-	-
Total	<u>254,010</u>	<u>100.00%</u>	<u>12,821,249,880</u>	<u>100.00%</u>

Substantial interest in shares

According to the register of members, at 31 December, 2012, the following shareholders held more than 5% of the issued share capital of the Bank:

Shareholder	No. of shares Held	31 December 2012 Percentage of Shareholding	No. of Shares Held	31 December 2011 Percentage of Shareholding
SW8 Investment Company Limited	3,114,069,669	24.29%	3,114,069,669	24.29%
Odu'a Investment Company Limited	1,279,758,237	9.98%	1,032,063,095	10%

Donations and Charitable Gifts

The Bank made contributions to charitable and non-political organizations amounting to N18,600,000 (31 December 2011: N2,500,000) during the year, as listed below:

	N
1. Oyo State Education Summit	5,000,000
2. Oyo State Security Trust Fund	2,000,000
3. Coaster Bus Donated to LASU	<u>11,600,000</u>
Total	<u>18,600,000</u>

Events after reporting date

There were no post balance sheet events which could have a material effect on the state of affairs of the Bank as at 31 December 2012 or the financial performance for the year ended on that date that have not been adequately provided for or disclosed.

Human Resources

(i) Employment of disabled persons

The Bank continues to maintain a policy of giving fair consideration to application for employment made by disabled persons with due regard to their abilities and aptitudes. The Bank's policies prohibit discrimination against disabled persons in the recruitment, training and career development of employees. In the event of members of staff becoming disabled, efforts will be made to ensure that their employment with the Bank continues and appropriate training arranged to ensure that they fit into the Bank's working environment.

(ii) Health, safety and welfare at work

The Bank enforces strict health and safety rules and practices at the work environment, which are reviewed and tested regularly. In addition, medical facilities are provided for staff and their immediate families at the Bank's expense.

Fire prevention and fire-fighting equipment are installed in strategic locations within the Bank's premises.

The Bank operates both Group Personal Accident and Workmen's Compensation Insurance cover for the benefit of its employees. It also operates a contributory pension plan in line with the Pension Reform Act, 2004.

Employee Involvement and Training

The Bank ensures, through various fora, that employees are informed on matters concerning them. Formal and informal channels are also employed in communication with employees with an appropriate two-way feedback mechanism.

In accordance with the Bank's policy of continuous development, the Bank draws up annual training programmes. The programmes include on the job training, classroom sessions and web-based training programmes which are available to all staff.

Compliance Plan with Central Bank of Nigeria's Regulation on the Scope of Banking Activities

Section 6(1) of the Central Bank of Nigeria regulation on the scope of banking activities and ancillary matters requires every bank currently operating under a universal banking licence to submit to the Central Bank of Nigeria for approval a compliance plan duly approved by the Bank's Board of Directors. The regulation requires banks to divest from all non-banking businesses and apply for a new type of banking licence based on the decision of the Bank's Board of Directors.

The Bank's compliance plan duly approved by the Board of Directors on 31st January, 2011 is as follows:

Proposed type of banking licence

The Bank reviewed the options provided by the new licensing regime instituted by the Central Bank of Nigeria and applied for a Regional Commercial Banking licence.

Employee Gender Analysis

The number and percentage of women employed during the financial year vis-à-vis total workforce is as follows:

Total Employees	Sex		Proportion Total	M	
	M	F		%	%
Employee - Bank	766	575	1,341	57	43
Board & Top Management					
	M	F	Total	M	F
				%	%
Assistant General Manager	9	2	11	82	18
Deputy General Manager	4	-	4	100	-
General Manager	5	-	5	100	-
Executive Director	3	-	3	100	-
Deputy Managing Director	-	-	-	-	-
Managing Director	1	-	1	100	-
Non-Executive Director	6	1	7	86	14

Customers complaint

Customer Complaints Management and Feedback

Introduction

Wema Bank recognizes the importance of customer patronage to the growth of its business and thus considers customer complaints and feedback as valuable information to improve its service delivery.

The Bank has continued to improve on its feedback channels to ensure timely and satisfactory resolution of complaints. In view of this, a Consumer Protection unit resident at the Head office was also created to nib service issues as raised without further ado in addition to the fully equipped state-of-the-art Contact Centre – Purple Connect. The available feedback channels in the Bank are listed below.

Hotlines: 08039003700, 01-2777700
 Email: purpleconnect@wemabank.com
 SMS: 07051112111
 Live Chat: www.wemabank.com
 Letters: Consumer Protection Unit, Service Quality Management Department,
 54 Marina, Lagos

Our Guiding Philosophy

At Wema Bank, we have formulated some tenets to guide our relationship and interactions with customers to help keep with our vision and mission of excellent service delivery. We:

- Always acknowledge and correct errors without delay;
- View complaints as an integral part of customer feedback and organizational growth;
- Treat complaints with priority, confidentiality and provide timely response at all times;
- Investigate fully and fairly all complaints received from internal and external customers;
- Identify and recommend improvement opportunities based on customer's feedback;
- Anticipate and prevent further reoccurrences of issues reported;
- Use cases or issues resolved as learning points;

Our Resolution Structure

The process flow of customer complaint resolution is as follows:

- Complaints are received through all our available channels (Purple Connect, Branches, Head Office, Live Chats/Website)
- Received complaints are reviewed to determine adequacy of provided information
- Where complaint can be resolved at the point of receipt, an immediate resolution is given to customer, otherwise, an acknowledgement of the receipt of your complaint is sent
- A complaint that cannot be immediately resolved is referred to the appropriate unit of the Bank for resolution
- Resolution update is received from resolving unit and response is communicated to customer
- Where resolution is exceeding the timeline, the Consumer Protection unit intervenes to ensure speedy resolution of the issue
- Upon resolution, the complaint resolution status is communicated to the customer and marked as closed;

Periodic reports on all customer complaints and feedback received in the Bank are collated, grouped based on type/frequency, analyzed to determine the root cause(s) and circulated to our Management team and other relevant departments to prevent recurrences.

The table below shows at a glance the number of complaints received in the months of January through to December, 2012.

Month	Total number of complaints received	Total number of complaint resolved	Total number of complaints forwarded to CBN for intervention
January	655	653	Nil
February	575	573	Nil
March	1272	1270	Nil
April	725	723	Nil
May	583	582	1
June	593	590	Nil
July	586	586	Nil
August	1085	1083	Nil
September	998	997	1
October	931	925	Nil
November	900	895	3
December	714	713	1
Total	9617	9590	6

All complaints outstanding at the end of the year 2012 have since been addressed.

Auditors

The Auditors, Akintola Williams Deloitte have indicated their willingness to continue in office as auditors in accordance with section 357 (2) of the Companies and Allied Matters Act, CAP C20 LFN 2004. The auditors, having indicated their willingness to continue in office, a resolution will be proposed at the Annual General Meeting to authorize the directors to determine their remuneration.

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to be 'Wole Ajimisinmi', written over a faint circular stamp.

Wole Ajimisinmi
Company Secretary
Wema Towers
54 Marina
Lagos

16 May, 2013

Statement of Directors' responsibility in relation to the financial statements

The directors accept responsibility for the preparation of the full year financial statements set out on page 2 to 93 that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies and Allied Matters Act CAP C20 LFN 2004 of Nigeria, the Banks and other Financial Institutions Act of Nigeria and relevant Central bank of Nigeria regulations.

The directors further accept responsibility for maintaining adequate accounting records as required by the Companies and Allied matters Act of Nigeria and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

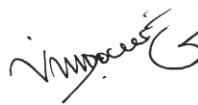
The directors have made assessment of the Bank's ability to continue as a going concern and have no reason to believe that the Bank will not remain a going concern in the year ahead

The financial statements were authorised for issue by the board of directors on 16 May 2013. The entity's owners or other have no power to amend the financial statements after issue except in the case of material fundamental errors or misrepresentations. However, this is recommended for adoption by the Shareholders at the next AGM.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:



Ademola Adebise
Director
FRC/2013/ICAN/00000002115
16 May, 2013



Segun Oloketuyi
Managing Director/CEO
FRC/2013/ICAN/00000002099
16 May, 2013

Independent Auditor's Report to the Members of WEMA BANK PLC

Report on the Financial Statements

We have audited the accompanying financial statements of **Wema Bank Plc** which comprise the statements of financial position as at 31 December 2012, 31 December, 2011 and 1 January, 2011 the income statement, statement of changes in equity, cash flow statement for the years ended 31 December 2012 and 31 December, 2011, a summary of significant accounting policies and other explanatory information set out on pages 2 to 93.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards, the Companies and Allied Matters Act CAP C20 LFN 2004, the Banks and other Financial Institutions Act CAP B3 LFN 2004, the Financial Reporting Council of Nigeria Act No 6, 2011 and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 about 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 the auditors' judgment, 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 auditors consider internal controls 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 policies used and the reasonableness of accounting estimates made by 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Wema Bank Plc as at 31 December 2012 and 31 December 2011 and 1 January, 2011 and the financial performance and cash flows for the year then ended 31 December 2012 and 31 December 2011 in accordance with the International Financial Reporting Standards, the Companies and Allied Matters Act Cap C20 LFN 2004, the Banks and other Financial Institutions Act CAP B3 LFN 2004 and the Financial Reporting Council of Nigeria Act No 6, 2011.

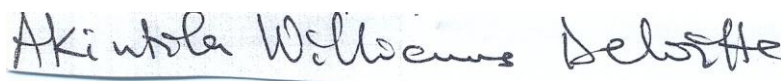
Emphasis of Matter

We draw attention to Note 1.1 in the financial statements which indicates that Wema Bank Plc recorded a loss of N5.04 billion for the year ended 31 December 2012 and had a net cash outflow of N4.31billion and as of that date, the Bank's shareholder's funds of N1.28 billion are below the regulatory capital of N10billion for a regional bank for which it has obtained an approval-in-principle from the Central Bank of Nigeria. These conditions, along with other matters set forth in note 1.1 indicate the existence of uncertainty that may cast doubt about the Bank's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

In accordance with circular BSD/1/2004 issued by the Central Bank of Nigeria, details of insider-related credits are as disclosed in Note 39.

During the year the bank contravened certain sections of BOFIA and CBN circulars/guidelines, the details of the contravention and the related penalty are as disclosed in Note 43 to the financial statements.



Chartered Accountants

Lagos, Nigeria

5 July 2013

FRC/2013/ICAN/00000000845

Statement of Financial Position

<i>In thousands of Nigerian Naira</i>	<i>Note</i>	31 December 2012	31 December 2011	1 January 2011
ASSETS				
Cash and cash equivalents	18	19,627,505	23,934,445	53,504,409
Non-pledged trading assets	20	-	412,308	-
Pledged assets	19	11,485,160	11,661,851	9,808,886
Investment securities	25	77,939,680	60,735,387	47,838,950
Loans and advances to customers	21	73,745,728	67,236,605	44,999,856
Investment in subsidiaries	24	-	-	1,629,193
Investment property	26	664,907	728,741	-
Assets held for sale	22	-	-	355,000
Property, plant and equipment	27	12,433,326	13,477,105	13,045,328
Intangible assets	28	925,429	1,105,090	77,006
Investment in associate	23	2,048,765	1,554,860	1,453,253
Other assets	30	23,464,395	16,973,175	2,891,084
Deferred tax assets	29	23,369,702	23,337,475	23,745,302
TOTAL ASSETS		245,704,597	221,157,042	199,348,267
LIABILITIES				
Deposits from banks	31	730,856	2,658,168	4,008,419
Deposits from customers	32	174,302,424	147,387,408	121,247,273
Current tax liabilities	33	128,965	164,978	386,453
Other liabilities	34	7,516,964	6,592,840	6,427,904
Other borrowed funds	35	57,006,619	58,085,517	56,765,472
Deposit for shares	36	4,740,454	-	-
TOTAL LIABILITIES		244,426,282	214,888,911	188,835,521
EQUITY				
Share capital	37	6,410,624	6,410,624	6,410,624
Share premium		24,701,231	24,701,231	24,701,231
Regulatory risk reserve		816,364	1,206,808	-
Treasury shares		(4,571,482)	(4,571,482)	(4,563,833)
Retained earnings		(35,307,930)	(30,657,745)	(25,222,011)
Other reserves		9,229,507	9,178,695	9,186,735
ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		1,278,315	6,268,131	10,512,746
TOTAL LIABILITIES AND EQUITY		245,704,597	221,157,042	199,348,267

The notes on pages 7 to 91 are an integral part of these financial statements

The financial statements were authorised for issue by the directors on 16 May 2013.



Segun Oloketuyi
Managing Director
FRC/2013/ICAN/00000002099



Ademola Adebise
Director
FRC/2013/ICAN/00000002115



Olajide Omole
Chief Finance Officer
FRC/2013/ICAN/00000002100

Statement of Comprehensive Income

<i>In thousands of Nigerian Naira</i>	<i>Note</i>	2012	2011
Interest income	8	25,055,599	16,979,960
Interest expense	8	(13,287,493)	(6,970,631)
Net interest income		11,768,106	10,009,329
Net impairment loss on financial assets	13	(4,952,760)	(2,293,646)
Net interest income after impairment charge for credit losses		6,815,346	7,715,683
Net fee and commission income	9	4,762,997	2,911,909
Net trading income	10	93,174	1,549,132
Other income	11	804,616	1,332,920
		5,660,787	5,793,961
Operating income		12,476,133	13,509,644
Loss on disposal of subsidiaries	12	-	(26,000)
Personnel expenses	14	(7,831,273)	(7,363,382)
Operating lease expenses		(507,695)	(757,537)
Depreciation and amortisation		(1,720,274)	(2,581,864)
Other operating expenses	15	(7,726,998)	(6,817,533)
		(5,310,107)	(4,036,672)
Share of profit in associate	23	367,896	266,651
Loss before tax		(4,942,211)	(3,770,021)
Income tax expense	16	(98,418)	(458,905)
Loss for the year		(5,040,629)	(4,228,926)
Other comprehensive income, net of income tax			
Share of other comprehensive income of associate	23	126,009	(165,256)
Fair value (loss)/ gain on available-for-sale investments	16(b)	(75,196)	157,216
Other comprehensive income for the year, net of income tax		50,813	(8,040)
Total comprehensive income for the year		(4,989,816)	(4,236,966)
Loss attributable to:			
Equity holders of the Bank		(5,040,629)	(4,228,926)
Total comprehensive income for the year		(4,989,816)	(4,236,966)
Loss per share - kobo	17	(42)	(36)

The notes on pages 7 to 91 are an integral part of these financial statements

Statements of Changes in Equity

In thousands of Nigerian naira (000s)

	Share Capital	Share premium	Treasury shares	Regulatory risk reserve	Statutory reserve	SMEIES reserve	Fair value reserves	Capital reserves	Syndicated Loan Reserves	Retained earnings	Total equity
2011											
Balance at 1 January 2011	6,410,624	24,701,231	(4,563,833)	-	7,669,552	526,907	190,276	300,000	500,000	(25,222,011)	10,512,746
Total comprehensive income:											
Profit or loss	-	-	-	-	-	-	-	-	-	(4,228,926)	(4,228,926)
Other comprehensive income											
Fair value reserve (available-for-sale) financial assets	-	-	-	-	-	-	157,216	-	-	-	157,216
Share of Associates other comprehensive income	-	-	-	-	-	-	(165,256)	-	-	-	(165,256)
Total other comprehensive income	-	-	-	-	-	-	(8,040)	-	-	-	(8,040)
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Regulatory risk reserve	-	-	-	1,206,808	-	-	-	-	-	(1,206,808)	-
Treasury shares-from Wema Asset absorption	-	-	(7,649)	-	-	-	-	-	-	-	(7,649)
Total contribution and distributions to owners	-	-	(7,649)	1,206,808	-	-	-	-	-	(1,206,808)	(7,650)
Balance at 31 December 2011	6,410,624	24,701,231	(4,571,482)	1,206,808	7,669,552	526,908	182,236	300,000	500,000	(30,657,745)	6,268,131
2012											
Balance at 1 January 2012	6,410,624	24,701,231	(4,571,482)	1,206,808	7,669,552	526,907	182,236	300,000	500,000	(30,657,745)	6,268,131
Total comprehensive income:											
Profit or loss	-	-	-	-	-	-	-	-	-	(5,040,629)	(5,040,629)
Other comprehensive income											
Fair value reserve (available-for-sale) financial assets	-	-	-	-	-	-	(75,196)	-	-	-	(75,196)
Share of Associate's other comprehensive income	-	-	-	-	-	-	126,009	-	-	-	126,009
Total other comprehensive income	-	-	-	-	-	-	50,813	-	-	-	50,813
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Regulatory risk reserve	-	-	-	(390,444)	-	-	-	-	-	390,444	-
Deposit for shares	-	-	-	-	-	-	-	-	-	-	-
Total contribution and distributions to owners	-	-	-	(390,444)	-	-	-	-	-	390,444	-
Balance at 31 December 2012	6,410,624	24,701,231	(4,571,482)	816,364	7,669,552	526,907	233,049	300,000	500,000	(35,307,930)	1,278,315

The notes on pages 7 to 91 are an integral part of these financial statements

Statement of Prudential Adjustments

In thousands of Nigerian Naira

	2012	2011
Impairment - IFRS		
Loans:		
- Collective	2,189,497	2,014,563
- Specific	7,811,675	8,696,551
	10,001,172	10,711,114
Investments:		
- Loans and receivables	-	-
- Other assets	3,433,038	4,258,301
Total	13,434,210	14,969,415
Impairment - Prudential Guidelines		
Loans:		
- General	737,508	683,277
- Specific	8,360,100	9,333,000
	9,097,610	10,016,277
Investments:		
- Long term	1,544,340	1,909,294
- Other assets	3,608,625	4,250,652
	5,152,964	6,159,946
Total	14,250,574	16,176,223
Excess of Prudential impairment over IFRS impairment transferred to regulatory reserve	816,364	1,206,808

Statement of Cash Flows*In thousands of Nigerian Naira*

	Note	2012	2011
Cash flows from operating activities			
Loss for the year		(5,040,629)	(4,228,926)
Adjustments for:			
Taxation expense		98,418	(458,905)
Depreciation and amortization	26,27,28	1,720,274	2,581,864
(Gain)/ loss on disposal of property and equipment	11	(335,005)	14,761
Fair value loss on trading assets		-	-
Fair value loss on available for sale investments	16b	75,197	157,216
Gain on sale of equity investment	10	-	(1,224,580)
Loss on disposal of subsidiaries	12	-	26,000
Net interest income		(11,768,106)	(10,009,329)
Share of profit of associate	23	367,896	266,651
Dividend received from equity investment	11	(3,915)	(65,367)
Interest paid on CBN financial accommodation loan		(4,566,289)	(248,085)
Impairment loss on financial assets	13	4,952,760	2,293,646
		(14,499,399)	(10,895,054)
Movement in assets and liabilities			
Changes in trading assets		412,308	(412,308)
Changes in pledged assets		176,691	(1,852,965)
Changes in loans and advances to customers		(5,799,181)	(22,246,429)
Changes in other assets		(5,665,957)	(13,639,468)
Changes in deposits from banks		(1,927,312)	(1,350,251)
Changes in deposits from customers		26,915,016	26,140,135
Changes in other liabilities		1,015,977	294,396
Cash generated/(used in) operation		628,143	(23,961,944)
Income tax paid	33	(134,431)	(347,132)
Interest received		17,952,876	9,601,341
Vat paid		(91,854)	(129,459)
Interest paid		(8,721,207)	(6,722,546)
Net cash from/(used in) operating activities		9,633,527	(21,559,740)
Cash flows from investing activities			
Acquisition of investment securities		(17,517,252)	(6,334,205)
Dividend received from equity investment	11	3,915	65,367
Acquisition of property and equipment	27	(964,464)	(3,120,630)
Proceeds from the sale of property and equipment		895,029	190,062
Proceeds from the sale of investment properties		59,885	414
Acquisition of intangible assets	28	(79,136)	(1,141,000)
Proceeds from disposal of subsidiaries		-	3,332,000
Cash received from absorption		-	327,813
Net cash used in investing activities		(17,602,023)	(6,690,179)
Cash flows from financing activities			
Deposit for shares	36	4,740,454	-
Change in other borrowed funds		(1,078,898)	(1,320,045)
Net cash from/(used in) financing activities		3,661,556	(1,320,045)
Net decrease in cash and cash equivalents		(4,306,940)	(29,569,964)
Cash and cash equivalents at beginning of year		23,934,445	53,504,409
Cash and cash equivalents at end of year	18	19,627,505	23,934,445

The notes on pages 7 to 91 are an integral part of these financial statements

Notes to the Financial Statements

1 Reporting entity

Wema Bank Plc (the "Bank") is a Company domiciled in Nigeria. The address of the Bank's registered office is 54 Marina, Lagos, Nigeria. The Bank is primarily involved in investment, corporate, commercial and retail banking.

1.1 Going concern consideration

The Bank had shareholders' funds of N1.28billion as at 31 December 2012. These are stated after the recognition of a deferred tax asset of N23.37 billion. The Bank recorded a loss of N5.04billion during the 2012 financial year due to impairment allowances on loans and advances and other assets.

The Bank's shareholders' funds are below the regulatory capital of N10billion for a commercial bank with a regional authorisation, for which it has obtained an Approval-In-Principle (AIP) from the Central Bank of Nigeria.

The Central Bank of Nigeria (CBN) in 2009 provided a financial accommodation assistance amounting to N50 billion to the Bank to address capital adequacy needs and liquidity position. The 7 -year loan (inclusive of 4 years moratorium) has 3 years 9 months to maturity and interest obligations are being serviced on due dates.

The bank currently has filed documents with relevant regulatory bodies in a bid to raise additional capital through a special placement offer from strategic investors as resolved at the last Annual General Meeting. This initiative, the directors believe, will address the shortfall in the shareholders' funds and enable the Bank to meet its capital requirement.

Based on the support and forbearances provided by the CBN to date and the current actions of the Bank as described above, the Directors expect the Bank to continue as a going concern, realise its assets and discharge its liabilities in the normal course of business.

Accordingly, the financial statements are prepared on a going concern basis.

2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These are the Bank's first financial statements prepared in accordance with IFRS, and therefore, IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Bank are provided in notes 41 and 42. These notes include reconciliations of equity and profit or loss for period reported under previous GAAP (Nigerian GAAP) to those reported for this period under IFRS.

(b) Functional and presentation currency

These financial statements are presented in Nigerian Naira, which is the Bank's functional currency. Except otherwise indicated, financial information presented in Naira have been rounded to the nearest thousand.

(c) Basis of measurement

These financial statements are prepared on a historical cost basis except for available-for-sale financial assets which are measured at fair value through equity.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, incomes 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Notes to the Financial Statements

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 and in any future periods affected.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in note 5.

3 Significant accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these financial statements and in preparing an opening IFRSs statement of financial position as at 1 January 2011 for purposes of the transition to IFRSs.

(a) Business combination

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Bank. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Bank takes into consideration potential voting rights that currently are exercisable.

The Bank measures goodwill at the acquisition date as the total of:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When this total is negative, a bargain purchase gain is recognised immediately in profit or loss. The Bank elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognised amount of the identifiable net assets, at the acquisition date. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Transactions costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Bank incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(b) Investment in associates

Associates are those entities in which the Bank has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method of accounting in the Bank's individual financial statements.

(c) Foreign currency

The financial statements are presented in Nigeria Naira, which is the Bank's functional and reporting currency. Transactions in foreign currencies are translated at the foreign exchange rates effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are adjusted to the functional currency at the spot exchange rates effective at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in the foreign currency translated at the exchange rate effective on the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate effective at the date that the fair value is determined. Foreign exchange differences arising on translation are recognised in profit or loss.

Notes to the Financial Statements

(d) 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 Bank 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, transaction costs and points paid or received and discounts or premiums that are an integral part of the effective interest rate. Transaction costs include 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 financial 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
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expense
- fair value changes in qualifying derivatives, including hedge ineffectiveness, and related hedge items in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Banks trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in net trading income from other financial instruments at fair value through profit and loss in the statement of comprehensive income.

(e) 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.

(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.

(g) Dividend Income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends on trading equities are reflected as a component of net trading income or other operating income based on the underlying classification of the equity investment. Dividend income on available-for-sale securities are recognised as a component of other operating income.

Notes to the Financial Statements

(h) Leases

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.

Leased assets – lessee

Leases in terms of which the Bank 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, except for investment property, the leased assets are not recognised in the Bank's statement of financial position.

(i) Taxation

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

(i) Current tax

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. Current tax payable also includes any tax liability arising from the declaration of dividends

(ii) Deferred tax

Deferred tax is recognised in respect of 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:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects either neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Notes to the Financial Statements

Additional 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.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it 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.

(j) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits; debt securities issued and subordinated liabilities on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the assets. 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 Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value. For an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue are recognised as part of the initial cost of financial asset or liability.

(ii) Classification

The Bank classifies its financial assets in one of the following categories:

- loans and receivables;
- held to maturity;
- available-for-sale; or
- at fair value through profit or loss and within the category as:
 - held for trading; or
 - designated at fair value through profit or loss.

See Notes 3(l), (m) and (n).

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss. See Notes 3(l), (s) and (u).

(iii) De-recognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cashflows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit and loss.

Notes to the Financial Statements

The Bank 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.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Bank retains all or substantially all the risks and rewards of ownership of such assets.

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

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

(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 Bank 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 Bank'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 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 Bank 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.

Notes to the Financial Statements

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. 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 Bank, 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 Bank 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 the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different to its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair value reflects the credit risk of the instrument and includes adjustments to take account of the Credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes a third-party market participant would take this into account in pricing a transaction.

(viii) Identification and measurement of impairment

At each reporting date the Bank 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.

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 Bank on terms that the Bank 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.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

Notes to the Financial Statements

In assessing collective impairment the Bank uses statistical modeling of historical trends of the probability of default, the 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 trends. Probability of Default and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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.

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.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower then an assessment is made whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case the original financial asset is derecognised and the new financial asset is recognised at fair value.

The impairment loss is measured as follows:

- If the expected restructuring does not result in derecognition of the existing asset, the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss, the impairment loss is reversed, with the amount of the reversal recognised in profit and loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Bank writes off certain loans and advances and investment securities when they are determined to be uncollectible.

(ix) Designation at fair value through profit or loss

The Bank 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.

Notes to the Financial Statements

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

(k) 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 Bank in the management of its short-term commitments.

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

(l) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank 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, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition may be reclassified out of fair value through profit or loss i.e. trading category 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 Bank 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.

(m) 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 Bank does not intend to sell immediately or in the near term. When the Bank 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 Bank 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 Bank'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.

(n) 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 Bank 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.

Notes to the Financial Statements

Held-to-maturity investments are carried at amortised cost using the effective interest method less any impairment losses. 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 Bank 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 Bank has collected substantially all the asset's original principal.
- Sales or reclassification attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

(ii) Fair value through profit or loss

The Bank designates some investment securities at fair value with fair value changes recognised immediately in profit or loss as described in accounting policy j (ix).

(iii) Available-for-sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Available for sale investments comprise equity securities and debt securities. 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 Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes other than impairment losses are recognised directly in other comprehensive income and presented in the fair value reserve in equity until the investment is sold whereupon the cumulative gains and losses 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 Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

(o) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The Bank holds some investment property as a consequence of the ongoing rationalisation of its retail branch network. Other property has been acquired through the enforcement of security over loans and advances. Investment property is measured at cost less accumulated depreciation and impairment losses in line with the cost model in IAS 16. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

(p) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Notes to the Financial Statements

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, where the Bank has an obligation to remove the asset or restore the site and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of equipment.

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 Bank 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.

Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Buildings	50 years
Leasehold Properties	Over the lease period
Furniture and fittings	5 years
Equipment and machinery	5 years
Computer equipment	4 years
Motor vehicles	4 years
Work in progress	Not depreciated

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's value less costs to sell or the value in use.

Depreciation methods, useful lives and residual value are reviewed at each reporting date and adjusted if appropriate.

(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.

Notes to the Financial Statements

(q) Intangible assets

(i) Software

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank 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 since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is shorter of 4 years or the contractual licensing period.

Amortisation method, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

(r) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets other than investment property 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.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset 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.

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.

(s) Deposits and subordinated liabilities

Deposits and subordinated liabilities are the Bank's sources of debt funding. When the Bank 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 Bank's financial statements.

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

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

Notes to the Financial Statements

(t) Provisions

A provision is recognised if, as a result of a past event, the Bank 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. The unwinding of the discount is recognised as finance cost

(i) Restructuring

A provision for restructuring is recognised when the Bank 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.

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank 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 Bank recognises any impairment loss on the assets associated with that contract.

(u) Financial guarantees

Financial guarantees are contracts that require the Bank 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.

(v) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution pension plans are recognised as personnel expenses in profit or loss when they are due in respect of service rendered before the end of the reporting period.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that is due more than 12 months after the end of the reporting period in which the employees render service are discounted to their present value at the reporting date.

The Bank operates a funded, defined contribution pension scheme for employees in Nigeria. Obligations in respect of the Bank's contributions to the scheme are recognised as an expense in the profit and loss account on an annual basis. The employee and the Bank contribute 7.5% and 17.5% of basic salary, housing, luncheon and transport allowance respectively to each employee's retirement savings account maintained with their nominated Pension Fund Administrators.

Notes to the Financial Statements

(ii) Termination benefits

Termination benefits are recognised as an expense when the Bank 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 Bank 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. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(iii) Short-term employee benefits

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

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank 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.

(w) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank or the Bank has a present obligation as a result of past events which is not recognised because it is not probable that an outflow of resources will be required to settle the obligation; or the amount cannot be reliably estimated.

Contingent liabilities normally comprise of legal claims under arbitration or court process in respect of which a liability is not likely to crystallise.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. Contingent assets are never recognised rather they are disclosed in the financial statements when an inflow of economic benefit is probable.

(x) 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 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.

(y) Earnings per share

The Bank 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. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(z) Segment reporting

An operating segment is a component of the Bank 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 Bank'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.

Notes to the Financial Statements

(aa) Related party transactions

Transactions with related parties are conducted and recorded at arm's length and disclosed in accordance with IAS 24 "Related party disclosures".

(ab) New and amended 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 2012, and have not been applied in preparing these consolidated financial statements:

- (i) IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together IFRS 9)*
IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The IFRS 9 (2009) requirements 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 in other comprehensive income. No amount recognised in other 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 requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Bank has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements.

- (ii) Amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities (2011)*
Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods.

Notes to the Financial Statements

Based on the new disclosure requirements the Group will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set-off under master netting arrangements or similar arrangements.

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Earlier application is permitted.

Based on our initial assessment, the Bank is not expecting a significant impact from the adoption of the amendments to IAS 32. However, the adoption of the amendments to IFRS 7 requires more extensive disclosures about rights of set-off.

(iii) IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities (2011)

IFRS 10 and IFRS 11 are not applicable to the bank as the bank has divested from all its subsidiaries. IFRS 12 brings together into a single standard all the disclosure requirement about entity's interests in subsidiaries, joint arrangement associate and unconsolidated structured entities. It requires the disclosure of information about the nature, risks and financial effect of these interests. The bank is currently assessing the disclosure requirement for its interest in ADH, an associate of the bank.

These standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

(iv) IFRS 11 "Joint Arrangements"(effective for annual periods beginning on or after 1 January 2013),

The IFRS is to be applied by all entities that are a party to a joint arrangement. A joint arrangement is an arrangement of which two or more parties have joint control. The IFRS defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (i.e. activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.

(v) IFRS 12 "Disclosures of Interests in Other Entities"(effective for annual periods beginning on or after 1 January 2013),

The International Accounting Standards Board ("the Board") identified an opportunity to integrate and make consistent the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities and present those requirements in a single IFRS. The Board observed that the disclosure requirements of IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures overlapped in many areas. In addition, many commented that the disclosure requirements for interests in unconsolidated structured entities should not be located in a consolidation standard. Therefore, the Board concluded that a combined disclosure standard for interests in other entities would make it easier to understand and apply the disclosure requirements for subsidiaries, joint ventures, associates and unconsolidated structured entities.

(vi) IFRS 13: Fair Value Measurement (2011)

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Bank is currently reviewing its methodologies for determining fair values (see Note 5). Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

Notes to the Financial Statements

(v) *IAS 19 Employee Benefits (2011)*

IAS 19 (2011) changes the definition of short term and other long term employee benefits to clarify the distinction between the two. These changes are not likely to have any impact on the bank.

IAS 19 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

(vi) *IAS 27 (revised in 2011) "Separate Financial Statements"(effective for annual periods beginning on or after 1 January 2013),*

IAS 27 Separate Financial Statements contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The Standard requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments.

(vii) *IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"(effective for annual periods beginning on or after 1 January 2013),*

IAS 28 (as amended in 2011) is to be applied by all entities that are investors with joint control of, or significant influence over, an investee. The Standard defines significant influence as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. IFRS 11 Joint Arrangements establishes principles for the financial reporting of parties to joint arrangements. It defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. An entity applies IFRS 11 to determine the type of joint arrangement in which it is involved. Once it has determined that it has an interest in a joint venture, the entity recognises an investment and accounts for it using the equity method in accordance with IAS 28 (as amended in 2011), unless the entity is exempted from applying the equity method as specified in the Standard.

(ac) *Mandatory exceptions*

- De-recognition of financial assets and liabilities exception
Financial assets and liabilities derecognized before 1 January 2011 are not re-recognized under IFRS.
- Estimates
Estimates made in accordance with IFRS at the Transition Date are consistent with estimates previously made under Nigerian Statement of Accounting Standards (NGAAP).

All other mandatory exceptions in IFRS 1 were not applicable because there were no significant differences in management's application of Nigerian Statement of Accounting Standards (NGAAP) and International Financial Reporting Standards (IFRS) in these areas

Optional exemptions

Financial instruments

IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") sets out the classification and designation requirements for financial instruments at the date of initial recognition, which is the date the entity becomes a party to the contractual provisions of the financial instrument. However, IFRS 1 allows for revised designation of financial instruments held at the Transition Date as AFS or FVTPL. The revised designations have been done primarily to reduce measurement inconsistencies or accounting mismatch.

Notes to the Financial Statements

Fair value as deemed cost

IFRS 1 provides option to elect to remeasure property, plant and equipment at fair value at the Transition date and use that fair value as their deemed cost. The “fair value as deemed cost” exemption may be applied on an asset-by-asset basis. We elected to use fair value as deemed cost for property, plant and equipment.

Fair value measurement of financial assets and financial liabilities at initial recognition.

The current guidance in IAS 39 states the transaction price of a financial instrument is generally the best evidence of fair value, unless fair value is evidence by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market.

At initial recognition, an entity may recognize as a gain or loss on the difference between this fair value measurement and the transaction price (i.e., “day one” gain or loss) only if the measurement of fair value is based entirely on observable market inputs without modification. Otherwise, IAS 39 does not allow the recognition of a day one gain or loss and force initial recognition at the transaction price, which is considered the best evidence of fair value. Subsequent measurement and recognition would follow the guidance as defined by IAS 39.

We had remeasured certain AFS securities to fair value as of the Transition Date and applied this exemption prospectively.

4 Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from financial instruments:

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

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

Enterprise risk management report

In the course of the financial year ended December 31, 2012, the bank reviewed its Enterprise Risk Management structure and decided to embark on a transformation of its entire risk management process to align with international best practice by introducing new units and re-invigorating the existing ones. The Bank also instituted the process for review and implementation on its Enterprise Risk Framework as well as deployment of a new lending solution that will improve the quality of its risk assets.

The Enterprise Risk Management Division has enhanced its staff compliments to further improve on the quality of risk assets and identify, analyze, measure and control economic impact of risks on the Bank's assets or earning capacity.

The Bank also introduced a new core banking application in the fourth quarter of 2012 that is robust and equipped to meet the requirements of our enterprise risk management division amongst other divisions of the Bank.

Notes to the Financial Statements

During the year ended, 31 December 2012, Operational Risk Management Unit came on board as a full-fledged department of the Division and Credit Risk Management Department was expanded with the addition of Credit Control & Legal Risk Unit.

The Bank's Enterprise Risk Management comprises six (6) functional departments, namely:

- Credit Risk Management
- Operational Risk Management
- Market and Liquidity Risk Management
- Remedial Asset Management
- Compliance
- Loan Review and Monitoring

The Bank's corporate vision, mission and objectives remain the fulcrum around which the risk management strategies revolve, these include:

- Definition of strategic objectives;
- Proactive portfolio planning;
- Proactive control over money and capital market activities;
- Proactive account planning;
- Conduct of consistent portfolio review;
- Regular conduct of macro-economic review;
- Institution of robust IT - driven operational process; and
- Definition of risk and return preferences.

The various risk management related committees and sub committees of the Board and Management improved substantially in the discharge of their statutory and oversight functions. The committees include:

- the Board Risk Management Committee(BRMC);
- the Management Risk Committee (MRC);
- the Board Credit Committee (BCC);
- the Management Credit Committee (MCC);
- the Asset and Liability Committee (ALCO);
- the Executive Committee (EXCO);

(b) Credit Risk

Credit Risk Management is a key component of the Bank's Enterprise Risk Management structure. The functions are performed by the Credit Risk Management Department, an arm of the Enterprise Risk Management Division.

Wema Bank defines credit risk as the probability that an obligor or counter party will fail to meet its obligations in accordance with agreed terms.

The principal areas where the Bank is exposed to credit risk include: lending, trade finance, leasing, treasury activities and off balance sheet engagement.

As presently constituted for operational convenience, holistic scope, adequacy and effectiveness of its preventive and controls functions, the Department is subdivided into three (3) units namely:

- Credit Analysis/Credit Quality Assurance Department – with direct reporting relationship to Head (Credit Risk Management);
- Credit Administration Unit - with direct reporting relationship to Head (Credit Risk Management)
- Credit Control Unit - with direct reporting relationship to Head (Credit Risk Management)

Notes to the Financial Statements

Principal credit policies

Wema Bank's principal credit policies are as set out in the Credit Policy Manual. Credit Risk Management Framework and Credit Process Workflow serve as major policy instruments that guide our credit risk management practices and procedures. The principal thrust of the credit policies include:

- (i) Engaging in best practice credit risk management activities at all times;
- (ii) Structuring and developing credit products that meet customers' requirements at minimal risk to the Bank;
- (iii) Defining and adhering to the Bank's target markets, risk appetite and risk acceptance criteria to guide lending decisions;
- (iv) Generating earnings which are commensurate with the Bank's risk exposure and meet its target return on assets;
- (v) Ensuring compliance with regulatory, legal and statutory measures in the course of lending activities;
- (vi) Identifying potential problematic risk assets and keeping non-performing assets and charge offs to the barest minimum;
- (vii) Managing risk asset portfolio effectively and efficiently;
- (viii) Building capacity and improving skill levels to support the Bank's credit management functions' and
- (ix) Complying with regulatory credit risk management requirements.

Risk rating methodology

- (i) We operate internal risk rating and credit scoring models which were designed to facilitate effective assessment of risk involved in lending to various categories of customers including; consumer, retail, small and medium enterprises, commercial, corporate and public sector.
- (ii) The objective of the internal ratings methodology in Wema Bank includes:
 - To conduct obligor risk rating;
 - To conduct portfolio risk rating;
 - To enable the Bank evaluate and predict the likelihood that an obligor will default; and
 - Evaluate the impact of such default on the Bank.
- (iii) The internal rating methodology is integrated into the Bank's overall portfolio risk management providing the basis for credit risk measurement, monitoring and reporting thereby supporting Management's and Board's decision making.
- (iv) Wema Bank's rating methodology incorporates:
 - (a) Obligor risk rating: risk that a borrower will not be able to meet required obligations as and when due.
 - (b) Facility risk rating: risk of loss in the event that a borrower defaults on a specific transaction. The risk of loss is usually linked to the availability (recourse), reliability and coverage of pledged collateral.
 - (c) The Bank maintains obligor/counter party risk rating systems for the different market segments based on the unique characteristics of each of the following market categorization:

Notes to the Financial Statements

- Corporate customers;
- Commercial customers;
- Public sector customers;
- Retail customers;
- Consumer customers; and
- Financial institutions Customers

(v) Separate rating systems have been established for retail and corporate portfolios i.e.;

- Risk rating systems - for corporate, commercial, sovereign and financial institutions exposures; and
- Risk scoring systems – for retail and consumer exposures

Credit risk measurement

Measurement of credit risk is a vital aspect of the Bank's credit risk management functions. The Bank adopts qualitative and quantitative techniques to measure the risk inherent in its credit portfolio.

Loans and advances

For measuring credit risk of loan, advances and investments, the Bank makes use of its risk rating criteria which are clearly and precisely defined based on: objectively measurable factors e.g. cash flow capacity, capital adequacy, profitability, liquidity, gearing, return on asset, return on equity, credit history, current exposure and past account performance. Some non-numerate criteria are also applied such as character, quality of Board and Management, type of facility, type/location/value of security/type of customer/sectorial classification etc.

Internal rating Scale

The internal rating methodology incorporates ten (10) rating grades. This is to ensure that risk levels are adequately differentiated. Four (4) grades are classified as investment grades (i.e. AAA – BBB), three (3) as speculative grade (i.e. BB – CCC) and three (3) as Default grade (i.e. CC – D) as shown in the table below:

Grade	Description of Grade	Remark
AAA	Extremely Low Risk	Investment/Lending Grade
AA	Very Low Risk	
A	Good. Low Risk	
BBB	Below Average Risk	
BB	Average Risk.	Speculative Grade
B	Above Average Risk.	
CCC	High Risk.	
CC	Very High Risk/Substandard	Default Grade
C	Extremely High Risk/Doubtful	
D	Bad and Lost	

Debt securities and other bills

External rating metrics are used to measure market and liquidity risk exposures to debt securities and other bills

Notes to the Financial Statements

Credit Risk Control & Mitigation policy

Credit risk limits signify the maximum level of credit risk the Bank is willing to accept in pursuit of its earning objectives. Levels of credit risk undertaken by the Bank are controlled by setting approved credit limits for all loans, advances, investments and off balance sheet engagements.

We have a culture of strict adherence to regulatory measures as stipulated by the Central Bank of Nigeria. Credit Risk Limits are also set on industry, geographic, and product segments.

The Bank maintains internal credit approval limits for various levels of authority in the credit process. The current position as approved by the Board and Management is as shown in the table below:

Authority level	Approval limit
Board	Above N1.5 billion
Board Credit Committee	N1.5 billion
Management Credit Committee	N500 million
Managing Director	N150 million

Approval limits are set by the Board of Directors and reviewed from time to time as the circumstances of the Bank demand.

Some other specific control and mitigation measures are outlined below:

Collateral

In line with the Bank's credit policy, security is taken for all credits granted. In order to ensure adequacy of collateral in the event of default of principal loan and interest, the Bank's policy requires a minimum of 150% of the Forced Sale Value (FSV) of all non-cash collateral and 110% cover for cash collateralised loans.

Furthermore, in order to ensure credibility and integrity of security valuation, the Bank has limited acceptable security valuation to two (2) prominent accredited estate valuers in Nigeria.

The major types of collateral acceptable for loan and advances include:

- i. Mortgages over residential properties;
- ii. Charges over business assets such as premises, inventory and accounts receivable;
- iii. Charges over financial instruments such as debt securities and equities.
- iii. Cash

Longer-term finance and lending to corporate entities as well as individuals are generally secured. In addition, in order to minimise the credit loss, the Bank will seek additional collateral from the counterparty as soon as loss indicators are noticed for the relevant loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

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:

Notes to the Financial Statements

Value of collaterals on loans and advances to customers

<i>In thousands of Nigerian Naira</i>	31 December 2012	31 December 2011	1 January 2011
Against individually impaired	4,782,307	3,100,226	40,373,473
Against collectively impaired	220,496,989	176,865,684	165,355,067
Total	225,279,296	179,965,910	205,728,540
Against individually impaired:			
Property	4,673,959	2,787,266	17,398,361
Equities	16,400	25,900	3,440,687
Cash	-	-	183,027
Debenture on stock and companies assets	91,948	287,060	19,351,398
	4,782,307	3,100,226	40,373,473
Against collectively impaired:			
Property	112,571,456	104,836,044	104,219,702
Equities	3,127,671	5,671,004	3,767,352
Cash	1,709,036	1,128,880	712,545
Debenture on stock and companies assets	103,088,826	65,229,756	56,655,468
	220,496,989	176,865,684	165,355,067

Master netting arrangements

As a matter of policy and practice, the bank takes advantage of netting/set off arrangements to settle gaps emanating from outstanding balances in favour and/or against defaulting counter parties.

Credit-related commitments

The Bank consistently deploys robust asset and liability management strategies to ensure its cash and contingent commitments are easily honoured as and when due. Adequate steps are also taken to effectively optimize gaps deriving from undrawn commitments.

Notes to the Financial Statements

Credit concentration

The Bank 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	Investment securities	Pledged assets	Trading assets	Cash and cash equivalents (Placements)
31 December 2012					
<i>In thousands of Nigerian Naira</i>					
Carrying amount, net of allowance for impairment	73,745,728	77,939,680	11,485,160	-	9,643,428
Concentration by sector					
Corporate:					
Finance & Insurance	3,474,452	-	-	-	9,643,428
Real Estate and construction	10,837,006	-	-	-	-
Oil and Gas	6,835,724	-	-	-	-
Government	965,938	66,983,357	11,485,160	-	-
Manufacturing	9,237,615	-	-	-	-
General	30,712,416	-	-	-	-
Others	9,273,575	10,956,323	-	-	-
Retail:					
Mortgage	320,423	-	-	-	-
Others	2,088,579	-	-	-	-
	73,745,728	77,939,680	11,485,160	-	9,643,428
Concentration by location:					
Nigeria	73,745,728	77,939,680	11,485,160	-	9,643,428
	73,745,728	77,939,680	11,485,160	-	9,643,428
31 December 2011					
<i>In thousands of Nigerian Naira</i>					
Carrying amount, net of allowance for impairment	67,236,605	60,735,387	11,661,851	412,308	12,677,589
Concentration by sector					
Corporate:					
Finance & Insurance	894,520	-	-	-	12,677,589
Real Estate and construction	3,661,776	-	-	-	-
Oil and Gas	5,044,893	-	-	-	-
Government	4,951,193	51,320,936	11,661,851	412,308	-
Manufacturing	9,127,287	-	-	-	-
General	20,073,058	-	-	-	-
Others	14,034,581	9,414,451	-	-	-
Retail:					
Mortgage	442,217	-	-	-	-
Others	9,007,080	-	-	-	-
	67,236,605	60,735,387	11,661,851	412,308	12,677,589
Concentration by location:					
Nigeria	67,236,605	60,735,387	11,661,851	412,308	12,677,589
	67,236,605	60,735,387	11,661,851	412,308	12,677,589

Notes to the Financial Statements

	Loans and advances to customers	Investment securities	Pledged assets	Trading assets	Cash and cash equivalents (Placements)
1 January 2011					
<i>In thousands of Nigerian Naira</i>					
Carrying amount, net of allowance for impairment	44,999,856	47,838,950	9,808,886	-	45,710,826
Concentration by sector					
Corporate:					
Finance & Insurance	1,127,779	-	-	-	45,710,826
Real Estate and construction	4,009,632	-	-	-	-
Oil and Gas	-	-	-	-	-
Government	1,859,050	45,393,990	9,808,886	-	-
Manufacturing	10,258,208	-	-	-	-
General	14,440,092	-	-	-	-
Others	11,146,091	2,444,960	-	-	-
Retail:					
Mortgage	-	-	-	-	-
Others	2,159,004	-	-	-	-
	44,999,856	47,838,950	9,808,886	-	45,710,826
<i>Concentration by location:</i>					
Nigeria	44,999,856	47,838,950	9,808,886	-	45,710,826
	44,999,856	47,838,950	9,808,886	-	45,710,826

(e) Credit definitions

(i) Impaired loans and investment securities

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

(ii) Allowances for impairment

The Bank 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.

(iii) Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) when Bank 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.

All loans and advances are categorised as either:

Collectively impaired

Individually impaired

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

Notes to the Financial Statements

Exposure to credit risk

	Loans and advances to customers	Investment securities	Pledged assets	Non- pledged trading assets	Cash and cash equivalents (Placements)
31 December 2012					
<i>In thousands of Nigerian Naira</i>					
Carrying amount, net of allowance for impairment	73,745,728	77,939,680	11,485,160	-	9,643,428
Assets at amortised cost:					
Individually impaired:					
AA	9,069				
A	3,816,919	-	-	-	-
BBB	2,788,220	-	-	-	-
BB	631,003	-	-	-	-
B	2,026,490	-	-	-	-
CCC	497,158	-	-	-	-
CC	63,619	-	-	-	-
C	92,667	-	-	-	-
D	1,759,292	-	-	-	-
Gross amount	11,684,437	-	-	-	-
Allowance for impairment	(7,811,675)	-	-	-	-
Carrying amount, net of allowance for impairment	3,872,762	-	-	-	-
Collectively impaired:					
AAA		60,104,607	11,485,160	-	9,643,428
AA	457,479	-	-	-	-
A	20,063,898	10,410,195	-	-	-
BBB	11,256,083	-	-	-	-
BB	14,291,912	-	-	-	-
B	1,548,112	-	-	-	-
CCC	10,417,556	-	-	-	-
CC	2,751,184	-	-	-	-
C	184,125	-	-	-	-
D	10,917,180	-	-	-	-
Gross amount	71,887,529	70,514,802	11,485,160	-	9,643,428
Allowance for impairment	(2,014,563)	-	-	-	-
Carrying amount, net of allowance for impairment	69,872,966	70,514,802	11,485,160	-	9,643,428
Available-for-sale assets (AFS):					
Grade AAA-A: Low risk	-	6,878,750	-	-	-
Grade CCC-D: High risk	-	2,437,668	-	-	-
Allowance for impairment	-	(1,891,540)	-	-	-
Carrying amount, net of allowance for impairment	-	7,424,878	-	-	-
Total carrying amount, net of allowance for impairment	73,745,728	77,939,680	11,485,160	-	9,643,428

Notes to the Financial Statements

	Loans and advances to customers	Investment securities	Pledged assets	Non- pledged trading assets	Cash and cash equivalents (Placements)
31 December 2011					
<i>In thousands of Nigerian Naira</i>					
Carrying amount, net of allowance for impairment	67,236,605	60,735,387	11,661,851	412,308	12,677,589
Assets at amortised cost:					
Individually impaired:					
A	8,115	-	-	-	-
BBB	1,430,409	-	-	-	-
BB	5,301,976	-	-	-	-
B	2,014,823	-	-	-	-
CCC	72,738	-	-	-	-
CC	177	-	-	-	-
C	49,136	-	-	-	-
D	737,408	-	-	-	-
Gross amount	9,614,783	-	-	-	-
Allowance for impairment	(8,696,551)	-	-	-	-
Carrying amount, net of allowance for impairment	918,232	-	-	-	-
Collectively impaired:					
AAA	-	22,239,867	11,661,851	412,308	12,677,589
AA	716,504	-	-	-	-
A	24,958,457	8,626,446	-	-	-
BBB	19,043,153	-	-	-	-
BB	11,543,340	-	-	-	-
B	1,301,443	-	-	-	-
CCC	7,583,818	-	-	-	-
CC	2,776,778	-	-	-	-
C	208,120	-	-	-	-
D	201,324	-	-	-	-
Gross amount	68,332,936	30,866,313	11,661,851	412,308	12,677,589
Allowance for impairment	(2,014,563)	-	-	-	-
Carrying amount, net of allowance for impairment	66,318,373	30,866,313	11,661,851	412,308	12,677,589
Available-for-sale assets (AFS):					
Grade AAA-A: Low risk	-	29,081,070	-	-	-
Grade CCC-D: High risk	-	2,366,585	-	-	-
Allowance for impairment	-	(1,578,580)	-	-	-
Carrying amount, net of allowance for impairment	-	29,869,075	-	-	-
Total carrying amount, net of allowance for impairment	67,236,605	60,735,387	11,661,851	412,308	12,677,589

Notes to the Financial Statements

(c) Liquidity risk

This is the risk that the bank might not be able to trade on an asset in time to prevent a loss or at a cost or provide funds required to meet its obligations/commitments as they fall due as a result of mismatch in the maturity of its assets and liabilities. Enterprise Risk Management has embarked on an all-encompassing process to monitor the bank's liquidity status at each point in time through active management of both assets and liability which comply with regulatory requirement and at the same time optimising return on assets while putting in place provision for contingent funding policies to bridge funding requirements for the bank if necessary.

Sources of Liquidity Risk to the bank;

Internal sources: Risk implication as a result of pursuance of profitability.

External sources: Risk as a result of macro-economic environment.

Wema Bank's exposure to Liquidity Risk is quantified using the following methodologies:

- Cash flow projection approach
- Maturity Ladder
- Scenario Analysis
- Simple Stress Testing
- Ratio Analysis.
 - > Purchase and sale of stocks.
 - > Purchase and sale of bonds.
 - > Foreign currency transactions.
 - > Security repurchase agreements etc.

As life of every living soul is in the blood, so is liquidity to any business concern, therefore the inability of the Bank to meet its financial obligations whether in funding of increase in assets or meeting up commitments as they fall due constitutes Liquidity risk.

In order to forestall this, the Bank has drawn up a framework that defines key components for the management of Liquidity Risks including Market Risk Strategy, Market Risk Management Policy and Processes. The framework also establishes the premise on which Liquidity Risk Management requirements is defined and communicates Liquidity Risk Management definitions, purposes, objectives, approaches, key decisions, etc, across the Bank.

Wema Bank defines liquidity risk as possibility of loss arising from either its inability to meet its obligations or fund increase in assets as they fall due without incurring unacceptable costs/ losses or risk of loss arising from adverse movement of rates in the course of efforts to close a liquidity gap from market activities.

Management of liquidity risk;

The Bank approaches liquidity risk management from two perspectives as follows:

- Funding liquidity risk
- Trading liquidity risk

The Bank's liquidity risk management is aimed at utilizing the potential from both sides of the balance sheet and optimizing all available resources while taking into account the risks associated with each type of liquidity source to control and prevent inability to meet financial obligations as and when due.

The bank identified typical clauses of liquidity as including cash flow mismatch arising from:

- Portfolio characteristics
- Assets and liability mixes in the bank's on and off balance sheet positions.
- Foreign currency portfolio.
- Other risk areas such as credit, operational, market, reputational and strategic risks.

Notes to the Financial Statements

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. The net liquid assets include cash and cash equivalents, marketable securities, and net placement to banks and discount houses. This measurement complies with the regulatory requirement guideline of the Lead regulator, the Central Bank of Nigeria.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
At the end of the year	64.53%	63.63%	87.00%
Average for the period	59.11%	65.77%	46.83%
Maximum for the period	64.53%	82.98%	87.00%
Minimum for the period	54.15%	51.96%	25.51%

The table below shows the undiscounted cash flows on the Bank's financial 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.

Notes to the Financial Statements

Residual contractual maturities of financial assets and liabilities

31 December 2012	Note	Carrying amount	Gross nominal inflow /(outflow)	Less than 3 month	3 - 6 months	6 - 12 months	5 years	More than 5 years
<i>In thousands of Nigerian Naira</i>								
<i>Non-derivative assets:</i>								
Cash and cash equivalents	18	19,627,505	19,627,505	19,627,505	-	-	-	-
Pledged assets	19	11,485,160	10,689,110	3,152,000	-	-	-	7,537,110
Non-pledged trading assets	20	-	-	-	-	-	-	-
Loans and advances to customers	21	73,745,728	82,658,678	20,540,885	2,197,922	5,588,483	45,484,722	8,846,666
Investment securities	25	77,939,680	75,890,191	33,698,000	1,000,000	5,547,927	16,510,792	19,133,472
		182,798,073	188,865,484	77,018,390	3,197,922	11,136,410	61,995,514	35,517,248
<i>Non-derivative liabilities</i>								
Deposits from banks	31	(730,856)	(730,856)	(730,856)	-	-	-	-
Deposits from customers	32	(174,302,424)	(174,221,285)	(93,202,860)	(10,106,362)	(10,386,576)	(40,999,210)	(19,526,277)
Other borrowed funds	35	(57,006,619)	(56,252,478)	-	-	-	-	(56,252,478)
Interest bearing financial liability	34	(412,008)	(998,926)	-	-	-	(998,926)	-
Deposit for shares	36	(4,740,454)	(4,740,454)	-	(4,740,454)	-	-	-
		(237,192,361)	(236,943,999)	(93,933,716)	(14,846,816)	(10,386,576)	(41,998,136)	(75,778,755)
Gap (asset - liabilities)		(54,394,288)	(48,078,515)	(16,915,326)	(11,648,894)	749,834	19,997,378	(40,261,507)
Cumulative liquidity gap			(102,472,804)	(119,388,130)	(131,037,024)	(130,287,190)	(110,289,812)	(150,551,319)

Notes to the Financial Statements

31 December 2011	Note	Carrying amount	Gross nominal inflow /(outflow)	Less than 3 month	3 - 6 months	6 - 12 months	5 years	More than 5 years
<i>In thousands of Nigerian Naira</i>								
<i>Non-derivative assets:</i>								
Cash and cash equivalents	18	23,934,445	23,934,445	23,934,445	-	-	-	-
Pledged assets	19	11,661,851	10,939,110	552,000	250,000	2,600,000	-	7,537,110
Non-pledged trading assets	20	412,308	450,000	-	250,000	-	200,000	-
Loans and advances to customers	21	67,236,605	68,413,780	22,816,862	6,051,576	11,065,657	12,550,587	15,929,098
Investment securities	25	60,735,387	62,503,536	121,087	1,811,662	5,051,264	33,386,051	22,133,472
		163,980,596	166,240,871	47,424,394	8,363,238	18,716,921	46,136,638	45,599,680
<i>Non-derivative liabilities</i>								
Deposits from banks	31	(2,658,168)	(2,658,168)	(2,658,168)	-	-	-	-
Deposits from customers	32	(147,387,408)	(147,387,408)	(109,721,307)	(27,376,968)	(9,892,830)	(396,303)	-
Other borrowed funds	35	(58,085,517)	(58,079,017)	-	-	-	-	(58,079,017)
Interest bearing financial liability	34	(575,133)	(1,576,186)				(1,576,186)	
		(208,706,226)	(209,700,779)	(112,379,475)	(27,376,968)	(9,892,830)	(1,972,489)	(58,079,017)
Gap (asset - liabilities)				(64,955,081)	(19,013,730)	8,824,091	44,164,149	(12,479,337)
Cumulative liquidity gap				(64,955,081)	(83,968,811)	(75,144,720)	(30,980,571)	(43,459,908)

Notes to the Financial Statements

		Carrying	Gross nominal inflow /(outflow)	Less than 3 month	3 - 6 months	6 - 12 months	5 years	More than 5 years
1 January 2011	Note	amount						
<i>In thousands of Nigerian Naira</i>								
<i>Non-derivative assets:</i>								
Cash and cash equivalents	19	53,504,409	53,504,409	53,504,409	-	-	-	-
Pledged assets	20	9,808,886	8,938,699	-	2,151,589	-	-	6,787,110
Non-pledged trading assets	21	-	-	-	-	-	-	-
Loans and advances to customers	22	44,999,856	78,314,780	44,584,201	1,999,690	7,587,351	8,589,499	15,554,039
Investment securities	25	47,838,950	47,907,807	-	-	6,448,411	22,775,924	18,683,472
		156,152,101	188,665,695	98,088,610	4,151,279	14,035,762	31,365,423	41,024,621
<i>Non-derivative liabilities</i>								
Deposits from banks	32	(4,008,419)	(4,008,419)	(4,008,419)	-	-	-	-
Deposits from customers	33	(121,247,273)	(121,247,273)	(92,763,229)	(1,133,544)	(250,422)	(27,100,078)	-
Other borrowed funds	35	(56,765,472)	(56,788,270)	-	-	-	-	(56,788,270)
		(182,021,164)	(182,043,962)	(96,771,648)	(1,133,544)	(250,422)	(27,100,078)	(56,788,270)
Gap (asset - liabilities)				1,316,962	3,017,735	13,785,340	4,265,345	(15,763,649)
Cumulative liquidity gap				1,316,962	4,334,697	18,120,037	22,385,382	6,621,733

The above tables show the undiscounted cash flows on the Bank's non-derivative financial assets and liabilities on the basis of their earliest possible contractual maturity

The Bank's expected cash flows on some financial assets and liabilities vary significantly from the contractual cash flows. For example, demand deposits from customers are expected to maintain a stable or increasing balance. Also, retail mortgage loans have an original contractual maturity of between 20 and 25 years but an average expected maturity of six years as customers takes advantage of early repayment options.

The gross nominal inflows / (outflows) disclosed in the previous table represent the contractual undiscounted cash flows relating to non-derivative financial liabilities and assets held for risk management purposes.

As part of the management of its liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents, and debt securities for which there is an active and liquid market so that they can be readily sold to meet liquidity requirements.

Notes to the Financial Statements

(d) Market risks

The bank has embarked on implementation of market risk management policies, process and procedures for the monitoring, measurement and hedging against foreign exchange risks, interest rate risk and liquidity risk in line with global best practice. These processes are incorporated into the bank's overall risk management system to the extent possible as this would enable the bank understand and manage its consolidated risk exposure more effectively ensuring that the various market risk exposures are accurately and adequately identified, measured, monitored, controlled and where feasible, assess the probability of future losses and prompt management for quick remedial action in response to adverse changes in market factors. Market risk factors are foreign exchange risk, interest rate and price risk and such positions arise due to market making, proprietary trading, underwriting and investment activities.

Foreign currency risk.

The risk of loss resulting from the difference between assumed and actual foreign exchange rate where long position and short position are held on a net basis with regard to its assets and liabilities denominated in foreign currencies. Sources of foreign exchange risk include:

- Open Position Limit: This risk arises as a result of difference between the total long and short position in foreign currency (securities) held by the bank at any point in time.
- Transaction Risk: This is a risk that can arise from adverse movement in rates between the date an asset/liability is created and the date the asset/liability matures which can lead to loss/reduction in earnings for the bank due to non-hedging.

Interest Rate Risk (IRR): This is the risk of loss resulting from changes in interest rates as a result of a mismatch of interest rates on its assets and liabilities and/or timing differences in the maturity periods on its assets and liabilities which can lead to a loss/reduction in earnings. The sources of Interest Rate Risk include:

Re-pricing Risk: This is the risk that maturing assets/liabilities may be re-priced at rates lower than the prevailing market rates at which funds were obtained thereby creating a potential loss in income for the bank.

Yield Curve Risk: This is the risk of an adverse movement in interest rates on financial assets held by the bank.

Basis Risk: This is the risk that offsetting investments will not experience price changes in entirely opposite direction (i.e. perfect negative correlation) thus creating a potential loss.

Options Risk: arises when there is a right or obligation to alter the level of timing of the cash flows of an asset, liability or off-balance sheet instruments.

Market risk governance

The Board is responsible for the overall governance of market risk as well as defining the terms of reference and delegating responsibilities to the Board Risk Management Committee. The Committee is charged with ensuring that market risks are managed homogeneously in all areas of operation.

Market Risk Structure and Framework

The objective of the Bank is to ensure a consistent relationship between its market risk exposures and its long term goals which include defining the market risk appetite for the bank and at the same time achieving an appropriate balance between risk and reward in its business while ensuring that overall market risk exposure is maintained at levels consistent with available capital.

Market risk reports are regularly presented to the Assets & Liabilities Management Committee (ALCO) which comprises of MD/CEO, Executive Directors and other relevant Divisional Heads, with the objective of :

- Monitoring liquidity, asset and liability mismatch, pricing and interest rates
- Evaluating market risk inherent in new products
- Ensuring compliance with statutory and regulatory requirements relating to market risks
- Balance sheet management

Notes to the Financial Statements

Market Risk Strategy

The Bank has implemented a robust Market Risk Management Framework which provides the Management with guidance on Market risk management processes. The Bank's Market Risk strategy and policy is anchored on the following:

- Product diversification which involves trading in a class of products such as debt, foreign exchange instruments, corporate securities and government securities
- Risk-taking within well-defined limits with the sole purpose of creating and enhancing shareholder value and competitive advantage.
- Implementation of a Finacle Treasury module as a support for controlling, monitoring and reporting market risk.
- Deployment of a variety of tools to monitor and restrict market risk exposures such as position limits, sensitivity analysis, ratio analysis and management action triggers.
- Usage of variety of tools to measure non-tradable interest rate risk such as:

Interest rate gap analysis

- * Forecasting and simulating interest rate margins;
- * Calculating Earnings-At-Risk (EAR) using various interest rate forecasts;
- * Re-pricing risk in the balance sheet;
- * Using the Assets and Liabilities Management process to determine balance sheet interest rate sensitivity and appropriate balance sheet mix in line with the Banks business strategy.
- Adhering to regulatory Open Position Limit (OPL) as prescribed by CBN currently 3% of Shareholders' funds.
- Monitoring and compliance with internal market risk limits and other risk management guidelines.
- Regulatory factors.
- Socio-Political factors.

The Bank's Corporate Planning in conjunction with Enterprise Risk Management Directorate undertakes the duty of identifying Strategic Risk Drivers (SRD) across the internal and the external environments.

The Bank's Strategic Risk Management is driven by the following approaches:

1. Identifying material Strategic Risk Drivers (SRD)
2. Assessing likelihood of occurrence of each Strategic Risk Driver (SRD)
3. Deciding and implementing management action.

BRC and full Board are responsible for the following:

- Approve market and liquidity risk management framework, policies, strategies, guidelines and philosophy.
- Provide Board oversight for the implementation of market and liquidity risk management policies.
- Approve market and liquidity risks related limits for the Bank.

The management of interest rate risk against interest rate gaps limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standards and non-standards interest rate scenarios.

Analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position was as follows:

Notes to the Financial Statements**Sensitivity of projected net interest income****RSL** - Risk sensitive liabilities**RSA**- Risk sensitive assets

		RSA constant and RSL increases by 1%	RSA and RSL increases by 1%	RSA increases by 2% and RSL increases by 1%	RSA increases by 3.5% and RSL increases by 1%
<i>31 December 2012</i>	As at Reporting date				
<i>In thousands of Nigerian Naira</i>					
Average for the period	1,164,488	265,962	1,197,265	2,128,569	3,525,523
Maximum for the period	3,538,198	2,591,977	3,576,324	4,560,671	6,037,192
Minimum for the period	666,723	(234,371)	668,665	1,568,078	2,823,699
<i>31 December 2011</i>					
Average for the period	498,645	(158,046)	844,037	1,846,120	3,349,245
Maximum for the period	1,042,920	379,181	1,249,601	2,292,826	3,996,237
Minimum for the period	(931,395)	(1,668,391)	(758,119)	152,152	1,517,559

Exchange rate exposure limits

The Bank is exposed to changes of current holdings and future cash flows denominated in other currencies. Instruments that are exposed to this risk include; foreign currency denominated loans and deposits, foreign currency denominated securities, future cash flows in foreign currencies arising from foreign exchange transactions.

The Bank takes on exposure to the effects of fluctuations in the prevailing currency exchange rates on its financial position and cash flows. Foreign currency overnight and intraday position limits are set with reference to the Central Bank of Nigeria advised open position limit. In order to avoid risk of losses or breaches of the regulatory limit, daily monitoring have been instituted to monitor daily transactions. There are other limits that are employed in managing foreign exchange risks. These limits are set with the aim of minimizing our risk exposures to exchange rate volatility to an acceptable level. The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2012, 31 December 2011 and 1 January 2011. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by currency.

Foreign currency concentrations risk as at 31 December 2012

	US Dollar	Euro	Pound	Naira	Others	Total
<i>In thousands of Nigerian Naira</i>						
(a) <i>31 December 2012</i>						
Cash and cash equivalents	1,950,132	150,987	150,028	17,026,023	659,705	19,936,875
Pledged assets	-	-	-	11,485,160	-	11,485,160
Non-pledged trading assets	-	-	-	-	-	-
Loans and advances to customers	-	-	-	73,745,728	-	73,745,728
Investment securities	-	-	-	77,939,680	-	77,939,680
Other assets	-	-	-	23,464,396	-	23,464,396
Total financial assets	1,950,132	150,987	150,028	203,660,987	659,705	206,571,839
Deposits from banks				730,856		730,856
Deposit from customers	1,498,544	110,081	134,359	171,856,799	621,505	174,221,288
Other borrowed funds				57,006,619		57,006,619
Other liabilities				7,516,964		7,516,964
Total financial liabilities	1,498,544	110,081	134,359	237,111,238	621,505	239,475,727

Notes to the Financial Statements

Exchange rate exposure limits

	US Dollar	Euro	Pound	Naira	Others	Total
<i>In thousands of Nigerian Naira</i>						
(b) 31 December 2011						
Cash and cash equivalents	3,011,892	411,494	501,582	20,009,477	-	23,934,445
Pledged assets	-	-	-	11,661,851	-	11,661,851
Non-pledged trading assets	-	-	-	412,308	-	412,308
Loans and advances to customers	-	-	-	67,236,605	-	67,236,605
Investment securities	-	-	-	60,735,387	-	60,735,387
Other assets	163,024	-	-	16,810,151	-	16,973,175
Total financial assets	3,174,916	411,494	501,582	176,865,779	-	180,953,771
Deposits from banks	776,663	-	-	1,881,505	-	2,658,168
Deposit from customers	1,648,622	46,814	3,220	145,688,752	-	147,387,408
Other borrowed funds	-	-	-	58,085,517	-	58,085,517
Other liabilities	456,583	-	-	5,822,680	-	6,279,263
Total financial liabilities	2,881,868	46,814	3,220	211,478,454	-	214,410,356
(c) 1 January 2011						
Cash and cash equivalents	2,324,113	463,942	468,197	50,248,157	-	53,504,409
Pledged assets	-	-	-	9,808,886	-	9,808,886
Loans and advances to customers	-	-	-	44,999,856	-	44,999,856
Investment securities	-	-	-	47,838,950	-	47,838,950
Other assets	163,024	-	-	2,728,060	-	2,891,084
Total financial assets	2,487,137	463,942	468,197	155,623,909	-	159,043,185
Deposits from banks	-	-	-	4,008,419	-	4,008,419
Deposit from customers	1,303	-	-	121,245,970	-	121,247,273
Other borrowed funds	-	-	-	56,765,472	-	56,765,472
Other liabilities	296,253	-	263,606	5,519,855	348,188	6,427,902
Total financial liabilities	297,556	-	263,606	187,539,716	348,188	188,449,066

(e) Operational Risk Management

The rapidly changing and complex business environment is laden with risks and opportunities. The ability of an institution to aptly identify, quantify or profile, and mitigate risks while seizing the opportunities therein would distinguish a stellar institution from an average one. Wema Bank is poised to create a competitive advantage for its brand through proactive risk management which would be built on a sound risk awareness culture and best practices across the gamut of the Bank.

Operational risks are those risks arising from the execution of an institution's business functions; a broad concept with key focus on the risks arising from people, process, systems and external events. Examples of such risk include: fraud, hacking, armed robbery attacks, inadequate policies and procedures, software and hardware failure, high staff attrition, weak corporate governance, etc.

Wema Bank has a robust operational risk management framework that is aimed at ensuring the Bank adequately manages its risk exposures albeit these remain dynamic in today's business world. The Bank has commenced the creation of a sound risk management culture Bank-wide through comprehensive training of its staff in structured phases. the business managers and core identification, risk profiling, controls, monitoring, and reporting methodologies. Key risk management tools employed by the Bank include:

- Risk and Control Self-Assessments;
- Key Risk Indicators;
- Loss and Loss Events Database;
- Risk Review Workshops;
- Scenario Sessions;

Notes to the Financial Statements

The Banks thrust for operational risk management includes:

- Proactive management of risks to ensure these do not become catastrophic risk events;
- Facilitate sound risk-based business decisions of the Bank;
- Ensure the bank takes calculated risk at every decision point;
- Increase the bottom line of the Bank on the medium and long run;
- Ensure the bank has a sound Business Continuity Plan and Disaster Recovery Plans for unexpected critical risk events;

(f) Capital management

(i) Regulatory capital

The Bank's lead regulator, the Central Bank of Nigeria sets and monitors capital requirements for the Bank. The banking operations are directly supervised by the Central Bank of Nigeria.

The Bank, in 2008 took a proactive step of commencing the process of disencumbering our books of doubtful and classified assets so as to lay a solid foundation for a more virile and prosperous Bank.

In the aftermath of this our capital management objectives have been to:

- Stop further erosion of shareholders wealth;
- Take all necessary measures to bring the Bank's capital to the level set by the regulatory authorities; and
- Sustain the Bank's capability to continue as a going concern.

The Bank has instituted effective mechanisms for the daily monitoring of movement in our capital base and measurement of our capital adequacy ratio by deploying techniques stipulated by the Central Bank of Nigeria (CBN) banks' supervisory guidelines. Throughout the reporting year, the Bank complied strictly with the requirement of monthly rendition of report on same to the CBN. The Auditors are also required to comply with the Nigeria Deposit Insurance Corporation (NDIC) requirement of submitting an annual certificate that consist the computed capital adequacy ratio of the Bank.

To align with the CBN current reforms, we are taking a multiple approach to raising the Bank capital base to the required level through:

- Increasing the Bank's revenue base while ensuring efficient management of operating expenses.
- Vigorously implementing debt recovery strategies.
- We are also hopeful of meeting the June 2013 deadline for the injection of fresh capital.

Our Bank's regulatory capital as managed by the Financial Control and Treasury Units is divided into two tiers.

Tier 1 capital, which includes share capital, share premium, other reserves and retained earnings.

Tier 2 capital, which includes revaluation reserves and other borrowings

The risk weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, capital market and other risks associated with each asset and counterparty, taking into consideration any eligible collateral guarantee. A similar treatment is accorded to off-balance sheet transactions with adjustments in line with the contingent nature of the underlining potential losses.

(ii) Capital Adequacy Ratio

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

Notes to the Financial Statements

<i>In thousands of Nigeria naira</i>	<i>Note</i>	31 December 2012	31 December 2011	1 January 2011
Tier 1 capital				
Ordinary share capital	37	6,410,624	6,410,624	6,410,624
Share premium	37	24,701,231	24,701,231	24,701,231
Retained earnings	37	(35,205,759)	(30,657,745)	(25,222,011)
Other reserves	37	9,229,507	9,178,695	9,186,735
Treasury shares	37	(4,571,482)	(4,571,482)	(4,563,833)
Regulatory risk reserve		714,194	1,206,808	-
Shareholders' fund		1,278,315	6,268,132	10,512,746
Less:				
Fair value reserve on available-for-sale securities	37	(107,038)	(182,235)	(25,019)
Deferred tax	30	(23,369,702)	(23,337,475)	(23,745,302)
Total		(22,198,424)	(17,251,578)	(13,422,831)

Tier 2 capital

The tier 2 capital cannot apply because the bank had a negative tier 1 capital.

Risk-weighted assets	135,170,011	131,647,181	114,633,786
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Capital ratios

Total regulatory capital expressed as a percentage of total risk-weighted assets	-16%	-13%	-12%
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Total tier 1 capital expressed as a percentage of risk-weighted assets	-16%	-13%	-12%
--	------	------	------

(iii) 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.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank 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 Bank's longer term strategic objectives.

5 Use of estimates and judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 4).

Notes to the Financial Statements**(a) Key sources of estimation uncertainty****(i) Allowances for credit losses**

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy j (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 merit, 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 claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. 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 interest losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimated future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances are made.

(ii) 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 techniques as described in accounting policy j (viii). 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.

(b) Critical accounting judgements made in applying the Bank's accounting policies

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

(i) Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed under note j (viii)

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or 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: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Notes to the Financial Statements

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:

In thousands of Nigerian Naira

31 December 2012	Level 1	Level 2	Level 3	Total
Trading assets	-	-	-	-
Investment securities	1,619,265	7,697,153	-	9,316,418
	<u>1,619,265</u>	<u>7,697,153</u>	<u>-</u>	<u>9,316,418</u>
31 December 2011	Level 1	Level 2	Level 3	Total
Trading assets	181,181	231,127	-	412,308
Investment securities	1,548,181	29,899,474	-	31,447,655
	<u>1,729,362</u>	<u>30,130,601</u>	<u>-</u>	<u>31,859,963</u>
1 January 2011	Level 1	Level 2	Level 3	Total
Trading assets	-	-	-	-
Investment securities	153,000	19,714,724	-	19,867,724
	<u>153,000</u>	<u>19,714,724</u>	<u>-</u>	<u>19,867,724</u>

(ii) Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

Details of the Group's classification of financial assets and liabilities are given in note 7.

(iii) 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.

(iv) Determination of impairment of property and equipment, and intangible assets

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 Bank 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.

(v) Determination of recognised deferred tax balances

Management is required to make judgements concerning the recoverability of unused tax losses. Judgement is required in determining the estimated future profitability from which tax assets are expected to be realised.

6. Operating segments

The Bank, which has a regional authorization, has four reportable geographical segments, which are the Bank's strategic zones. The strategic zones offer different products and services, and are managed separately based on the Bank's management and internal reporting structure. For each of the strategic zones, the Bank's management reviews internal management reports on a monthly basis.

Segment information is presented in respect of the Bank's geographic segments which represents the primary segment reporting format and is based on the Bank's management and reporting structure.

Geographical segments

The Bank operates in four geographical regions; South-west, South-south, Abuja and Lagos zones

Notes to the Financial Statements

(i) 31 December 2012

<i>In thousands of Nigerian Naira</i>	South- West	South- South	Abuja	Lagos	Total
Derived from external customers	9,582,305	2,032,118	4,731,209	14,370,754	30,716,386
Derived from other segments				-	-
Total revenues	9,582,305	2,032,118	4,731,209	14,370,754	30,716,386
Interest and similar expenses	(1,800,975)	(373,183)	(3,061,824)	(8,051,510)	(13,287,493)
Operating income	7,781,329	1,658,935	1,669,385	6,319,244	17,428,894
Operating expenses	(2,587,069)	(556,409)	(294,916)	(19,300,604)	(22,738,998)
Profit/ (loss) on ordinary activities before taxation	5,194,261	1,102,526	1,374,469	(12,981,359)	(5,310,104)
Share of profit in associate					367,893
Income tax expense					(98,418)
Profit/ (loss) on ordinary activities after taxation	5,194,261	1,102,526	1,374,469	(12,981,359)	(5,040,629)
Assets and liabilities:					
Total assets	91,275,247	21,913,224	62,958,007	69,558,120	245,704,597
Total liabilities	94,608,596	22,174,376	61,835,252	65,808,058	244,426,282
Net Asset	3,333,350	261,152	(1,122,755)	(3,750,063)	(1,278,315)
Cashflow:					
Operating activities	3,090,308	676,005	1,448,882	4,418,612	9,633,507
Investing activities	(5,640,227)	(1,233,280)	(2,643,856)	(8,084,121)	(17,602,023)
Financing activities	1,171,695	256,309	539,233	1,684,316	3,661,556

(ii) 31 December 2011

Derived from external customers	3,140,270	544,001	459,004	18,630,646	22,773,921
Derived from other segments				-	-
Total revenues	3,140,270	544,001	459,004	18,630,646	22,773,921
Interest and similar expenses	(753,791)	(180,981)	(853,694)	(5,182,165)	(6,970,631)
Operating income	2,386,479	363,020	(394,690)	13,448,481	15,803,290
Operating expenses	(2,186,579)	(462,626)	(2,833,897)	(14,356,861)	(19,839,962)
Profit/(loss) on ordinary activities before taxation	199,900	(99,605)	(3,228,587)	(908,380)	(4,036,672)
Share of associate profit					266,651
Income tax expense					(458,905)
Profit/(loss) on ordinary activities after taxation	199,900	(99,605)	(3,228,587)	(908,380)	(4,228,926)
Assets and liabilities:					
Total assets	67,333,211	26,572,011	53,070,603	74,181,217	221,157,042
Total liabilities	65,296,882	25,768,406	51,465,612	72,358,012	214,888,911
Net Asset	(2,036,329)	(803,606)	(1,604,991)	(1,823,207)	(6,268,131)
Cashflow:					
Operating activities	(5,464,738)	(1,195,411)	(2,561,595)	(12,536,003)	(21,559,740)
Investing activities	(3,573,236)	(782,083)	(1,675,892)	(656,968)	(6,690,179)
Financing activities	(422,414)	(92,403)	(198,006)	(607,222)	(1,320,045)

(iii) 1 January 2011

Assets and liabilities:					
Total assets	67,432,890	20,845,482	47,255,535	63,649,104	199,348,267
Total liabilities	62,507,727	19,322,970	43,804,086	63,200,739	188,835,521
Net Assets	4,925,163	1,522,512	3,451,449	448,365	10,512,746

Notes to the Financial Statements

7 Financial assets and liabilities

Accounting classification, measurement basis and fair values

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

In thousands of Nigerian Naira

		At fair value through P/L	Held-to- maturity	Loans and receivables at amortised cost	Available- for sale	Other amortised cost	Other financial liabilities	Total carrying amount	Fair value
(a) 31 December 2012	<i>Note</i>								
Cash and cash equivalents	18	-	-	-	-	19,627,505	-	19,627,505	19,627,505
Pledged assets	19	-	11,485,160	-	-	-	-	11,485,160	11,485,160
Non-pledged trading assets	20	-	-	-	-	-	-	-	-
Loans and advances to customers	21	-	-	73,745,728	-	-	-	73,745,728	73,745,728
Investment securities	25	-	68,623,262	-	9,316,418	-	-	77,939,680	77,939,680
		-	80,108,422	73,745,728	9,316,418	19,627,505	-	182,798,072	182,798,072
Deposits from banks	31	-	-	-	-	-	730,856	730,856	730,856
Deposits from customers	32	-	-	-	-	-	174,302,424	174,302,424	174,302,424
Interest bearing liability	34	-	-	-	-	-	412,008	412,008	412,008
Other borrowed funds	35	-	-	-	-	-	57,006,619	57,006,619	57,006,619
		-	-	-	-	-	232,451,907	232,451,907	232,451,907
(b) 31 December 2011									
Cash and cash equivalents	18	-	-	-	-	23,934,445	-	23,934,445	23,934,445
Pledged assets	19	-	11,661,851	-	-	-	-	11,661,851	11,661,851
Non-pledged trading assets	20	412,308	-	-	-	-	-	412,308	412,308
Loans and advances to customers	21	-	-	67,236,605	-	-	-	67,236,605	67,236,605
Investment securities	25	-	29,287,733	-	31,447,655	-	-	60,735,387	60,735,387
		412,308	40,949,584	67,236,605	31,447,655	23,934,445	-	163,980,596	163,980,596
Deposits from banks	31	-	-	-	-	-	2,658,168	2,658,168	2,658,168
Deposits from customers	32	-	-	-	-	-	147,387,408	147,387,408	147,387,408
Interest bearing liability	34	-	-	-	-	-	575,133	575,133	575,133
Other borrowed funds	35	-	-	-	-	-	58,085,517	58,085,517	58,085,517
		-	-	-	-	-	208,706,226	208,706,226	208,706,226

Notes to the Financial Statements

In thousands of Nigerian Naira

		At fair value through P/L	Held-to- maturity	Loans and receivables at amortised cost	Available- for sale	Other amortised cost	Other financial liabilities	Total carrying amount	Fair value
(c) 1 January 2011									
Cash and cash equivalents	18	-	-	-	-	53,504,409	-	53,504,409	53,504,409
Pledged assets	19	-	9,808,886	-	-	-	-	9,808,886	9,808,886
Non-pledged trading assets	20	-	-	-	-	-	-	-	-
Loans and advances to customers	21	-	-	44,999,856	-	-	-	44,999,856	44,999,856
Investment securities	25	-	27,971,226	-	19,867,724	-	-	47,838,950	47,838,950
		-	37,780,112	44,999,856	19,867,724	53,504,409	-	156,152,101	156,152,101
Deposits from banks	31	-	-	-	-	-	4,008,419	4,008,419	4,008,419
Deposits from customers	32	-	-	-	-	-	121,247,273	121,247,273	121,247,273
Other borrowed funds	35	-	-	-	-	-	56,765,472	56,765,472	56,765,472
		-	-	-	-	-	182,021,164	182,021,164	182,021,164

The above table includes N379,533,000 (31 December 2011: 379,533,000) of equity investment securities in both the carrying amount and fair value columns that are measured at cost less impairment losses and for which disclosure of fair value is not provided because their fair value cannot be reliably measured. These are equity investments in unquoted companies in Nigeria and investments made by the Bank under the Small and Medium Enterprise Equity Investment Scheme (SMEEIS). There is no active market for these investments.

Notes to the Financial Statements

8 Net interest income**Interest income***In thousands of Nigerian Naira*

	2012	2011
Cash and cash equivalents	1,313,511	2,291,628
Loans and advances to banks and customers	15,516,856	9,431,565
Investments securities	8,225,232	5,256,767
Total interest income	25,055,599	16,979,960

Interest income of N15.5 billion (2011: N9.4 billion) on loans and advances to banks and customers includes interest income on impaired financial assets of N1.266 billion (2011: N1.48 billion). This represents the unwinding of discounting in accordance with IAS 39.

Interest expense*In thousands of Nigerian Naira*

	2012	2011
Deposits from banks	572,114	148,980
Deposits from customers	8,149,093	3,826,973
Other borrowed funds	4,566,286	2,994,678
Total interest expense	13,287,493	6,970,631

Total interest expense on financial instrument held at amortised cost in 2012 is N13.3 billion (2011: N6.97 billion)

9 Fees and commission income*In thousands of Nigerian Naira*

Retail banking customer fees & commissions	2,336,354	1,370,159
Corporate banking customer fees & commissions	1,719,210	608,556
Other fees and charges	707,433	933,194
Total fee and commission income	4,762,997	2,911,909

10 Net trading income*In thousands of Nigerian Naira*

Fixed income securities	-	3,879
Treasury bills	-	42,549
Equities (see note (i) below)	-	1,224,580
Foreign exchange trading	93,174	278,124
	93,174	1,549,132

- (i) Trading income on equities represents the gain on the sale of the Bank's investment in Interswitch during the year.

11 Other income*In thousands of Nigerian Naira*

Dividends on available-for-sale equity securities	3,915	65,367
Gains on disposal of property and equipment	335,005	-
Rental income (i)	57,948	30,115
Others	407,748	1,237,438
	804,616	1,332,920

- (i) The Bank has a number of investment properties from which rental income is derived. During the year ended 31 December 2012, the Bank spent N644.9million (31 Dec 2011: 728.7 million) to generate rental income as disclosed above. Refer to note 26 for details of the investment properties.

Notes to the Financial Statements

12 Loss on disposal of subsidiaries

In line with Central Bank of Nigeria's directive on divestment from non-banking subsidiaries, the Bank divested from its non-banking subsidiaries during the year. The operations of Wema Homes Savings & Loans Limited and Wema Asset Management Limited were integrated into the Bank during the year while its investment in Wema Registrars Limited, Wema Insurance Brokers and Wema Securities and Finance Plc were disposed off. The results of the divestment are shown below.

In thousands of Nigerian Naira

Name of subsidiary	Sales Proceed	Cost of investments	(Loss)/Gain
Great Nigeria Insurance Plc	3,150,000	3,250,000	(100,000)
Wema Insurance Brokers Limited	26,000	5,000	21,000
Wema Registrars Limited	50,000	50,000	-
Independent Securities Limited	106,000	53,000	53,000
	3,332,000	3,358,000	(26,000)

Notes to the Financial Statements

12 Loss on disposal of subsidiaries (continued)

(c) The net assets for all the subsidiaries divested from as at 31 December 2011 is as follows:

In thousands of Nigerian Naira	Subsidiaries disposed off					Total	Subsidiaries absorbed		Total	Grand Total
	Great Nigeria Insurance Plc	Wema Insurance Brokers Limited	Wema Registrars Limited	Independent Securities Limited	Wema Securities and Finance Plc		Wema Homes Limited	Wema Asset Mgt Limited		
Assets										
Cash in hand	1,463	49	28,107	111,024	39,836	180,479	-	26,485	26,485	206,964
Due from financial institutions	1,167,360	153,428	430,195	-	28	1,751,011	102,924	198,404	301,328	2,052,339
Loans and advances to customers	-	-	-	-	4,994	4,994	547,152	658,094	1,205,246	1,210,240
Insurance receivables	144,665	-	-	-	-	144,665	-	-	-	144,665
Investment securities	317,429	189,814	-	449,720	564,873	1,521,836	-	391,777	391,777	1,913,613
Deferred tax assets	509,511	-	-	85,909	148,617	744,037	-	-	-	744,037
Other assets	815,288	941	16,297	98,513	314,025	1,245,064	39,483	21,454	60,937	1,306,001
Investment property	3,620,339	-	-	-	-	3,620,339	616,775	-	616,775	4,237,114
Property and equipment	650,725	7,596	12,160	19,152	33,214	722,847	23,679	226,777	250,456	973,303
Intangible assets	4,105	-	-	-	-	4,105	-	-	-	4,105
Total assets	7,230,885	351,828	486,759	764,318	1,105,587	9,939,377	1,330,013	1,522,991	2,853,004	12,792,381
Liabilities										
Customers' deposits	-	-	-	-	-	-	104,992	-	104,992	104,992
Claims payable	498,553	-	-	-	-	498,553	-	-	-	498,553
Liability on investment contracts	176,049	-	-	-	-	176,049	-	67,815	67,815	243,864
Liabilities on insurance contracts	1,676,887	-	-	-	-	1,676,887	-	-	-	1,676,887
Current income tax payable	143,497	25	5,124	5,072	20,525	174,243	11,687	187,697	199,384	373,627
Other liabilities	473,449	92,005	418,412	171,918	4,089,932	5,245,716	150,965	535,117	686,082	5,931,798
Deferred tax liabilities	-	1,488	8,166	-	-	9,654	-	33,264	33,264	42,918
Retirement benefit obligations	-	215	1,243	-	-	1,458	4,904	-	4,904	6,362
Borrowings	-	127,979	-	436,764	3,980,073	4,544,816	257,423	5,210,070	5,467,493	10,012,309
Total liabilities	2,968,435	221,712	432,945	613,754	8,090,530	12,327,376	529,971	6,033,963	6,563,934	18,891,310
Net assets	4,262,450	130,116	53,814	150,564	(6,984,943)	(2,387,999)	800,042	(4,510,972)	(3,710,930)	(6,098,929)
Share of net assets	3,196,838	130,116	53,814	110,288	(5,592,145)	(2,101,090)	800,042	(4,510,972)	(3,710,930)	(5,812,020)
Net cash inflow arising on divestments										
Cash consideration	3,250,000	26,000	50,000	106,000	-	-	-	-	-	-
Cost of divestments	(100,000)	-	-	-	-	-	-	-	-	-
Net proceeds on disposal	3,150,000	26,000	50,000	106,000	-	3,332,000	-	-	-	3,332,000
Cash and cash equivalents disposed	(1,168,823)	(153,477)	(458,302)	(111,024)	(39,864)	(1,931,490)	(102,924)	(224,889)	(327,813)	(2,259,303)
	1,981,177	(127,477)	(408,302)	(5,024)	(39,864)	1,400,510	(102,924)	(224,889)	(327,813)	1,072,697

Notes to the Financial Statements*In thousands of Nigerian Naira*

13	Impairment loss on financial assets	2012	2011
	Impairment losses on loans and advances		
	-specific impairment	4,110,499	5,841,15
	-collective impairment	174,935	(232,370
	-Allowance no longer required	-	(4,087,1
	Impairment loss on available for sale financial assets		
	- Allowance for the year	400,598	282,093
	Impairment loss on other assets (Note 30)	266,728	489,893
		4,952,760	2,293,646
14	Personnel expenses (Note 39)		
	Wages and salaries	5,585,339	5,903,742
	Contributions to defined contribution plans	609,494	652,662
	Other staff costs	1,636,440	806,978
		7,831,273	7,363,382
15	Other operating expenses		
	Other premises and equipment costs	1,133,341	983,112
	Auditors remuneration	90,000	75,000
	Professional fees	490,903	486,592
	AMCON Levy	666,717	617,223
	Security expenses	426,773	383,241
	Cash movement expenses	344,464	461,267
	NDIC Premium	856,641	785,324
	Insurance	299,678	418,773
	Printing and stationery	367,121	246,947
	Advertising and marketing	307,172	341,781
	Diesel	438,641	448,912
	Electricity	125,797	107,395
	Subscription	97,929	47,141
	E-business	73,910	-
	Rent and rates	694,162	570,362
	General administrative expenses	1,313,749	844,463
		7,726,998	6,817,533
16	Income tax expense		
	Recognised in the profit or loss		
	Current tax expense		
	Current year	98,418	125,657
	Deferred tax expense		
	Origination and reversal of temporary differences	-	333,248
	Total income tax expense	98,418	458,905

Notes to the Financial Statements

<i>In thousands of Nigerian Naira</i>		2012	2011
(a)	Tax rate reconciliation		
	Loss before tax	(4,942,211)	(3,770,021)
	Income tax using the domestic corporation tax rate at 30%	<u>(1,482,663)</u>	<u>(1,131,006)</u>
	Effect of:		
	Deferred tax on fixed assets excluding revaluation	-	333,248
	Collective impairment on loans charged to P&L	174,935	(232,370)
	IT tax	-	
	Change rate	-	
	Tax loss effect	1,110,892	455,246
	Minimum tax	<u>98,418</u>	<u>458,905</u>
	Total income tax expense in income statement	<u>(98,418)</u>	<u>(458,905)</u>

Refer to note 33 for an analysis of movements in the current tax liability.

	2012	2011
(b)	Income tax effects relating to components of other comprehensive income	
	Fair value (loss)/ gain on fair-value-through-other comprehensive income	(107,424) 198,531
	Tax expense	<u>32,227</u> <u>(41,315)</u>
	Net (loss)/gain	<u>(75,197)</u> <u>157,216</u>

17 Loss per share

Loss per share is calculated by dividing the loss for the year attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

The calculation of loss per share as at 31 December 2012 was based on the loss attributable to ordinary shareholders of N5,040,629,000 (2011: N4,228,926,000) and weighted average number of ordinary shares outstanding of 12,821,249,880 (2011: 12,821,249,880), excluding the average number of shares held by the Bank as treasury shares.

<i>In thousands</i>	2012	2011
Weighted average number of ordinary shares -		
Weighted average number of shares	12,821,250	12,821,250
Weighted average number of treasury shares	<u>(929,204)</u>	<u>(921,556)</u>
	<u>11,892,046</u>	<u>11,899,694</u>
Loss attributable to ordinary shareholders -		
<i>In thousands of Nigerian Naira</i>		
Loss for the year attributable to equity holders of the Bank	(5,040,629)	(4,228,926)
Loss per share -	<u>(42)</u>	<u>(36)</u>

The agreed share price for a private placement of the Bank's shares has been used for the purposes of calculating the dilutive effect of the deposit for shares.

Notes to the Financial Statements

In thousands of Nigerian Naira

18	Cash and cash equivalents	31 December 2012	31 December 2011	1 January 2011
	Cash and balances with banks	6,621,567	6,946,639	5,632,041
	Unrestricted balances with central bank	3,362,510	4,310,217	2,161,542
	Money market placements	9,643,428	12,677,589	45,710,826
		19,627,505	23,934,445	53,504,409

Cash and cash equivalent does not include the restricted cash with CBN which is not available for use by the Bank for normal day-to-day cash operations. Cash and cash equivalent also include term placements which can be realise in 90 days or less.

19 Pledged assets - Held to maturity

Treasury bills	3,060,713	3,210,872	2,108,097
Bonds	8,424,447	8,450,979	7,700,789
	11,485,160	11,661,851	9,808,886

The treasury bills are pledged for clearing activities and as collection bank for government taxes and for electronic card transactions with First Bank Plc. Where the bank defaults on agreement, ownership of pledged assets will revert to First Bank Plc. The Bank cannot trade on these pledged assets during the period that such assets are committed as pledged.

The Bonds are pledged as collateral for the intervention credit granted to the Bank by the Bank of Industry for the purpose of refinancing existing loans to SMEs under secured borrowing with related liability of N6,057,718,000 (2011: N 7,392,375,000) as disclosed in note 35.

20 Non-pledged Trading assets

In thousands of Nigerian Naira

	31 December 2012	31 December 2011	1 January 2011
Government bonds	-	181,181	-
Treasury bills	-	231,127	-
Equities	-	-	-
	-	412,308	-

Notes to the Financial Statements

21 Loans and advances to customers at amortised cost

<i>In thousands of Nigerian Naira</i>	31 December 2012	31 December 2011	1 January 2011
Overdrafts	15,719,370	23,711,283	29,904,738
Term Loans	66,918,852	53,282,770	40,015,029
Advances under finance lease	1,108,678	953,666	7,911,491
Gross loans and receivables	83,746,900	77,947,719	77,831,258
<i>Less Allowances for Impairment</i>			
Specific Allowances for impairment	(7,811,675)	(8,696,551)	(30,584,469)
Collective allowances for impairment	(2,189,497)	(2,014,563)	(2,246,933)
	(10,001,172)	(10,711,114)	(32,831,402)
Net loans and advances to customers	73,745,728	67,236,605	44,999,856
Overdrafts			
Gross Overdrafts	15,719,370	23,711,283	29,904,738
<i>Less Allowances for Impairment</i>			
Specific Allowances for impairment	(1,836,666)	(2,956,384)	(13,080,474)
Collective allowances for impairment	(754,726)	(894,627)	(1,305,694)
	(2,591,393)	(3,851,011)	(14,386,168)
Net Overdrafts	13,127,977	19,860,272	15,518,571
Term Loans			
Gross Term Loans	66,918,852	53,282,770	40,015,029
<i>Less Allowances for Impairment</i>			
Specific Allowances for impairment	(5,965,088)	(5,740,045)	(17,503,996)
Collective allowances for impairment	(1,425,101)	(1,097,813)	(819,984)
	(7,390,157)	(6,837,858)	(18,323,979)
Net Term Loans	59,528,695	46,444,912	21,691,049
Advances Under Finance Lease	1,108,678	953,666	7,911,491
<i>Less Allowances for Impairment</i>			
Specific Allowances for impairment	(9,951)	(122)	-
Collective allowances for impairment	(9,671)	(22,122)	(121,255)
	(19,622)	(22,244)	(121,255)
Net advances	1,089,056	931,422	7,790,236
Total Loans and Advances			
Current	28,486,748	44,465,622	45,195,372
Non-current	55,260,152	33,482,097	32,635,886
	83,746,900	77,947,719	77,831,258

Notes to the Financial Statements

Reconciliation of impairment allowance on loans and advances to customers

	Overdraft	Term Loan	Advances under finance lease	Totals
<i>In thousands of Nigerian Naira</i>				
Balance as at 1 January 2011	14,386,168	18,323,979	121,255	32,831,402
Specific impairment	13,080,474	17,503,996	-	30,584,469
Collective impairment	1,305,694	819,984	121,255	2,246,933
Additional impairment for the year {Note 13}	2,881,473	3,670,196	24,287	5,608,784
Specific impairment	2,881,473	3,670,196	24,287	5,841,154
Collective impairment	-	(232,370)	-	(232,370)
Written off in the year as uncollectible	(11,523,899)	(12,745,506)	(107,345)	(24,376,750)
Allowances no longer required {Note 13}	(1,892,730)	(2,410,811)	(15,953)	(4,319,494)
Specific	(1,790,909)	(2,281,120)	(15,095)	(4,087,124)
Collective	(101,821)	(129,691)	(858)	(232,370)
Balance as at 31 December 2011	3,851,012	6,837,858	22,244	10,711,114
Specific impairment	2,956,385	5,740,045	122	8,696,552
Collective impairment	894,627	1,097,813	22,122	2,014,562
Additional provision for the period {Note 13}	1,877,805	2,792,400	15,827	4,686,032
Specific impairment	1,801,151	2,694,765	15,181	4,511,097
Collective impairment	76,654	97,635	646	174,935
Written off in the year as uncollectible	(3,137,425)	(2,240,099)	(18,449)	(5,395,973)
Amounts recovered during the year	-	-	-	
Balance as at 31 December 2012	2,591,392	7,390,158	19,622	10,001,172
Specific impairment	1,836,666	5,965,057	9,951	7,811,674
Collective impairment	754,726	1,425,101	9,671	2,189,498

Notes to the Financial Statements

(a) Nature of collateral in respect of loans and advances

<i>In thousands of Nigerian Naira</i>	31 December 2012	31 December 2011	1 January 2011
Secured against real estates	29,093,438	26,751,691	16,054,503
secured against shares	1,195,421	1,030,255	1,347,085
Otherwise secured	53,458,041	50,165,773	60,429,669
Unsecured	-	-	-
	<u>83,746,900</u>	<u>77,947,719</u>	<u>77,831,258</u>

The Bank is not permitted to sell or re-pledge the collateral in the absence of default by the owner of the collateral

Nature of assets and carrying amount:

<i>In thousands of Nigerian Naira</i>	31 December 2012	31 December 2011	1 January 2011
Real estate	65,132,112	78,056,782	97,098,887
Shares	7,616,571	5,522,654	1,857,976

(b) Finance Lease Receivable

Loans and advances to customers include the following finance lease receivables where the Bank is the lessor

<i>In thousands of Nigerian Naira</i>	31 December 2012	31 December 2011	31 January 2011
<i>Gross investment in the finance lease</i>			
Less than one year	128,128	88,012	94,194
Between one and five years	980,550	865,654	7,817,298
More than five years	-	-	-
	<u>1,108,678</u>	<u>953,666</u>	<u>7,911,491</u>
Unearned finance income	<u>(563,646)</u>	<u>(340,593)</u>	<u>(59,735)</u>
Net investment in finance lease	<u>545,033</u>	<u>613,073</u>	<u>7,851,757</u>
<i>Net advances under finance lease</i>			
Less than one year	118,607	75,596	88,408
Between one and five years	970,450	855,826	7,701,827
More than five years	-	-	-
	<u>1,089,057</u>	<u>931,422</u>	<u>7,790,236</u>

Notes to the Financial Statements

21 Maximum exposure to credit risk before collateral held or other credit enhancements

Concentration of risks of financial assets with credit risk exposure

	2012	2012	2011
<i>In thousands of Nigerian Naira</i>			
Credit risk exposures relating to on-balance sheet assets are as follows:			
Loans and advances to banks	-	-	-
Loans and advances to customers:			
Corporate Bank			
– Overdrafts	13,127,977	19,860,272	15,518,571
– Term loans	59,528,695	46,444,912	21,691,049
– Others	1,089,056	931,422	7,790,236
Trading assets :			
– Debt securities	7,424,878	29,869,075	17,477,173
Investment securities :			
– Debt securities	70,514,802	30,866,313	29,630,223
Other financial assets	23,464,396	16,973,176	2,725,828
Contingent liabilities and commitments are as follows:			
Loan commitments and other credit related liabilities			
At 31 December	175,149,803	144,945,168	94,833,080

Impairment classification of advances:**31 December 2012**

	Loans and advances to banks	Loans and advances to customers
<i>In thousands of Nigerian Naira</i>		
Neither past due nor impaired	-	70,814,153
Past due but not impaired	-	8,426,117
Impaired	-	4,506,630
Gross	-	83,746,900
Less: allowance for impairment		10,001,172
Net	-	73,745,728

Notes to the Financial Statements

31 December 2011

In thousands of Nigerian Naira

	Loans and advances to banks	Loans and advances to customers
Neither past due nor impaired	-	72,415,837
Past due but not impaired	-	715,028
Impaired	-	4,816,854
Gross	-	77,947,719
Less: allowance for impairment	-	10,711,114
Net	-	67,236,605

1 January 2011

	Loans and advances to banks	Loans and advances to customers
Neither past due nor impaired	-	35,704,355
Past due but not impaired	-	3,283,073
Impaired	-	38,843,830
Gross	-	77,831,258
Less: allowance for impairment	-	32,831,402
Net	-	44,999,856

Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank. Current indicates those facilities which were within their running periods and had no interest and or principal overdue and no indication of impairment displayed. Watchlist indicates those that were within their running periods and had no indication of impairment but had interest/ principal between 0 - 90 days due.

31 December 2012

	Loans and advances to customers				
	Overdrafts	Term loans	Mortgages	Advances under finance lease	Total
<i>In thousands of Nigerian Naira</i>					
Grades:					
1. Current	9,549,165	51,399,731	330,461	1,108,678	62,388,035
IA. Watchlist	60,827	8,331,498	33,792	-	8,426,117
Total	9,609,993	59,731,229	364,253	1,108,678	70,814,152

Notes to the Financial Statements

31 December 2011

	Loans and advances to customers				Total
	Overdrafts	Term loans	Mortgages	Advances under finance lease	
<i>In thousands of Nigerian Naira</i>					
Grades:					
1. Current	21,574,461	49,486,375	-	953,666	72,014,501
IA. Watchlist	-	401,336	-	-	401,336
Total	21,574,461	49,887,711	-	953,666	72,415,837

1 January 2011

Grades:					
1. Current	383,654	26,234,038	-	6,167,452	32,785,144
IA. Watchlist	-	2,919,211	-	-	2,919,211
Total	383,654	29,153,248	-	6,167,452	35,704,355

Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

31 December 2012

In thousands of Nigerian Naira

	Loans and advances to customers				Total
	Overdrafts	Term loans	Mortgages	Advances under finance lease	
<i>In thousands of Nigerian Naira</i>					
Past due up to 30 days	2,408,134	539,214	-	15,103	2,962,451
Past due 30-60 days	25,000	145,302	-	2,342	172,644
Past due 60-90 days	2,637,883	2,590,014	-	63,125	5,291,022
Total	5,071,017	3,274,530	-	80,570	8,426,117
Fair value of collateral	31,887,000	30,442,000	-	326,000	62,655,000
Amount of under/ (over) - collateralisation	(26,815,983)	(27,167,470)	-	(245,430)	(54,228,883)

Notes to the Financial Statements

31 December 2011

	Loans and advances to customers				Total
	Overdrafts	Term loans	Mortgages	Advances under finance lease	
<i>In thousands of Nigerian Naira</i>					
Past due up to 30 days	66,213	560,132	-	8,281	634,626
Past due 30-60 days	80,402	-	-	-	80,402
Past due 60-90 days	-	-	-	-	-
Total	146,615	560,132	-	8,281	715,028
Fair value of collateral	27,878,000	18,315,000	-	696,000	46,889,000
Amount of under/ (over) - collateralisation	(27,731,385)	(17,754,868)	-	(687,719)	(46,173,972)

1 January 2011

	Loans and advances to customers				Total
	Overdrafts	Term loans	Mortgages	Advances under finance lease	
<i>In thousands of Nigerian Naira</i>					
Past due up to 30 days	911,975	1,477,383	-	7,285	2,396,643
Past due 30-60 days	393,969	492,461	-	-	886,430
Past due 60-90 days	-	-	-	-	-
Total	1,305,944	1,969,844	-	7,285	3,283,073
Fair value of collateral	6,756,000	8,932,000	-	735,000	16,423,000
Amount of under-collateralisation	(5,450,056)	(6,962,156)	-	(727,715)	(13,139,927)

Notes to the Financial Statements**Individually impaired loans****Loans and advances to customers**

The individually impaired loans and advances to customers before taking into consideration the cashflow from collateral held is N6.1billion {2011 :N4.1billion}. The breakdown of the gross amount of individually impaired loans and advances by class are as follows:

In thousands of Nigerian Naira

Loans and advances to customers				
	Overdraft	Term Loan	Advances under finance lease	Totals
31 December 2012				
Individually impaired loan	1,833,075	2,673,555	-	4,506,630
Impairment Allowance	1,704,430	2,249,012	-	3,953,442
Fair value of collateral	5,553,976	7,328,524	-	12,882,500
31 December 2011				
Individually impaired loan	2,124,118	2,692,735	-	4,816,853
Impairment Allowance	1,308,606	1,726,717	-	3,035,323
Fair value of collateral	2,465,050	3,252,657	-	5,717,707
1 January 2011				
Individually impaired loan	17,130,384	21,713,446	-	38,843,830
Impairment Allowance	13,185,749	17,398,720	-	30,584,469
Fair value of collateral	15,618,215	20,608,381	-	36,226,596

Restructuring policy

Loans with renegotiated terms are loans that have been restructured because the bank has made concession by agreeing to terms and conditions that are more favourable for the customer than the bank has provided initially. The bank implements restructuring policy in order to maximize collection opportunities and minimize the risk of default.

The bank's credit committee grant's approval for restructuring of certain facilities due to the following reasons:

- i} Where the execution of the loan purpose and the repayment is no longer realistic in light of new cashflows.
- ii} To avoid unintended default arising from adverse business conditions
- iii} To align loan repayment with new pattern of achievable cashflows.
- iv} Where there are proven cost over runs that may significantly impair the project repayment capacity.
- v} Where there is temporary down turn in the customers' business environment.
- vi} Where the customer's going concern status is Not in doubt or threatened.

Loans and advances to customers at amortised cost

31 December 2012

<i>In thousands of Nigerian Naira</i>	Gross Amount	Specific impairment	collective impairment	Total impairment	Carrying amount
Loans to individuals	16,884,646	(702,344)	(487,772)	(1,190,116)	15,694,530
Loans to corporate entities and other organizations	66,862,254	(7,109,330)	(1,701,726)	(8,811,056)	58,051,198
	83,746,900	(7,811,674)	(2,189,498)	(10,001,172)	73,745,728

Notes to the Financial Statements

31 December 2011

<i>In thousands of Nigerian Naira</i>	Gross Amount	Specific impairment	collective impairment	Total impairment	Carrying amount
Loans to individuals	17,843,798	(2,168,485)	(329,706)	(2,498,191)	15,345,607
Loans to corporate entities and other organisations	60,103,921	(6,528,066)	(1,684,857)	(8,212,923)	51,890,998
	77,947,719	(8,696,551)	(2,014,563)	(10,711,114)	67,236,605

1 January 2011

	Gross Amount	Specific impairment	collective impairment	Total impairment	Carrying amount
Loans to individuals	24,802,584	(1,689,225)	(58,412)	(1,747,637)	23,054,947
Loans to corporate entities and other organisations	53,028,674	(28,895,244)	(2,188,521)	(31,083,765)	21,944,909
	77,831,258	(30,584,469)	(2,246,933)	(32,831,402)	44,999,856

(c) Impairment allowance on loans and advances to customers

<i>In thousands of Nigerian Naira</i>	31 December 2012	31 December 2011
<i>Specific impairment</i>		
Balance, beginning of year	8,696,551	30,584,469
Acquired from business merger	-	734,802
Charge for the year	4,511,097	5,841,154
Allowance no longer required	-	(4,087,124)
Write-offs	(5,395,973)	(24,376,750)
Balance, end of year	7,811,675	8,696,551
<i>collective impairment</i>		
Balance, beginning of the year	2,014,563	2,246,933
Charge for the year	174,934	(232,370)
Balance, end of year	2,189,497	2,014,563

***All loans written off during the year were fully provided for.

Notes to the Financial Statements

22. Assets held for sale

<i>In thousands of Nigerian Naira</i>	31 December 2012	31 December 2011	1 January 2011
Wema Registrars Limited (See note (a) below)	-	-	50,000
Wema Asset Management Limited (See note (b) below)	-	-	300,000
Wema Insurance Brokers Limited (See note (c) below)	-	-	5,000
	-	-	355,000

This represents the cost of the Bank's 100% equity holding in Wema Registrars Ltd. The company was incorporated in February, 2002 and commenced operations in February 2003. Pursuant to CBN's directive on divestment from non-banking subsidiaries, the Bank divested from the entity during the year (see note 12 (a))

This represents the cost of the Bank's 100% equity holding in Wema Asset Management Ltd. The company was incorporated in February, 2000 and commenced operations in 2002. Pursuant to CBN's directive on divestment from non-banking subsidiaries, Wema Asset Management Limited was dissolved as a legal entity and its operations integrated into Wema Bank during the year. (see note 12b)

This represents the cost of the Bank's 100% equity holding in Wema Insurance brokers Ltd. The company was incorporated in May, 2002 and commenced operations in April 2004. Pursuant to CBN's directive on divestment from non-banking subsidiaries, the Bank divested from the entity during the year (see note 12 (a))

23 Investment in associate

The Bank's holds 33.07% equity investment in Associated Discount House Limited (ADH), a company incorporated in Nigeria. Associated Discount House Limited is not a publicly listed entity and as such does not have published price quotation.

<i>In thousands of Nigerian Naira</i>	31 December 2012	31 December 2011
Balance, beginning of year	1,554,860	1,453,465
Share of profit	367,896	266,651
Share of other comprehensive income	126,009	(165,256)
Balance, end of year	2,048,765	1,554,860

A summary of the financial information in respect of Associated Discount is set out as is shown below:

<i>In thousands of Nigerian naira</i>	31 December 2012	31 December 2011	1 January 2011
Total Assets	97,821,325	80,029,460	28,602,109
Total Liabilities	(91,626,088)	(75,327,736)	(24,206,993)
Net Assets	6,195,237	4,701,724	4,395,116
Wema Bank's share of ADH at the end of the year	2,048,765	1,554,860	1,453,465

Notes to the Financial Statements

	31 December 2012	31 December 2011
Total Revenue	18,086,661	7,023,029
Total Profit for the year	1,112,465	808,034
Wema Bank's share of profit of ADH	367,893	266,651
Wema Bank's share of other comprehensive income	126,009	(165,256)

There are no restrictions on the ability of the associate to transfer funds to the Bank in the form of cash dividends or repayment of loans and advances.

24. Investment in subsidiaries

In thousands of Nigerian Naira

			31 December 2012	31 December 2011	1 January 2011
	Holding	Nature of business			
Wema Homes Savings and Loans Limited (See note (a) below)	100%	Mortgage Services	-	-	1,629,193
Wema Securities and Finance Plc (See note (b) below)	80.06%	Finance house services	-	-	910,286
			-	-	2,539,479
Provision for diminution in value					(910,286)
					1,629,193

- (a) This represents the cost of the Bank's 100% equity holding in Wema Homes Ltd. The company was incorporated in February, 2004 and commenced operations in April 2005. Pursuant to CBN's directive on divestment from non-banking subsidiaries; Wema Homes Savings and Loans Limited was dissolved as a legal entity and its operations integrated into Wema Bank during the year. (See note 12b).
- (b) This represents the cost of the Bank's 80.06% equity holding in Wema Securities and Finance Plc. The company was incorporated in April 1988 and commenced operations in April 1992. The investment had been fully impaired in the Bank's books and the company was under liquidation as at 31 December 2011.

Notes to the Financial Statements

25 Investment securities	31 December 2012	31 December 2011	1 January 2011
<i>In thousands of Nigerian Naira</i>			
Investment securities	77,939,680	60,735,387	47,838,950
Current	38,045,225	5,986,317	6,065,130
Non-current	39,894,455	54,749,071	41,773,820
	<u>77,939,680</u>	<u>60,735,387</u>	<u>47,838,950</u>
(a) Available-for-sale investment securities comprise:			
Bonds (see (ii) below)	7,047,375	23,154,432	15,187,815
Treasury bills	-	5,965,513	1,859,156
Equity (See note (v) below)	2,437,667	2,327,710	2,820,753
Less: specific allowance for impairment (see i below)	<u>(1,891,540)</u>	<u>(1,578,580)</u>	<u>(2,390,551)</u>
	<u>7,593,502</u>	<u>29,869,075</u>	<u>17,477,173</u>
(b) Held to maturity investment securities comprise:			
Treasury bills	38,045,225	20,804	4,205,974
FGN Bonds (See (iii) below)	21,890,717	22,219,063	23,409,491
Other bonds (See (iv) below)	10,410,236	8,626,446	2,014,758
	<u>70,346,178</u>	<u>30,866,313</u>	<u>29,630,223</u>
	<u>77,939,680</u>	<u>60,735,387</u>	<u>47,838,950</u>
(i) Specific allowance for impairment			
Balance, beginning of year	1,578,580	2,390,551	
Charge for the year	400,598	282,093	
Acquired from merger of business	-	1,317,424	
Write-offs	-	(2,233,774)	
Allowance no longer required	<u>(87,638)</u>	<u>(177,714)</u>	
Balance, end of year	<u>1,891,540</u>	<u>1,578,580</u>	
(ii) This represents AMCON Bonds issued by the Asset Management Corporation of Nigeria (AMCON) and fully guaranteed by the Federal Government of Nigeria. AMCON Bonds have a three year zero coupon. The Bonds were issued in exchange for non-performing eligible loans taken over from the Bank.			
(iii) The outstanding balance represents 61 tranches of Federal Government Bonds which the bank intends to hold to maturity. The portfolio's pricing is an average of 9.8%. Its average tenor is 16 years and 1 month with the earliest bond maturing in January 2013 while the bond with the longest tenor will mature in January 2030.			
(iv) The balance represents outstanding corporate and State bonds. The portfolio's pricing is an average of 13.9%. The average tenor to maturity from the 2012 year end was 5 years 10 months with the earliest bond maturing in October 2014 while the bond with the longest tenor will mature in February 2019.			

Notes to the Financial Statements

(v) Equity Securities

<i>In thousands of Nigerian Naira</i>	31 December 2012	31 December 2011	1 January 2011
Listed equity securities	1,619,264	1,509,306	1,166,475
Unquoted equity securities carried at cost include:			
Central Securities System Nigeria Limited	87,800	87,800	87,800
ATM Consortium Limited	73,389	73,389	73,389
Knight Rook (Grant Properties)	-	-	906,695
Nigeria Inter-bank Settlement System	47,482	47,482	47,482
E-Government	37,500	37,500	37,500
Valucard Nigeria Plc	14,821	14,821	14,821
Nigeria Industrial Development Bank	128	128	128
Others	237,425	236,926	-
Equities in small and medium scale enterprises comprise:			
Kotco Power Industries Limited	139,965	139,965	139,965
Eagle Packaging Printing	100,000	100,000	100,000
Oil Palm Industry Limited	37,393	37,893	37,893
United Information Technology	-	-	56,000
Ecco Solution Limited	-	-	28,619
Tokson Industry Limited	40,000	40,000	40,000
Tiffany Stoneworks	-	-	30,000
Meroxe Paints Industry Limited	-	-	28,066
Double Crown Limited	-	-	13,000
Interswitch Limited	-	-	10,420
Associated Equity Funds	2,500	2,500	2,500
	2,437,667	2,327,710	2,820,753
Impairment figure comprise of the following:			
Equity	1,430,337	1,448,091	856,614
Unquoted equity	240,845	240,845	1,147,540
Unquoted equity (SMEs)	220,358	220,358	386,379
	1,891,540	1,578,580	2,390,551

26 (i) Investment properties

<i>In thousands of Nigerian Naira</i>	31 December 2012	31 December 2011	1 January 2011
Carrying amount at the beginning of year	728,741	-	-
Cost	730,769	-	-
Accumulated Depreciation	(2,028)	-	-
Additions	-	730,769	-
Disposals	(50,576)	-	-
Depreciation charge for the year	(13,258)	(2,028)	-
Carrying amount at the end of the year	664,907	728,741	-
Cost	680,193	730,769	-
Accumulated depreciation	(15,285)	(2,028)	-

- (ii) Investment properties represent land and buildings that are not substantially occupied by the bank held for investment purposes. Investment properties are carried at cost less accumulated depreciation and impairment losses in accordance with the cost model. Investment property is depreciated over a useful life of 50 years with a nil residual value. Had investment properties been carried at fair value, the fair value as at 31 December 2012 would have been N1,541,516,000 (2011: N1,605,350,000).

27 Property and equipment

	Land	Buildings	Furniture & Equipment	Motor vehicles	Computer Equipment	Work in Progress	Total
<i>In thousands of Nigerian Naira (000s)</i>							
Cost							
Balance at 1 January 2011	722,274	13,389,388	4,306,042	1,612,169	2,765,594	164,603	22,960,070
Additions	18,036	249,985	265,945	465,816	1,358,337	762,511	3,120,630
Disposals	(192,000)	(32,479)	(55,820)	(176,158)	(8,252)		(464,709)
Reclassifications	-	-	-	-	-	-	-
Balance at 31 December 2011	548,310	13,606,894	4,516,167	1,901,827	4,115,679	927,114	25,615,991
Balance at 1 January 2012	548,310	13,606,894	4,516,167	1,901,827	4,115,679	927,114	25,615,991
Additions	-	116,668	196,999	202,270	210,960	237,567	964,464
Disposals	-	(611,773)	(550,799)	(238,016)	(48,731)	-	(1,449,319)
Reclassifications	-	648,221	593,260	3,061	(433,117)	(954,702)	(143,277)
Balance at 31 December 2012	548,310	13,760,010	4,755,627	1,869,142	3,844,791	209,979	24,987,859
Accumulated depreciation and impairment							
Balance at 1 January 2011	-	2,841,912	3,126,644	1,387,671	2,558,515	-	9,914,742
Charge for the year	-	552,063	924,710	324,211	683,046	-	2,484,030
Disposals	-	(25,287)	(50,889)	(176,210)	(7,500)	-	(259,886)
Reclassifications	-	-	-	-	-	-	-
Balance at 31 December 2011	-	3,368,688	4,000,465	1,535,672	3,234,061	-	12,138,886
Balance at 1 January 2012	-	3,368,688	4,000,465	1,535,672	3,234,061	-	12,138,886
Charge for the year	-	557,887	475,672	176,636	195,087	-	1,405,282
Disposals	-	(112,855)	(489,368)	(214,503)	(72,569)	-	(889,295)
Reclassifications	-	163,431	317,603	(1,149)	(580,225)	-	(100,340)
Balance at 31 December 2012	-	3,977,151	4,304,372	1,496,656	2,776,354	-	12,554,533
Carrying amounts							
Balance at 1 January 2011	722,274	10,547,476	1,179,398	224,498	207,079	164,603	13,045,328
Balance at 31 December 2011	548,310	10,238,206	515,702	366,155	881,618	927,114	13,477,105
Balance at 31 December 2012	548,310	9,782,859	451,255	372,486	1,068,437	209,979	12,433,326

(a) The authorised and contracted capital commitments as at the balance sheet date was nil (31 December 2011: nil)

(b) There were no capitalised borrowing costs related to the acquisition of plant and equipment during the year (31 December 2011: nil)

Notes to the Financial Statements

28 Intangible assets

	31 December 2012	31 December 2011	1 January 2011
<i>In thousands of Nigerian Naira</i>			
Cost			
Balance beginning of the year	2,022,814	881,814	881,814
Additions	79,136	1,141,000	-
Reclassifications	143,277	-	-
Balance end of the year	<u>2,245,227</u>	<u>2,022,814</u>	<u>881,814</u>
Amortization and impairment losses			
Balance beginning of the year	917,724	804,808	708,592
Amortisation for the period	301,734	95,806	96,216
Acquired from business merger	-	17,110	-
Reclassifications	100,340	-	-
Balance end of the year	<u>1,319,798</u>	<u>917,724</u>	<u>804,808</u>
Carrying amounts	<u>925,429</u>	<u>1,105,090</u>	<u>77,006</u>

- (a) The intangible assets have got finite lives and are amortised over the shorter of 4 years or the contractual licensing period. No impairment losses were recognised against intangible assets.
- (b) The authorised and contracted capital commitments as at the balance sheet date was nil (31 December 2011: nil)
- (c) There were no capitalised borrowing costs related to the acquisition of intangible assets during the year (31 December 2011: nil)

29 Deferred tax assets and liabilities

- (a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2012	31 December 2011	1 January 2011
<i>In thousands of Nigerian Naira</i>			
Tax Losses at the beginning of year	23,384,264	23,384,264	23,384,264
Available-for-sale securities	(21,088)	(53,315)	(12,000)
Allowances for loan losses	39,790	39,790	373,038
Others	<u>(33,264)</u>	<u>(33,264)</u>	<u>-</u>
	<u>23,369,702</u>	<u>23,337,475</u>	<u>23,745,302</u>

Notes to the Financial Statements

(b) Movements in temporary differences during the year

	Balance at 1 January 2012	Recognised in profit or loss	Recognised in equity	Closing balance
31 December 2012				
<i>In thousands of Nigerian Naira</i>				
Unused tax losses (i)	23,384,264	-	-	23,384,264
Available-for-sale securities	(53,315)	-	32,227	(21,088)
Allowances for loan losses	39,790	-	-	39,790
Others	(33,264)	-	-	(33,264)
	<u>23,337,475</u>	<u>-</u>	<u>32,227</u>	<u>23,369,702</u>

Movements in temporary differences during the year

	Balance at 1 January 2011	Recognised in profit or loss	Recognised in equity	Closing balance
31 December 2011				
<i>In thousands of Nigerian Naira</i>				
Unused tax losses (i)	23,384,264			23,384,264
Available-for-sale securities	(12,000)		(41,315)	(53,315)
Allowances for loan losses	373,038	(333,248)		39,790
Acquired from business combination				(33,264)
	<u>23,745,302</u>	<u>(333,248)</u>	<u>(41,315)</u>	<u>23,337,475</u>

- (i) The Bank had total unused tax losses of N44.46million as of 31 December 2012 (31 December 2011: N42.8 million ; 1 January 2011: N32.9 million). Deferred tax on the full amount was not recognised in the financial statements. The amount recognised was limited to management's best estimate of the amount that is expected to be recovered through future profitability. The Bank expects that there will be sufficient taxable profits in future to fully utilise the recognised tax asset in line with IAS 12. The Bank is currently undergoing a recapitalisation process which will improve future profitability

Notes to the Financial Statements

30 Other assets

	31 December 2012	31 December 2011	1 January 2011
<i>In thousands of Nigerian Naira</i>			
Accounts receivable and prepayments	5,481,113	999,573	623,780
Restricted deposits with central bank (see (i) below)	20,510,642	10,818,310	1,231,327
Divestment proceeds receivable (see (ii) below)	662,809	2,980,900	-
Others	242,869	6,432,693	5,902,157
Specific impairment on other assets (see (iv) below)	(3,433,038)	(4,258,301)	(4,866,180)
	23,464,395	16,973,175	2,891,084
Current	1,583,475	5,904,971	1,669,068
Non-Current	21,880,920	11,068,204	1,222,016
	23,464,395	16,973,175	2,891,084

(i) This represents cash reserve requirement held with the Central Bank of Nigeria which represents mandatory cash deposit which should be held with the Central Bank of Nigeria as a regulatory requirement. Restricted deposits with Central Banks are not available for use in the Bank's day-to-day operations.

(ii) This represents receivable from the disposal of four (4) of the Bank's former subsidiaries to successful bidders. The Sales and Purchase Agreements (SPAs) have been duly signed by the parties as at year end. The total agreed consideration was N3.38billion and the various buyers have deposited the initial agreed amount per the SPAs to the Bank through the financial advisers- Greenwich Trust Limited as at year end.

(iv) The movement on impairment loss on other assets comprise:

	31 December 2012	31 December 2011	1 January 2011
<i>In thousands of Nigerian Naira</i>			
Balance, beginning of year,	4,258,301	4,866,180	4,021,367
Allowance made during the year	266,728	489,893	1,227,914
Allowance written off	(1,091,991)	(1,097,772)	(383,101)
Balance, end of year	3,433,038	4,258,301	4,866,180

31 Deposits from banks

<i>In thousands of Nigerian Naira</i>			
Money market deposits	-	1,274,897	1,161,002
Other deposits from banks	-	-	255,930
Items in the course of collection	730,856	1,383,271	2,591,487
	730,856	2,658,168	4,008,419

Notes to the Financial Statements

32 Deposits from customers

	31 December 2012	31 December 2011	1 January 2011
<i>In thousands of Nigerian Naira</i>			
Retail customers:			
Term deposits	26,049,272	26,560,054	1,099,117
Current deposits	38,588,603	29,248,883	53,125,669
Savings	27,977,223	20,663,374	23,999,091
Corporate customers:			
Term deposits	42,314,358	18,679,236	376,335
Current deposits	39,325,145	45,868,865	41,749,854
Others	47,823	6,366,996	897,207
	<u>174,302,424</u>	<u>147,387,408</u>	<u>121,247,273</u>

At 31 December 2012 N40,999,210m (31 December 2011: N396,303m, 1 Jan 2011: N27,100m) of deposits from customers are expected to be settled more than 12 months after the reporting date.

33 Taxation payable

	31 December 2012	31 December 2011	1 January 2011
<i>In thousands of Nigerian Naira</i>			
Balance, beginning of the year	164,978	386,453	224,080
Charge for the year	98,418	125,657	350,486
Payment during the year	(134,431)	(347,132)	(188,113)
	<u>128,965</u>	<u>164,978</u>	<u>386,453</u>

34 Other liabilities

Contributions to defined contribution plans	-	185,772	160,841
Creditors and accruals	1,938,356	1,121,996	2,673,822
Other current liabilities	1,436,324	792,855	209,762
Accounts payable	506,701	940,389	200,740
AMCON Levy	1,283,937	629,693	-
Certified cheques	1,469,292	1,927,046	1,249,214
Foreign currency transfers payable	470,346	419,956	1,502,546
Finance lease liability (see note (i) below)	-	-	430,979
Interest bearing liability (see note (ii) below)	412,008	575,133	-
	<u>7,516,964</u>	<u>6,592,840</u>	<u>6,427,904</u>

Notes to the Financial Statements

- (i) Amount represents liability under finance lease arrangements entered into by the Bank for the purchase of motor vehicles and power generating sets. The liability has been measured at amortised cost.

The lease period for the motor vehicles and generating sets are 48 and 36 months respectively at an interest rate of 15% and 18% respectively. The Bank has the option of purchasing the assets at the expiration of the lease term. The present value of the future minimum lease payment is as follows:

<i>In thousands of Nigerian Naira</i>	At balance sheet date	0-12 months	12 - 60 months
Future minimum lease payments	429,003	131,690	297,342
Present value	336,240	121,373	250,031

- (ii) Amount represents liability to a creditor which has been measured at amortised cost. The liability is at a contractual interest rate of 15% for a period of 48 months and is to mature in 2015. Repayment of principal and interest is due on a monthly basis. There are no material restrictions imposed by leasing arrangements such as those concerning dividends, additional debts and further leasing.

	31 December 2012	31 December 2011	1 January 2011
35 Other borrowed funds			
<i>In thousands of Nigerian Naira</i>			
Due to CBN (see (i) below)	50,061,711	50,435,719	50,069,457
National Housing Fund	147,190	257,423	-
Due to BOI (see (ii) below)	6,057,718	7,392,375	6,696,015
CBN Agric loan (see iii below)	740,000	-	-
	<u>57,006,619</u>	<u>58,085,517</u>	<u>56,765,472</u>

- (i) This represents a subordinated convertible loan, plus accrued interest, granted to the Bank by the Central Bank of Nigeria (CBN) in October 2009 for a period of 7 years. The principal amount is repayable as a bullet payment at maturity while interest is payable monthly at MPR (monetary policy rate) minus 3% per annum 2010:(5%). The loan is convertible to either preference shares or ordinary shares of the Bank at the option of the CBN and becomes exercisable from 61 months after the draw-down date.

In its letter dated 21 December 2010, the Central Bank of Nigeria (CBN) approved the Bank's request for a waiver of its indebtedness to the CBN in the sum of N36,938,289,192. The waiver represents a 100% forbearance on the Bank's overdrawn position with the CBN as at October 2010 which was included as part of the financial accommodation loan. This forbearance forms part of the package of incentives provided by the CBN to support the Bank towards a prompt turnaround of its adverse financial position.

The directors are of the opinion that the purpose of the forbearance is to shore up the Bank's capital and accordingly, the Bank has recognised the amount in retained earnings.

Notes to the Financial Statements

- (ii) The amount represents an intervention credit granted to the Bank by the Bank of Industry (BOI), a company incorporated in Nigeria for the purpose of refinancing or restructuring existing loans to Small and Medium Scale Enterprises (SMEs) and manufacturing companies. The total facility is secured by Nigerian Government Securities worth N 7,537,110,000 and has a maximum tenor of 15 years.

A management fee of 1% deductible at source is paid by the Bank under the on-lending agreement and the Bank is under obligation to on-lend to customers at an all-in interest rate of 7% per annum. Though the facility is meant for on-lending to borrowers in specified sectors, the Bank remains the primary obligor to the BOI and therefore assumes the risk of default of customers.

- (iii) This represents CBN intervention funds to some of the Bank's customers in the agricultural sector. The fund is administered at a maximum interest rate of 9% per annum. The maximum tenor of the facility is 7 years.

36 Deposit for shares

	31 December 2012	31 December 2011	1 January 2011
<i>In thousands of Nigerian Naira</i>			
Deposit for shares	<u>4,740,454</u>	<u>-</u>	<u>-</u>

The bank is currently in the process of raising a private placement for certain core investors (prospective shareholders). This warehouses payments by prospective shareholders for the Bank's shares which had not been issued as at the reporting date. The deposit will be transferred to share capital upon allotment of the shares and obtaining necessary regulatory approvals for the issue.

37 Share capital

- (a) The share capital comprises:

	31 December 2012	31 December 2011	1 January 2011
<i>In thousands of Nigerian Naira</i>			
(i) Authorised - 20,000,000,000 Ordinary shares of 50k each	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>
<i>In thousands of Nigerian Naira</i>			
(ii) Issued and fully paid - 12,821,249,880 ordinary shares of 50k each	<u>6,410,624</u>	<u>6,410,624</u>	<u>6,410,624</u>

Included in the issued share capital are 928,063,867 (31 December 2011: 928,063,867) units representing treasury shares held by the Bank

(b) Share premium

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

(c) 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 Nigeria, 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.

(d) 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.

Notes to the Financial Statements

(e) SMEIES Reserve

"The SMEIES 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.

The Bank has suspended further appropriation to SMEIES (now known as Microcredit Fund) reserve account in line with the decision reached at the Banker's Committee meeting and approved by CBN. In prior year, 10% of profit after taxation was transferred to SMEIES reserves in accordance with Small and Medium Enterprise Equity Investment Scheme as revised in April 2005."

(f) Retained earnings

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

(g) Regulatory risk reserve

The regulatory risk reserve warehouses the excess of the impairment on loans and advances computed under the Nigerian GAAP based on the Central Bank of Nigeria prudential guidelines compared with the incurred loss model used in calculating the impairment under IFRSs.

(h) Treasury shares

This represents previously warehoused 913,907,131 units of the Bank's shares - N4.5b and 15,297,346 units formerly held by an absorbed subsidiary (Wema assets) - N7.6m.

(i) Capital Reserve

The capital reserve is an account specifically dedicated to the setting aside of capital for long-term or large scale projects. Capital reserve accounts are maintained separately on a company's balance sheet, so that capital can be accumulated for future projects without being expended on other priorities or expenses. The Bank created this reserve in 1993 with N100 million towards the building of its head office towers and was made up to N300 million in 1995; the balance in the account has remained the same even though the project was completed through a syndicated loan arrangement. It would be reclassified back to retained earnings in the next financial year.

38 Contingencies

(i) Litigation and claims

There are litigation claims against the Bank as at 31 December 2012 amounting to N1,719,817,643 (31 December 2011: N6,752,450,947). These litigations arose in the normal course of business and are being contested by the Bank. The Directors, having sought advice of professional counsel, are of the opinion that no significant additional liability will crystallise from these claims; other than as recognised in these financial statements.

(ii) Contingent liabilities and commitments

In common with other banks, the bank 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 Bank expects most acceptances to be presented, but reimbursement by the customer is normally immediate. Endorsements are residual liabilities of the bank 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 bank 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.

Notes to the Financial Statements

Other contingent liabilities include performance bonds and are, generally, short-term commitments to third parties which are not directly dependent on the customers' credit worthiness.

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 but are cancellable by the lender subject to notice requirements.

Documentary credits commit the bank 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-balance sheet risk

<i>In thousands of Nigerian naira</i>	31 December 2012	31 December 2011	1 January 2011
Contingent liabilities:			
Guarantees and indemnities	3,357,025	2,943,676	7,029,619
Bonds	785,579	434,431	1,397,212
Clean-line facilities & irrevocable letters of credit	<u>3,543,436</u>	<u>6,539,812</u>	<u>10,171,196</u>
	<u>7,686,040</u>	<u>9,917,919</u>	<u>18,598,027</u>

- (iii) The Bank obtained a forbearance of N36b in respect of part of its loan from the CBN in 2010 and recorded it in equity gross of the associated income tax of about N10.8b because the directors believed that it did not qualify for income tax payment. The Bank needs to obtain necessary tax exemption notice or clearance on the transaction from the relevant tax authority or regulators to fully resolve the issue of associated tax liability of N10.8b. The issue is being followed up with the regulators and no provision is made in these financial statements by the directors.

(iv) Operating leases	31 December 2012	31 December 2011
<i>In thousands of Nigerian Naira</i>		
Less than one year	207,645	178,928
Between one and five years	362,284	308,252
More than five years	-	-
	<u>569,929</u>	<u>487,180</u>

The Bank is in a contractual relationship whereby it leases motor vehicle and generators from Great Nigeria Insurance and Independent securities Limited.

39 Related party transactions**Transactions with key management personnel**

The Bank's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. The definition of key management includes 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 Bank. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealings with Wema Bank Plc.

Notes to the Financial Statements

Key management personnel and their immediate relatives transacted with the Bank during the period as follows:

Loans and advances:

	31 December 2012	31 December 2011	1 January 2011
<i>In thousands of Nigerian naira</i>			
<i>Loans and advances:</i>			
Balance at the beginning of the year	2,804,270	2,674,410	9,724,478
Granted during the period	23,042	2,544,209	2,062,927
Repayments during the period	<u>(154,060)</u>	<u>(2,414,349)</u>	<u>(9,112,996)</u>
Balance at the end of the period	<u>2,673,251</u>	<u>2,804,270</u>	<u>2,674,410</u>
Interest earned	146,425	80,377	17,931
<i>Deposit Liabilities</i>			
Deposits	<u>69,248</u>	<u>29,218</u>	<u>-</u>

Interest rates charged on balances outstanding are rates that would be charged in an arm's length transaction. The secured loans granted are secured over real estate, equities and other assets of the respective borrowers. Impairment losses of N56,753 (2011:N754,230) have been recorded against balances outstanding during the period with key management personnel and their immediate relatives at the year end.

Personnel (Staff and executive Directors') Costs	31 December 2012	31 December 2011
<i>In thousands of Nigerian naira</i>		
Employee costs, including executive directors, during the year is shown below:		
Wages and salaries	5,585,339	5,903,742
Pension cost : -		
Defined contribution plans	<u>609,494</u>	<u>652,662</u>
	6,194,833	6,556,404
Other staff costs	<u>1,636,440</u>	<u>806,978</u>
	<u>7,831,273</u>	<u>7,363,382</u>
	Number	Number
by the Group during the year was as follows:		
Executive Directors	4	3
Management	20	61
Non-management	<u>1,317</u>	<u>1,661</u>
	<u>1,341</u>	<u>1,725</u>

Notes to the Financial Statements

Employees other than Directors, earning more than ₦200,000 per annum, whose duties were wholly or mainly discharged in Nigeria, received emoluments (excluding pension contributions and certain benefits) in the following ranges:

	Number	Number
N 500,000 - N1,000,000	1,008	1,311
N1,490,001 - N 2,500,000	136	214
N2,510,001 - N 3,020,000	9	9
N3,240,001 - N 3,750,000	140	144
N3,990,001 - N 4,500,000	20	20
N4,710,001 - N 5,220,000	-	-
N5,390,001 - N 5,900,000	9	9
N5,990,001 - N6,600,000	7	7
N6,900,001 - N7,710,000	<u>8</u>	<u>8</u>

Directors' remuneration:

Directors' remuneration (excluding pension contributions and certain benefits) was provided as follows:

<i>In thousands of Nigerian naira</i>	N'000	N'000
Fees as directors	15,919	15,390
Other emoluments	<u>94,466</u>	<u>91,325</u>
	<u>110,385</u>	<u>106,715</u>

The Directors' remuneration shown above includes:

Chairman	<u>6,266</u>	<u>6,266</u>
Highest paid director	<u>8,538</u>	<u>8,538</u>

The emoluments of all other directors fell within the following ranges:	Number	Number
₦2,370,001 - ₦2,380,000	-	-
₦2,720,001 - ₦2,730,000	5	4
₦3,060,001 - ₦3,070,000	-	-
₦7,360,001 - ₦7,370,000	<u>4</u>	<u>4</u>

Staff loans

Staff received loans at below the market interest rate. These loans are measured at fair value at initial recognition. The difference between the PV of cash flows discounted at the contractual rate and Present Value of cash flows discounted at market rate has been recognised as prepaid employee benefit which is amortised to personnel expense (other staff cost) over the life of the loan.

Key management personnel (Executive) compensation for the year comprised:

In thousands of Nigerian naira

	31 December 2012	31 December 2011
Short term employee benefits-Directors	15,919	15,390
Post-employment benefits-Directors	94,466	91,325
	110,385	106,715

Transactions with other related parties

In thousands of Nigerian naira

	31 December 2012			
	Loans	Deposits	Interest Received	Interest Paid
Dana Group of Companies PLC - Common directorship	2,012		13	
Odua Investment COY LTD - Principal Shareholder	275		2	
L A PRO Shares Limited - Principal Shareholder	419		3	
Premier Hotel - Principal Shareholder	8		0	

<i>In thousands of Nigerian naira</i>	31 December 2011			
	Loans	Deposits	Interest Received	Interest Paid
Dana Group of Companies PLC - Common directorship	-	-	-	-
Odua Investment COY LTD - Principal Shareholder	225,064	-	1,432	-
L A PRO Shares Limited - Principal Shareholder	-	-	-	-
Premier Hotel - Principal Shareholder	1,177	-	103	-
Associated Discount House - Associate	-	-	-	-

	1 January 2011			
	Loans	Deposits	Interest Received	Interest Paid
Dana Group of Companies PLC - Common directorship	-	-	-	-
Odua Investment COY LTD - Principal Shareholder	-	-	-	-
L A PRO Shares Limited - Principal Shareholder	-	-	-	-
Premier Hotel - Principal Shareholder	-	-	-	-

Notes to the Financial Statements

39 Related party transactions (continued)						DATE		OUTSTANDING		SECURITY		
ACCOUNT NUMBER	ACCOUNT NAME	DIRECTOR'S NAME	PRODUCT		RELATIONSHIP	GRANTED	DATE	31-Dec-12	INT.	SECURITY NATURE	VALUE	REMARKS
			TYPE			/RENEWED	EXPIRY	(N'000)	RATE %		N'000	
1	0302227848	ADEFIOYE ADEBODE	LOAN		SERVING DIRECTOR	27-Nov-12	30-Jun-15	46,672	25	BILL OF SALE	100,500	PERFORMING
2	302085060	DANA GROUP OF COMPANIES PLC	LOAN		CROSS DIRECTORSHIP	1-Nov-11	30-Jul-25	1,012,371	7	MORGAGE ALL ASSET DEBENTURE	1,500,000	PERFORMING
3	0121289890	DANA GROUP OF COMPANIES PLC	OVERDRAFT		CROSS DIRECTORSHIP	15-DEC-11	13-JAN-13	428,222	18.5	MORGAGE ALL ASSET DEBENTURE	1,500,000	PERFORMING
4	0302216394	DANA GROUP OF COMPANIES PLC	LOAN		CROSS DIRECTORSHIP	30-Jul-12	5-Oct-12	160,374	18.5	MORGAGE ALL ASSET DEBENTURE	1,500,000	PERFORMING
5	0302085228	DANA GROUP OF COMPANIES PLC	LOAN		CROSS DIRECTORSHIP	1-Nov-11	30-Oct-15	118,075	7	MORGAGE ALL ASSET DEBENTURE	1,500,000	PERFORMING
6	0121294782	DANA GROUP OF COMPANIES PLC	OVERDRAFT		CROSS DIRECTORSHIP	06-NOV-12	13-JAN-13	87,403	18.5	MORGAGE ALL ASSET DEBENTURE	1,500,000	PERFORMING
7	0121304627	DANA GROUP OF COMPANIES PLC	OVERDRAFT		CROSS DIRECTORSHIP	15-DEC-11	13-JAN-13	56,389	18.5	MORGAGE ALL ASSET DEBENTURE	1,500,000	PERFORMING
8	0302223637	DANA GROUP OF COMPANIES PLC	LOAN		CROSS DIRECTORSHIP	12-Oct-12	11-Jan-13	52,289	18.5	MORGAGE ALL ASSET DEBENTURE	1,500,000	PERFORMING
9	0302224256	DANA GROUP OF COMPANIES PLC	LOAN		CROSS DIRECTORSHIP	16-Oct-12	24-Jan-13	37,888	17.75	MORGAGE ALL ASSET DEBENTURE	1,500,000	PERFORMING
10	0121288006	DANA GROUP OF COMPANIES PLC	OVERDRAFT		CROSS DIRECTORSHIP	15-DEC-11	13-JAN-13	27,627	18.5	MORGAGE ALL ASSET DEBENTURE	1,500,000	PERFORMING
11	0302223620	DANA GROUP OF COMPANIES PLC	LOAN		CROSS DIRECTORSHIP	12-Oct-12	11-Jan-13	27,068	18.5	MORGAGE ALL ASSET DEBENTURE	1,500,000	PERFORMING
12	0121288075	DANA GROUP OF COMPANIES PLC	OVERDRAFT		CROSS DIRECTORSHIP	15-DEC-11	13-JAN-13	3,077	18.5	MORGAGE ALL ASSET DEBENTURE	1,500,000	PERFORMING
13	0302223156	DANA GROUP OF COMPANIES PLC	LOAN		CROSS DIRECTORSHIP	9-Oct-12	17-Jan-13	888	17.75	MORGAGE ALL ASSET DEBENTURE	1,500,000	PERFORMING
14	0302229529	DANA GROUP OF COMPANIES PLC	LOAN		CROSS DIRECTORSHIP	13-Dec-12	25-Dec-12	483	6.5	MORGAGE ALL ASSET DEBENTURE	1,500,000	PERFORMING
15	0302229990	DANA GROUP OF COMPANIES PLC	LOAN		CROSS DIRECTORSHIP	18-Dec-12	25-Mar-13	32	6.5	MORGAGE ALL ASSET DEBENTURE	1,500,000	PERFORMING
16	0302230729	E AND O POWER AND EQUIPMENT LEASING	LOAN		CROSS DIRECTORSHIP	27-Dec-12	26-Jan-13	15,000	22	MORGAGE ALL ASSET DEBENTURE	1,500,000	PERFORMING
17	0120384530	E AND O POWER AND EQUIPMENT LEASING	OVERDRAFT		PRINCIPAL SHAREHOLDER	24-DEC-12	23-JUN-13	8,999	26	LIEN ON SHARES	1,000,000	PERFORMING
18	0302226762	EMMANUEL AYODELE AWODEYI	LOAN		PRINCIPAL SHAREHOLDER	8-Nov-12	31-Oct-14		25	LIEN ON SHARES	1,000,000	PERFORMING
19	0120388686	FOLLY YEM ALLIED SERVICES LTD	OVERDRAFT		SERVING DIRECTOR	16-JUL-12	15-JAN-13	5,582	28	LEGAL MORTGAGE	20,000	PERFORMING
20	0302220629	L A PRO SHARES LIMITED	LOAN		COMPANY SECRETARY	12-Sep-12	28-Feb-15	3,092	18	LEGAL MORTGAGE	57,067	PERFORMING
21	0120427006	ODU A INVESTMENT COYLTD	OVERDRAFT		PRINCIPAL SHAREHOLDER	30-DEC-11	30-DEC-12	419,112	21	LEGAL MORTGAGE	687,100	PERFORMING
22	0302224634	ODU A INVESTMENT COYLTD	LOAN		PRINCIPAL SHAREHOLDER	18-Oct-12	31-Oct-14	241,738	22	LIEN ON SHARES	1,000,000	PERFORMING
23	0302042236	ODU A INVESTMENT COYLTD	LOAN		PRINCIPAL SHAREHOLDER	19-Sep-11	30-Aug-13	9,532	25	LIEN ON SHARES	1,000,000	PERFORMING
24	0302172216	ODU A INVESTMENT COYLTD	LOAN		PRINCIPAL SHAREHOLDER	21-Mar-12	30-Mar-14	7,202	25	LIEN ON SHARES	1,000,000	PERFORMING
25	0302168826	ODU A INVESTMENT COYLTD	LOAN		PRINCIPAL SHAREHOLDER	8-Mar-12	28-Feb-14	4,662	25	LIEN ON SHARES	1,000,000	PERFORMING
26	302197301	ODU A INVESTMENT COYLTD	LOAN		PRINCIPAL SHAREHOLDER	31-May-12	31-May-14	3,925	25	LIEN ON SHARES	1,000,000	PERFORMING
27	0302042346	ODU A INVESTMENT COYLTD	LOAN		PRINCIPAL SHAREHOLDER	25-Oct-11	25-Oct-13	2,466	25	LIEN ON SHARES	1,000,000	PERFORMING
28	0302219412	ODU A INVESTMENT COYLTD	LOAN		PRINCIPAL SHAREHOLDER	30-Aug-12	31-Aug-14	2,212	25	LIEN ON SHARES	1,000,000	PERFORMING
29	0302042188	ODU A INVESTMENT COYLTD	LOAN		PRINCIPAL SHAREHOLDER	15-Aug-11	30-Aug-13	1,643	25	LIEN ON SHARES	1,000,000	PERFORMING
30	0121329200	OPEYEMI OLUSOLA BADEMOSI	OVERDRAFT		PRINCIPAL SHAREHOLDER	20-DEC-12	19-MAR-13	1,266	21	LIEN ON SHARES	1,000,000	PERFORMING
31	0302227006	PREMIER HOTEL	LOAN		SERVING DIRECTOR	13-Nov-12	31-Oct-14	10,521	25	LEGAL MORTGAGE	15,000	PERFORMING
32	0120426858	PREMIER HOTEL	OVERDRAFT		PRINCIPAL SHAREHOLDER	04-JUL-12	03-JAN-13	7,933	25	LIEN ON SHARES	1,000,000	PERFORMING
					PRINCIPAL SHAREHOLDER			523	25	LIEN ON SHARES	1,000,000	PERFORMING
								2,804,270	644			

Notes to the Financial Statements

40 Subsequent events

There were no post balance sheet events which could have a material effect on the financial position of the bank as at 31 December 2012 and profit attributable to equity holders on that date which have not been adequately adjusted for or disclosed.

41 Explanation of transition to IFRSs

(a) Implementation of IFRSs

As stated in note 2 on significant accounting policies, these are the Bank's first financial statements prepared in accordance with IFRSs. The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2011 and in the preparation of an opening IFRS statement of financial position at 1 January 2011 (the Bank's date of transition). An explanation of how the transition from Nigerian GAAP to IFRSs has affected the Bank's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of Statement of Financial Position

		31 December 2011			1 January 2011		
		Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
<i>In thousands of Nigerian Naira</i>	<i>Notes</i>						
Assets							
Cash and cash equivalents	b(i)	34,672,242	(10,737,797)	23,934,445	54,570,478	(1,066,069)	53,504,409
Treasury Bills	b(ii)	10,432,899	(10,432,899)	-	8,176,207	(8,176,207)	-
Pledged assets	b(ii)	-	11,661,851	11,661,851	-	9,808,886	9,808,886
Non-pledged trading assets	b(ii)	-	412,308	412,308	-	-	-
Loans and advances to customers	b(ii)	68,413,780	(1,177,175)	67,236,605	46,253,230	(1,253,374)	44,999,856
Investments in associate	b(iii)	1,353,703	201,157	1,554,860	1,353,703	99,550	1,453,253
Investments in subsidiaries		-	-	-	1,984,193	(355,000)	1,629,193
Investment securities	b(ii)	61,919,987	(1,184,600)	60,735,387	48,644,369	(805,419)	47,838,950
Investment property		730,769	(2,028)	728,741	-	-	-
Property and equipment	b(iv)	13,484,000	(6,895)	13,477,105	12,614,282	431,046	13,045,328
Intangible assets	b(v)	449,985	655,105	1,105,090	-	77,006	77,006
Deferred tax Assets	b(vi)	23,384,264	(46,789)	23,337,475	23,384,264	361,038	23,745,302
Other assets	b(vii)	7,396,923	9,576,253	16,973,175	6,163,901	(3,438,073)	2,891,084
Assets held for sale		-	-	-	-	355,000	355,000
Total assets		222,238,550	(1,081,508)	221,157,042	203,144,627	(3,961,616)	199,348,267

Notes to the Financial Statements

In thousands of Nigerian Naira

		31 December 2011			1 January 2011		
		Previous GAAP	Effect of transition to IFRS	IFRS	Previous GAAP	Effect of transition to IFRS	IFRS
Liabilities							
Deposits from banks	b(viii)	2,658,168	-	2,658,168	2,588,220	1,420,199	4,008,419
Deposits from customers	b(ix)	147,387,408	-	147,387,408	121,507,897	(260,624)	121,247,273
Current tax liabilities		164,978	-	164,978	386,453	-	386,453
Other borrowed funds	b(x)	58,079,017	6,500	58,085,517	56,788,270	(22,798)	56,765,472
Other liabilities	b(xi)	7,194,652	(601,812)	6,592,840	7,036,511	(608,607)	6,427,904
Deferred tax liabilities		33,264	(33,264)	-			
Total liabilities		215,517,487	(628,576)	214,888,911	188,307,351	528,170	188,835,521
Equity							
Share capital and share premium		31,111,854	-	31,111,855	31,111,855	-	31,111,855
Treasury Shares		-	(4,571,482)	(4,571,482)		(4,563,833)	(4,563,833)
Retained earnings		(35,475,856)	4,818,111	(30,657,745)	(27,359,643)	2,137,632	(25,222,011)
Other reserves		11,085,065	(1,906,369)	9,178,695	11,085,063	(1,898,328)	9,186,735
Regulatory risk reserve		-	1,206,808	1,206,808	-	-	-
Total equity attributable to owners		6,721,063	(452,932)	6,268,131	14,837,275	(4,324,529)	10,512,746
Total liabilities and equity		222,238,550	(1,081,508)	221,157,042	203,144,627	(3,796,359)	199,348,267

Notes to the Financial Statements

42 Explanation of transition to IFRSs (continued)

Reconciliation of comprehensive income for the year ended 31 December 2011

	Notes	Previous GAAP	Effect of transition to IFRS	IFRS
In thousands of Naira				
Interest income	b(ix)	18,643,648	(1,663,688)	16,979,960
Interest expense	b(ix)	(6,919,277)	(51,354)	(6,970,631)
Net interest income		11,724,371	(1,715,042)	10,009,329
Fees and commission income	b(x)	5,355,588	(2,443,679)	2,911,909
Net trading income	b(xi)	1,641,389	(92,257)	1,549,132
Loss on disposal of subsidiaries	b(xii)	(466,736)	440,736	(26,000)
Other income	b(xi)	-	1,332,920	1,332,920
		6,530,241	(762,280)	5,767,961
Operating income		18,254,612	(2,477,322)	15,777,290
Net impairment loss on financial assets	b(xiii)	(8,891,233)	6,597,587	(2,293,646)
Personnel expenses		(7,426,666)	63,284	(7,363,382)
Operating lease expense	b(xiv)	(896,172)	138,635	(757,537)
Depreciation and amortization	b(xiv)	(1,457,360)	(11,909)	(1,469,269)
Other operating expenses		(7,573,737)	(356,391)	(7,930,128)
Share of profit in associate		-	266,651	266,651
(Loss) before income tax		(7,990,556)	3,953,884	(3,770,021)
Income tax expense	b(xv)	(125,657)	(333,248)	(458,905)
Loss for the year		(8,116,213)	3,620,636	(4,228,926)
Other comprehensive income, net of income tax				
Share of other comprehensive income of associate		-	(165,256)	(165,256)
Fair value gains on available-for-sale investments	b(xvi)	-	157,216	157,216
Other comprehensive income for the year		-	157,216	(8,040)
Total comprehensive (loss) for the year		(8,116,213)	3,777,852	(4,236,966)
Total comprehensive (Loss) attributable to:				
Equity holders of the Bank		(8,116,213)	3,777,852	(4,236,966)
Total comprehensive Loss for the year		(8,116,213)	3,777,852	(4,236,966)

Notes to the Financial Statements

42 Explanation of transition to IFRSs (continued)

(b) Implementation of IFRSs

Transitional arrangements

The Bank adopted IFRSs effective 1 January 2011. The key principle of IFRS 1 – First-time Adoption of International Financial Reporting Standards for reporting entities with adoption date subsequent to 1 January 2006 is a full retrospective application of IFRSs. However, this statement provides exemption from retrospective application in certain instances due to costs and practical considerations. The Bank's transitional elections in this regard are set out below:

Key impact analysis of IFRS on the financial position as at 1 January 2011, date of transition; till 31 December 2011.

i Explanation of material adjustments to cash and cash equivalents

The net impact of application of IFRSs on cash and cash equivalents of the Bank is a decrease in cash and cash equivalents by N10.7billion and N1.06billion as at 31 December 2011 and 1 January 2011 respectively. The decrease is a net impact of reclassification of restricted cash to other assets and interest receivable on placements from other assets.

ii IAS 32, 39 and IFRS 7 financial instruments

Under IFRSs, financial assets and liabilities are required to be classified as held for trading, at fair value through profit or loss, fair value through equity, loans and receivables and held to maturity and other financial assets and liabilities. Financial instruments are measured based on their classification. Nigerian GAAP does not require such classification of financial instruments and measurement. The basis of valuation of individual instruments is provided in the accompanying statement of accounting policy.

Treasury Bills

Under IFRS, treasury bills are not classified separately from investment securities. Therefore, treasury bills have been reclassified to investment securities/ pledged assets and trading assets and are recognised at amortised cost and fair value respectively in line with the Bank's intention and purposes.

Pledged Assets

The Nigerian GAAP did not require separate classification of pledged assets and as such they were included in their respective classes under Nigerian GAAP. Under IFRS these financial instruments have been separately classified as pledged assets and measured based on their classification.

	31 December 2011	1 January 2011
<i>In thousands of Nigerian Naira</i>		
Pledged treasury bills reclassified	3,210,872	2,108,097
Pledged bonds reclassified	8,450,979	7,700,789
	11,661,851	9,808,886

Investment Securities**(a) Available-for-sale investment securities**

Available-for-sale financial instruments are classified investment securities. In accordance with IFRS, financial assets designated as available-for-sale have been measured at fair value.

The fair value of investment securities designated as available-for-sale is N29,817,316,000 (1 January 2011: N18,208,727,000) and their carrying amount under previous GAAP was N23,533,973,000 (1 January 2011: N16,199,970,000).

Notes to the Financial Statements

42 Explanation of transition to IFRSs (continued)

(b) Implementation of IFRSs (continued)

The impact arising from the changes is summarised as follows:

	31 December 2011	1 January 2011
<i>In thousands of Nigerian Naira</i>		
Reclassification of available-for-sale investments from investment securities and treasury bills	69,950,676	18,062,106
Additional fair value loss on treasury bills	(92,895)	(2,980)
Reversal of allowance on equity investment	330,714	109,600
Recognition of fair value gain on AFS equity investment	-	40,000
	<u>70,188,495</u>	<u>18,208,726</u>

b) Held-to-maturity investment securities

Held-to-maturity investment securities are carried at amortised cost. The carrying amount of investment securities carried at amortised cost is N30,523,723,000 (1 January 2011: N29,152,024,000). The following adjustments have been made to restate these balances to amortised cost

	31 December 2011	1 January 2011
<i>In thousands of Nigerian Naira</i>		
Reclassification of HTM treasury bills to HTM investment securities	20,804	4,206,000
Reclassification of HTM bonds to investment securities	23,841,583	24,883,717
Recognition of HTM investments at amortised cost	64,694	62,307
	<u>23,927,081</u>	<u>29,152,024</u>

Impairment of loans and advances:

Under Nigerian GAAP, loans and advances are measured at costs net of impairment losses using an incurred loss model. A specific risk provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. This provision is made for each account that is not performing in accordance with the terms of the related facility. A general reserve of at least 1% is made for all performing accounts to recognize losses in respect of risks inherent in any credit portfolio. Under IFRS, an impairment loss can only be accounted for if there is objective evidence that a loss has occurred after the initial recognition but before the balance sheet date. IFRS also allows for the creation of a credit impaired for incurred but not reported losses in order to provide latent losses in a portfolio of loans that have not yet been individually identified as impaired. Where the impairment for credit losses is lower than the level required by the regulatory authorities, the shortfall on impairment for credit losses is set aside in a regulatory risk reserve within total equity.

The difference in the measurement basis of impairment loss assessment between IFRS and Nigerian GAAP increased the net assets of the Bank by N952 million as at 31 December 2011 while it decreased the net assets by N12.5billion as at 1 January 2011. In addition, the de-recognition of interest in suspense in line with IFRS resulted in an increase in the net carrying amount of loans and advances of the Bank by N2.2 billion and 12.7billion as at 31 December 2011 and 1 January 2011 respectively.

The difference in measurement basis for loans and advances between Nigerian GAAP and IFRS (amortised cost) resulted in a decrease in the net assets of the Bank by N766.8m and 396m as at 31 December 2011 and 1 January 2011 respectively. The fair valuation of below market loans also resulted in a decrease in the net assets of the Bank by N94.2m and 42.7m at 31 December 2011 and 1 January 2011 respectively.

Notes to the Financial Statements

The impact arising from the change is summarised as follows:

	31 December 2011	1 January 2011
<i>In thousands of Nigerian Naira</i>		
Entries to properly state loans and advances at amortised cost, recognise additional impairment under IFRS, restate loans granted at below-the-market interest rate and reclassify interest in suspense to interest income.	<u>(1,909,230)</u>	<u>(3,340,000)</u>
	<u>(1,909,230)</u>	<u>(3,340,000)</u>
<i>iii Investment in associate</i>		
The change in investment in associate represents the Bank's share of the associate's profit for the year. Under Nigerian GAAP, the Bank's investment was recognised at cost. The investment was equity accounted for under IFRS.		
<i>iv Property and equipment</i>		
The changes in property and equipment are attributable to the recognition of items of property and equipment purchased by the Bank through a loan and finance lease arrangement but not recognised under Nigerian GAAP. These assets were accounted for as operating leases and as such were not recognised in the Bank's books.		
These assets were recognised as outright purchases (1 January 2011: finance leases) in line with IFRS. However, the assets acquired under the finance lease arrangement were de-recognised in the current year as the operations of the lessor were integrated with the Bank.		
<i>v Intangible assets</i>		
The changes in intangible assets are attributable to the recognition of software purchased by the Bank through a loan but not recognised under Nigerian GAAP. The software was accounted for as an operating lease transaction under NGAAP and as such was not recognised in the Bank's books.		
<i>vi Deferred tax assets</i>		
The change is attributable to the recognition of the deferred tax impact of the IFRS adjustments and the reclassification of the deferred tax liability in 2011 to deferred tax assets.		
<i>vii Explanation of material adjustments to other assets</i>		
As described in notes b(i) above restricted cash and mandatory deposits previously classified as cash and cash equivalent in GAAP were reclassified to other assets in line with IFRS. Also, interest receivables warehoused in other assets under Nigerian GAAP were reclassified to the principal amounts in line with IFRS. The fair value loss on the initial recognition of staff loans given at below market rate has been adjusted in other assets.		
The net impact is as follows:		
	31 December 2011	1 January 2011
Reclassification of restricted deposit with CBN to other asset	10,818,310	1,066,071
Reclassification of interest receivable and upfront interest to their respective principal balances	(1,242,058)	(58,130)
Reclassification of asset accounts from other liabilities	<u>-</u>	<u>125,467</u>
	<u>9,576,252</u>	<u>1,133,408</u>
<i>viii Other Liabilities</i>		
The impact of changes in liabilities from the Nigerian GAAP to IFRS was mainly attributable to reclassification of unearned interest and discount to their respective principal balances. These changes do not have significant impact on the profit and loss or equity.		
<i>ix Deposit from banks and customers</i>		
The impact of changes in deposits from banks and customers from the Nigerian GAAP to IFRS were mainly attributable to reclassification adjustment to properly disclose deposits from banks from deposit from customers. These changes do not have significant impact on the profit and loss or equity.		

Notes to the Financial Statements

- x *Borrowed funds*
The impact of changes in borrowed funds from the Nigerian GAAP to IFRS was mainly attributable to conversion adjustment to properly state borrowed funds at amortised cost.
- xii *Other liabilities*
The changes in other liabilities is mainly as a result of the recognition of an interest bearing liability in December 2011 and a finance lease liability for assets purchased by the Bank as at 1 January 2011.

Explanation of material changes to income statement items

- ix *Interest income and expense*
Under IFRSs, interest income and expense are recognised in the income statement 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. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Under Nigerian GAAP, interest income and expense are recognised in accordance with the terms of the related facility on an accrual basis.

In addition, interest initially suspended under the Nigerian GAAP, was classified as part of the loans and advances balance while under IFRS interest in suspense were de-recognised and thus, written back to interest income. The impact arising from the changes is summarised as follows:

**31 December
2011**

In thousands of Nigerian Naira

Entries to properly state financial assets at amortised cost	(316,609)
Entries to de-recognise interest in suspense	(1,925,019)
Reclassifications to other income lines	<u>(4,443,774)</u>
	<u>(6,685,402)</u>
Impact on equity	<u>(2,241,628)</u>

- (x) *Fees and commission income*
The change is mainly attributable to reclassifications from fees and commission income to other income and also the impact of recognising loans and advances at amortised cost.
- (xi) *Net trading income/Other income*
The change is mainly attributable to reclassifications of trading income on treasury bills and bonds from interest income and reclassification to other income
- (xii) *Loss on disposal of subsidiaries*
IFRS does not recognise the principles of exceptional and extra-ordinary income as defined under Nigerian GAAP. The Bank recognised extra-ordinary income of N26million and N441million from disposal and business combination of subsidiaries respectively. The income of N441million from business combination was reclassified to equity while the N26million from disposal was recognised as a line item in the statement of comprehensive income

Notes to the Financial Statements

(xiii) Net impairment loss on financial assets

The impact arising from the change is summarised as follows:

**31 December
2011**

In thousands of Nigerian Naira

Entries to properly state impairment on loans and advances under IFRS	(2,043,434)
	<u>(2,043,434)</u>

Impact on equity	<u>(2,043,434)</u>
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(xiv) Operating lease and depreciation expense

The change is as a result of the recognition of assets purchased by the Bank which were previously not recognised under NGAAP as the transaction was treated as an operating lease transaction. Additional depreciation expense was recognised on these assets in line with the Bank's depreciation policy as at 31 December 2011. Under NGAAP, the repayments made during the year for the assets purchased (principal and interest) were expensed. The principal portion of the payments made were reversed and used to reduce the liability recognised. The interest paid was adjusted to reflect the effective interest on the liability and reclassified to interest expense.

(xv) Income tax expense

The difference is as a result of the deferred tax impact of the IFRS adjustments recognised.

(xvi) Fair value gains on available for sale investments

This is attributable to fair value changes recognised on the Bank's available for sale investments and the deferred tax impact of these adjustments

**31 December
2011**

In thousands of Nigerian Naira

Additional fair value loss on AFS treasury bills	(92,895)
Reclassification of fair value loss on AFS treasury bills	(3,114)
Reversal of fair value loss no longer required	152,695
Fair value changes in AFS bonds	153,844
Deferred tax impact of IFRS adjustments	<u>(53,314)</u>
	<u>157,216</u>

Notes to the Financial Statements

43 Compliance with banking regulations

The Bank contravened the following banking legislations and provisions during the year:

Banking legislation	Nature of Contravention	Penalties
<i>In thousands of Nigerian Naira</i>		31-Dec-12
Section 60(1) of the Investment and Securities Act, 2007	Late Submission of Returns	1,200
Regulation on scope of banking activities And Ancillary Matters NO:3 2010	Non-compliance on divestment	2,000
Section 60 (1) BOFIA 1991 as amended	Foreign Exchange Infraction	9,366
		12,566

STATEMENT OF VALUE ADDED

In thousands of Nigerian Naira

	2012	%	2011	%
Gross Income	30,716,386		22,773,921	
Interest paid	<u>(13,287,493)</u>		<u>(6,970,631)</u>	
	17,428,893		15,803,290	
Impairment charge on financial assets	(4,952,760)		(2,911,909)	
Bought-in materials and services	<u>(7,866,797)</u>		<u>(6,716,156)</u>	
Value added	<u><u>4,609,336</u></u>	<u>100</u>	<u><u>6,175,225</u></u>	<u>100</u>
Distribution				
Employees				
Salaries and benefits	7,831,273	170	7,363,382	119
Government				
Income tax	98,418	2	458,905	7
Retained in the Bank				
Assets replacement (depreciation & amortisation)	1,720,274	37	2,581,864	42
Loss transferred to reserve	<u>(5,040,629)</u>	<u>(109)</u>	<u>(4,228,926)</u>	<u>(68)</u>
	<u><u>4,609,336</u></u>	<u>100</u>	<u><u>6,175,225</u></u>	<u>100</u>

FINANCIAL SUMMARY

<i>In thousands of Nigerian naira</i>	31-Dec 2012 N'000	31-Dec 2011 N'000	1-Jan 2010 N'000	31-Dec 2009 N'000	31-Mar 2009 N'000
Assets:	IFRS			NGAAP	
Cash and cash equivalents	19,627,505	23,934,445	53,504,409	5,851,836	5,309,086
Due from financial institutions	-	-	-	58,729,492	9,539,964
Treasury bills	-	-	-	5,049,245	2,923,425
Non-pledged trading assets	-	412,308	-	-	-
Pledged assets	11,485,160	11,661,851	9,808,886	-	-
Investment securities	77,939,680	60,735,387	47,838,950	1,111,079	2,464,782
Loans and advances to customers	73,745,728	67,236,605	44,999,856	28,636,557	49,689,651
Advances under finance lease	-	-	-	456,882	822,453
Investment in subsidiaries	-	-	1,629,193	2,894,479	2,894,479
Investment property	664,907	728,741	-	-	-
Assets held for sale	-	-	355,000	-	-
Property Plant and equipment	12,433,326	13,477,105	13,045,328	13,217,865	13,780,071
Intangible assets	925,429	1,105,090	77,006	-	-
Investment in associate	2,048,765	1,554,860	1,453,253	1,353,703	-
Other assets	23,464,395	16,973,175	2,891,084	5,725,233	5,045,953
Deferred tax assets	23,369,702	23,337,475	23,745,302	19,759,352	18,511,749
	245,704,597	221,157,042	199,348,267	142,785,723	110,981,613
Finance by:					
Share capital	6,410,624	6,410,624	6,410,624	5,160,315	5,034,971
Share premium	24,701,231	24,701,231	24,701,231	18,791,971	17,693,085
Retained earnings	-35,307,930	-30,657,745	-25,222,011	-	-
Treasury shares	-4,571,482	-4,571,482	-4,563,833	-	-
Other reserve	10,045,873	10,385,503	9,186,735	(69,451,400)	(67,356,708)
Deposits from banks	730,856	2,658,168	4,008,419	467,797	-
Deposits from customers	174,302,424	147,387,408	121,247,273	94,791,074	108,907,683
Current tax liabilities	128,965	164,978	386,453	224,081	191,040
Other liabilities	7,516,963	6,592,841	6,427,904	5,022,347	4,174,330
Other borrowed funds	57,006,619	58,085,517	56,765,472	87,779,538	42,337,212
Deposit for shares	4,740,454	-	-	-	-
	245,704,597	221,157,043	199,348,267	142,785,723	110,981,613
Guarantees and other commitments	7,686,040	9,917,919	18,598,027	2,612,397	2,479,855
	IFRS			NGAAP	
	12 months to			9 months to	12 months to
	31 December	31 December	1 January	31 December	31 March
	2012	2011	2010	2009	2008
Gross earnings	30,716,386	22,773,921	19,929,693	16,272,245	12,938,450
(Loss)/ profit before taxation	(4,942,211)	(3,770,021)	12,964,108	(3,309,254)	(19,436,874)
Income tax	(98,418)	(458,905)	(3,274,425)	(1,214,562)	(7,768,466)
(Loss)/ profit after taxation	(5,040,629)	(4,228,926)	16,238,533	(2,094,692)	(11,668,408)

