STANBIC IBTC BANK PLC

PILLAR III DISCLOSURES

31 DECEMBER 2019

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1 Introduction

1.1 Background

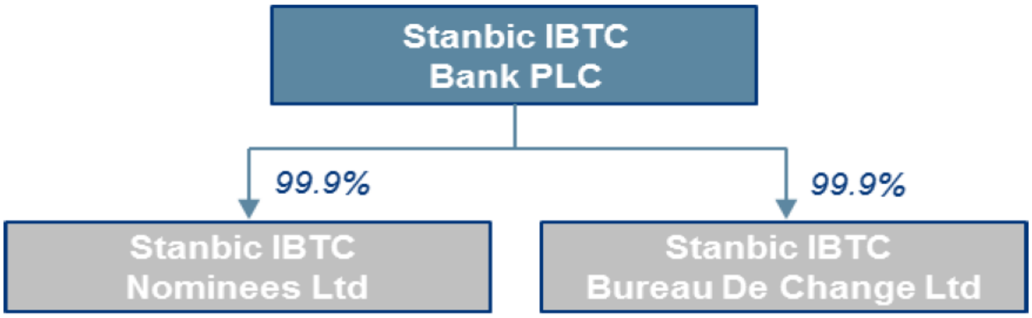
Stanbic IBTC Bank PLC (Stanbic IBTC bank or “the bank”) is a wholly owned subsidiary of Stanbic IBTC Holdings PLC, a member of Standard Bank Group Limited. The principal activity of the bank is the provision of banking and related financial services to corporate and individual customers. The bank offers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

The bank has two core business segments:

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

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

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



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

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

1.2 Basel II Framework

The Basel II framework stipulates a minimum level of capital that banks must maintain to ensure that they can meet their obligations, cover unexpected losses; and can, very importantly, promote public confidence. It also specifies comprehensive disclosure requirements for banks operating under the framework.

The Basel II framework is based on three pillars:

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

1.3 Scope of Application

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

1.4 Frequency

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

2 Risk Management Review

2.1 Overview

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

Effective risk management is one of Stanbic IBTC's trademark and strategic value drivers; and as such it is a priority in its activities across its business value chain. This entails identifying the nature, amount and extent of all risks and structuring each risk in such a way that it conforms to the Bank's risk appetite and also, offers corresponding risk premium and return. We combine prudence in risk management with the use of well-tested risk management techniques that support the generation of robust earnings whilst preserving shareholder value.

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

Risks are managed according to a set of governance standards, which are implemented across the Bank and are supported by appropriate risk policies, governance standards and procedures.

The Bank has adopted the Enterprise Risk Management (ERM) framework with an independent control process that provides an objective view of risk taking activities across all business and risk types at both an individual and aggregated portfolio level.

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

2.2 Risk Management Framework

Approach and Structure

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

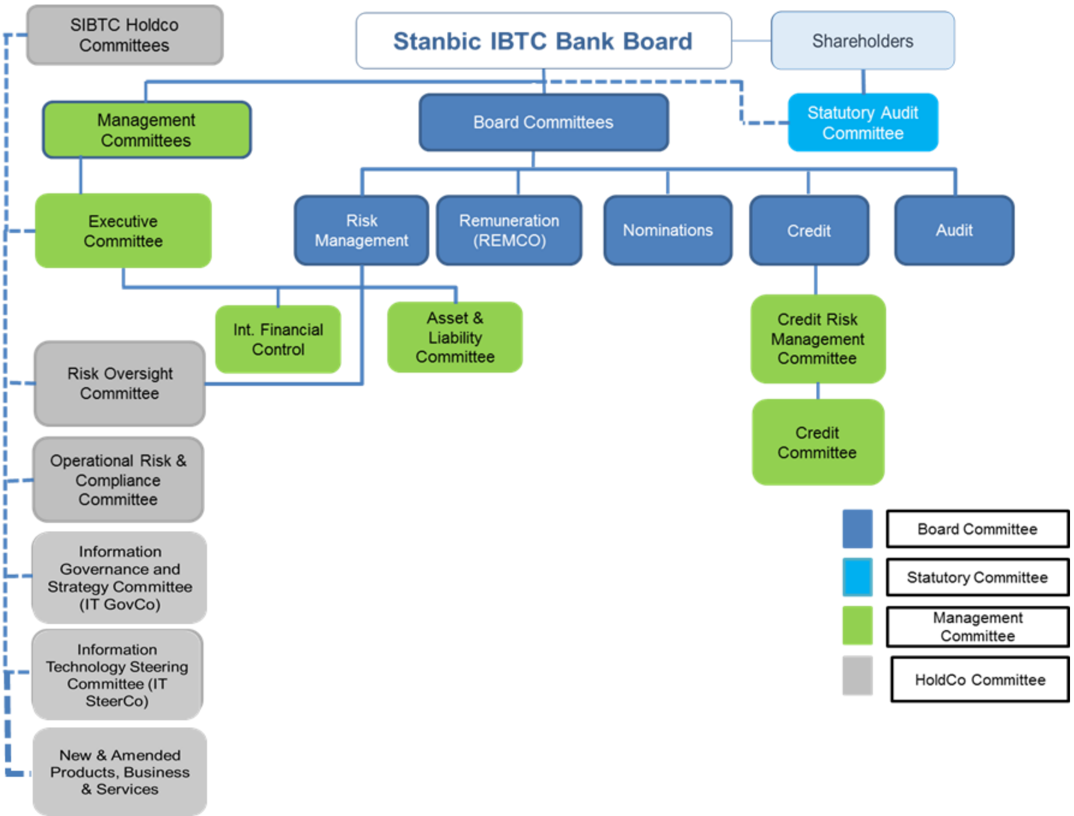
An important element that underpins the Bank's approach to the management of all risk is independence and appropriate segregation of responsibilities between Business and Risk. All principal risks are supported by the Risk department through robust risk advisory and oversight responsibilities.

Risk Governance Structure

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

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

Figure 1: Stanbic IBTC bank risk management and compliance structure



Risk governance standards, policies and procedures

The Bank has developed a set of risk governance standards for each principal risk including (but not limited to) credit, market, operational, information technology (IT) and compliance risks. The standards define the acceptable conditions for the assumption of the major risks and ensure alignment and consistency in the manner in which these risks are identified, measured, managed, controlled and reported, across the Bank.

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

Risk Appetite

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

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

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

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

Stress Testing

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

2.3 Risk Categories

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

2.3.1 Credit Risk

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

Counterparty risk:

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

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

Wrong-way risk:

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

Settlement risk:

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

Country and cross border risk:

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

Concentration risk:

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

2.3.2 Market Risk

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

2.3.3 Liquidity Risk

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

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

2.3.4 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed processes, people and systems (including information technology and infrastructure) or from external events. Strategic, reputational, and business risks are excluded from this definition. The definition of operational risk also includes information risk, cyber security risk, fraud risk, change risk, conduct risk, model risk, environmental risk, legal risk, taxation risk, compliance risk and digitization risk.

2.3.5 Business Risk

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

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

3 Regulatory Capital Structure and Capital Adequacy

3.1 Overview

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

3.2 Regulatory Capital

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

- Tier 1 capital which comprises share capital, share premium, retained earnings and reserves created by appropriations of retained earnings. The closing balances on deferred tax asset, intangible asset and 50% of total investment in subsidiaries are deductible in arriving at Tier 1 capital;
- Tier 2 capital which includes subordinated debts and other comprehensive income. 50% of total investment in subsidiaries is deductible in arriving at Tier 2 capital. Subordinated debt at the end of the year totaled N27.3 billion and is broken down as follows:
  - Naira denominated subordinated debt totaling N15.6 billion issued on 30 September 2014 at an interest rate of 13.25% per annum which has a tenor of 10 years. This is discounted by 20% to reflect the outstanding term to maturity of 4 years per regulatory requirement;
  - N100 million Naira denominated subordinated debt issued on 30 September 2014. Interest is payable semi-annually at 6-month Nigerian Treasury Bills yield plus 1.20% with a tenor of 10 years. This is discounted by 20% to reflect the outstanding term to maturity of 4 years per regulatory requirement;
  - USD denominated term subordinated non-collateralised facility of USD40 million obtained from Standard Bank of South Africa effective 31 May 2013. The facility expires on 31 May 2025 and is repayable at maturity. Interest on the facility is payable semi-annually at LIBOR (London Interbank Offered Rate) plus 3.60%.

Total eligible Tier 1 Capital as at 31 December 2019 was N167.8bn (Dec 2017: N144.6bn) while Total eligible Tier 2 Capital as at 31 December 2019 was N29.7bn (Dec 2017: N31.9bn).

Investment in unconsolidated subsidiaries and associations are deducted from Tier 1 and 2 capital to arrive at total regulatory capital, with Tier 2 capped at 33.33% of Tier 1, resulting in a total qualifying capital of N197.4n as at 31 December 2019.

3.3 Methodology for Capital Adequacy

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

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

Table 1: Stanbic IBTC Bank PLC capital adequacy computation as at 31 December 2019

Stanbic IBTC Bank PLC	Basel II 31 Dec 2019 N'million	*Basel II - Adjusted for impact of IFRS 9 transitional adjustment 31 Dec 2019 N'million	Basel II 31 Dec 2018 N'million	*Basel II - Adjusted for impact of IFRS 9 transitional adjustment 31 Dec 2018 N'million
	183,237	187,355	153,824	160,002
Paid-up share capital	1,875	1,875	1,875	1,875
Share premium	42,469	42,469	42,469	42,469
General reserve (Retained Profit)	91,460	91,460	72,386	72,386
SMEEIS reserve	1,039	1,039	1,039	1,039
AGSMEEIS reserve	4,652	4,652	2,156	2,156
Statutory reserve	41,706	41,706	33,863	33,863
Other reserves	36	36	36	36
*IFRS 9 Transitional Adjustment Relief	-	4,118	-	6,177
Non controlling interests	-	-	-	-
Less: regulatory deduction	15,470	15,470	9,190	9,190
Goodwill	-	-	-	-
Deferred tax assets	10,188	10,188	8,321	8,321
Other intangible assets	5,232	5,232	819	819
Investment in the capital of financial subsidiaries	50	50	50	50
Excess exposure(s) over single obligor without CI	-	-	-	-
Exposures to own financial holding company	-	-	-	-
Unsecured lending to subsidiaries within the sam	-	-	-	-
Unsecured lending to subsidiaries within the sam	-	-	-	-
Eligible Tier I capital	167,767	171,885	144,634	150,812
Tier II	29,706	29,706	31,958	31,958
Hybrid (debt/equity) capital instruments	-	-	-	-
Subordinated term debt	27,289	27,289	30,414	30,414
Other comprehensive income (OCI)	2,417	2,417	1,544	1,544
	50	50	50	50
Reciprocal cross-holdings in ordinary shares of financial institutions	-	-	-	-
Investment in the capital of banking and financial institutions	-	-	-	-
Investment in the capital of financial subsidiaries	50	50	50	50
Exposures to own financial holding company	-	-	-	-
Unsecured lending to subsidiaries within the same group	-	-	-	-
Eligible Tier II capital	29,656	29,656	31,908	31,908
Total regulatory capital	**197,422**	**201,540**	**176,542**	**182,720**
Risk weighted assets:				
Credit risk	761,350	761,350	598,610	598,610
Operational risk	240,921	240,921	215,971	215,971
Market risk	16,082	16,082	24,185	24,185
Total risk weight asset	**1,018,353**	**1,018,353**	**838,766**	**838,766**
Total capital adequacy ratio	19.4%	19.8%	21.0%	21.8%
Tier I capital adequacy ratio	16.5%	16.9%	17.2%	18.0%

*Capital adequacy ratio will decrease by 40bps from 19.8% to 19.4% without the transitional adjustment relief given by the CBN to Banks. The transitional adjustment relief is in adherence to the CBN circular on "Transitional Arrangements - Treatment of IFRS 9 Expected Credit Loss for Regulatory Purposes by Banks in Nigeria", dated 18 October 2018. The transitional adjustment is a 20% discount on excess IFRS 9 day one impact over regulatory risk reserve (RRR) on day one 01 January 2018, and which is further discounted over a four year period at annual discount rate of 20%. IFRS 9 day one impact amounted to N10.30bn as at 01 January 2018.

4 Credit Risk

4.1 Principal credit standard and policies

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

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

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

Methodology for risk rating

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

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

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

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

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

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

4.2 Framework and Governance

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

In reaching credit decisions and taking credit risk, both the credit and business functions must consistently and responsibly balance risk and return, as return is not the sole prerogative of business neither is credit risk the sole prerogative of credit. Credit (and the other risk functions, as applicable) and business must work in partnership to understand the risk and apply appropriate risk pricing, with the overall aim of optimising the bank's risk adjusted performance.

The reporting lines, responsibilities and authority for managing credit risk in the bank are very clear and independent. However, ultimate responsibility for credit risk rests with the board and which has delegated this to the following organs:

Board credit committee

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

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

Credit Committee

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

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

Credit risk management committee

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

Heads of CTB and PBB Credit

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

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

Credit risk mitigation

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

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

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

Credit delegated authority

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

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

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

4.3 Credit risk measurement

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

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

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

Stanbic IBTC Bank PLC's own rating (Fitch)		
	2019	**2018**
National		
Long- Term IDR	AAA(nga)	AAA(nga)
Short- Term IDR	F1+(nga)	F1+(nga)
Sovereign risk		
Foreign-Currency Long-Term IDR	B+	B+
Local-Currency Long-Term IDR	B+	B+
Country Ceiling	B+	B+

Maximum exposure to credit risk

The credit quality of loans and advances are measured in terms of IFRS 9 which came into effect from 1 January 2018. A summary of the primary changes for the bank are provided below.

Impairment model

IFRS 9 requires the recognition of expected credit losses (ECL) rather than incurred losses under IAS 39. This applies to all financial debt instruments held at amortised cost, fair value through other comprehensive income (FVOCI), undrawn loan commitments and financial guarantees.

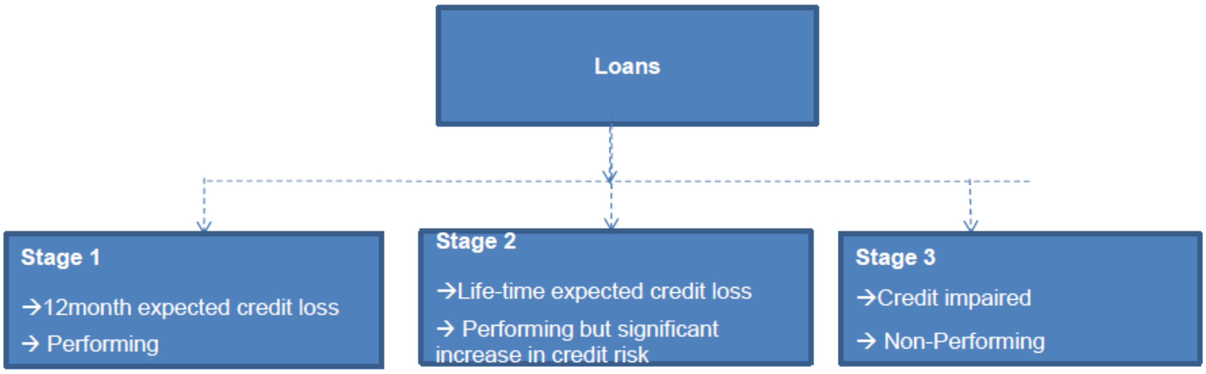
Staging of financial instruments

Financial instruments that are not already credit-impaired are originated into stage 1 and a 12-month expected credit loss provision is recognised. Instruments will remain in stage 1 until they are repaid, unless they experience significant credit deterioration (stage 2) or they become credit impaired (stage 3).

Instruments will transfer to stage 2 and a lifetime expected credit loss provision recognised when there has been a significant change in the credit risk compared with what was expected at origination. Instruments are classified as stage 3 when they become credit-impaired.

The framework used to determine a significant increase in credit risk is set out below.

Figure 2: Loan Classification



Incorporation of forward looking information

The determination of expected credit loss includes various assumptions and judgements in respect of forward looking macroeconomic information.

Significant increase in credit risk ('SICR')

Expected credit loss for financial assets will transfer from a 12 month basis to a lifetime basis when there is a significant increase in credit risk (SICR) relative to that which was expected at the time of origination, or when the asset becomes credit impaired. On transfer to a lifetime basis, the expected credit loss for those assets will reflect the impact of a default event expected to occur over the remaining lifetime of the instrument rather than just over the 12 months from the reporting date.

SICR is assessed by comparing the risk of default of an exposure at the reporting date with the risk of default at origination (after considering the passage of time). 'Significant' does not mean statistically significant nor is it reflective of the extent of the impact on the Bank's financial statements. Whether a change in the risk of default is significant or not is assessed using quantitative and qualitative criteria, the weight of which will depend on the type of product and counterparty.

The Bank uses a mix of quantitative and qualitative criteria to assess SICR.

Assessment of credit-impaired financial assets

Credit-impaired financial assets comprise those assets that have experienced an observed credit event and are in default. Default represents those assets that are at least 90 days past due in respect of principal and interest payments and/or where the assets are otherwise considered unlikely to pay.

Unlikely to pay factors include objective conditions such as bankruptcy, debt restructuring, fraud or death. It also includes credit related modifications of contractual cash flows due to significant financial difficulty (forbearance) where the bank has granted concessions that it would not ordinarily consider.

Modified financial assets

Where the contractual terms of a financial instrument have been modified, and this does not result in the instrument being derecognised, a modification gain or loss is recognised in the income statement representing the difference between the original cash flows and the modified cash flows, discounted at the effective interest rate. The modification gain/loss is directly applied to the gross carrying amount of the instrument.

If the modification is credit related, such as forbearance or where the Bank has granted concessions that it would not ordinarily consider, then it will be considered credit-impaired. Modifications that are not credit related will be subject to an assessment of whether the asset's credit risk has increased significantly since origination by comparing the remaining lifetime probability of default (PD) based on the modified terms with the remaining lifetime PD based on the original contractual terms.

Transfers between stages

Assets will transfer from stage 3 to stage 2 when they are no longer considered to be credit-impaired. Assets will not be considered credit-impaired only if the customer makes payments such that they are paid to current in line with the original contractual terms. In addition:

- Loans that were subject to forbearance measures must remain current for 12 months before they can be transferred to stage 2;
- Retail loans that were not subject to forbearance measures must remain current for 180 days before they can be transferred to stage 2 or stage 1.

Assets may transfer to stage 1 if they are no longer considered to have experienced a significant increase in credit risk. This will occur when the original PD based transfer criteria are no longer met (and as long as none of the other transfer criteria apply). Where assets were transferred using other measures, the assets will only transfer back to stage 1 when the condition that caused the significant increase in credit risk no longer applies (and as long as none of the other transfer criteria apply).

Governance and application of expert credit judgement in respect of expected credit losses

The determination of expected credit losses requires a significant degree of management judgement which is being assessed by the Credit Risk Management Committee (CRMC).

Table 2: Maximum Exposure to credit risk by credit quality- December 2019

December 2019	Total Loans and Advances to Customers N'million	Balance sheet impairments for performing loans N'million	Performing loans: Neither past due nor specifically impaired: Normal monitoring N'million Stage 1	Normal monitoring Stage 2	Close monitoring N'million Stage 1	Close monitoring Stage 2	Not specifically impaired: Early arrears N'million Stage 1	Early arrears Stage 2	Non-performing loans: Specifically impaired loans: Non-performing loans: Stage 3 Sub-standard N'million	Stage 3 Doubtful N'million	Stage 3 Loss N'million	Purchased/Originated as credit impaired Sub-standard N'million	Purchased/Originated as credit impaired Doubtful N'million	Purchased/Originated as credit impaired Loss N'million	Total N'million	Securities and expected recoveries on specifically impaired loans N'million	Net after securities and expected recoveries on specifically impaired loans N'million	Balance sheet impairments for non-performing specifically impaired loans N'million	Gross specific impairment coverage %	Total non-performing loans N'million	Non-performing loans %
Personal & Business Banking	198,775	3,824	165,054	2,132	-	3,820	6,356	2,535	5,648	3,917	9,312	-	-	-	18,877	7,268	11,609	11,609	61	18,877	9.5
Mortgage loans	4,488	479	2,536	224	-	683	51	357	7	86	542	-	-	-	635	244	391	391	62	635	14.1
Instalment sale and finance leases	8,073	523	4,657	338	-	46	619	414	124	181	1,694	-	-	-	1,999	838	1,161	1,161	58	1,999	24.8
Card debtors	1,376	82	870	59	-	-	159	109	36	35	108	-	-	-	179	12	167	167	93	179	13.0
Other loans and advances	184,838	2,740	156,991	1,511	-	3,091	5,527	1,655	5,481	3,615	6,968	-	-	-	16,064	6,174	9,890	9,890	62	16,064	8.7
Corporate & Investment Banking	357,609	6,675	335,383	1,884	-	13,079	4,546	-	2,717	-	-	-	-	-	2,717	2,174	543	543	20	2,717	0.8
Corporate loans	357,609	6,675	335,383	1,884		13,079	4,546	-	2,717	-	-	-	-	-	2,717	2,174	543	543	20	2,717	0.8
Gross loans and advances	**556,384**	10,499	500,437	4,016	-	16,899	10,902	2,535	8,365	3,917	9,312	-	-	-	21,594	9,442	12,152	12,152	56	21,594	3.9

Less: Total expected credit loss for loans and advances at amortised cost	
12-month ECL	(4,949)
Lifetime ECL not credit-impaired	(5,551)
Lifetime ECL credit-impaired	(13,760)
Purchased/originated credit impaired	
Interest In Suspense (IIS)	(1,609)
Net loans and advances	532,124
Add the following other banking activities exposures:	
Cash and cash equivalents	446,551
Derivatives	32,871
Financial investments (excluding equity)	97,375
Loans and advances to banks	3,046
Trading assets	248,909
Pledged assets	231,972
*Other financial assets	151,465
Total on-balance sheet exposure	1,744,314
Unrecognised financial assets:	

	Total Loans and Advances to Customers N'million	Balance sheet impairments N'million	Normal monitoring Stage 1	Normal monitoring Stage 2	Close monitoring Stage 1	Close monitoring Stage 2	Early arrears Stage 1	Early arrears Stage 2	Stage 3 Sub-standard	Stage 3 Doubtful	Stage 3 Loss	POCI Sub-standard	POCI Doubtful	POCI Loss	Total	Securities and expected recoveries	Net after securities and expected recoveries	Balance sheet impairments for non-performing	Gross specific impairment coverage %	Total non-performing loans	Non-performing loans %
Letters of credit	104,253	88	103,862	391	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Guarantees	79,502	948	79,185	317	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Loan commitments	94,374	173	93,815	559	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

Total exposure to credit risk	**2,022,443**
Expected credit loss for off balance Sheet exposures	
12-month ECL	-
Lifetime ECL not credit-impaired	
Lifetime ECL credit-impaired	
Total exposure to credit risk on Loans and advances at amortised	**2,022,443**

*Other financial assets presented in the table above comprise financial assets only. The following items have been excluded: prepayments and indirect/ withholding tax receivable.

Table 3: Maximum Exposure to credit risk by credit quality- December 2018

December 2018	Total Loans and Advances to Customers N'million	Balance sheet impairments for performing loans N'million	Performing loans – Neither past due nor specifically impaired – Normal monitoring N'million – Stage 1	Normal monitoring – Stage 2	Close monitoring N'million – Stage 1	Close monitoring – Stage 2	Not specifically impaired – Early arrears N'million – Stage 1	Early arrears – Stage 2	Non-performing loans – Specifically impaired loans – Stage 3 – Sub-standard N'million	Stage 3 – Doubtful N'million	Stage 3 – Loss N'million	Purchased/Originated as credit impaired – Sub-standard N'million	Purchased/Originated as credit impaired – Doubtful N'million	Purchased/Originated as credit impaired – Loss N'million	Total N'million	Securities and expected recoveries on specifically impaired loans N'million	Net after securities and expected recoveries on specifically impaired loans N'million	Balance sheet impairments for non-performing specifically impaired loans N'million	Gross specific impairment coverage %	Total non-performing loans N'million	Non-performing loans %
Personal & Business Banking	179,813	6,903	140,580	6,458	-	842	6,401	9,394	1,760	4,076	10,304	-	-	-	-	(10,093)	10,093	10,093	-	16,140	9.0
Mortgage loans	5,801	616	3,319	271	-	842	47	464	72	490	296	-	-	-	-	(509)	509	509	-	858	14.8
Instalment sale and finance leases	8,671	456	4,542	496	-	-	934	189	7	1,659	844	-	-	-	-	(1,650)	1,650	1,650	-	2,510	28.9
Card debtors	1,155	178	553	42	-	-	119	118	28	33	263	-	-	-	-	(318)	318	318	-	324	28.1
Other loans and advances	164,186	5,653	132,166	5,649	-	-	5,301	8,623	1,653	1,894	8,900	-	-	-	-	(7,616)	7,616	7,616	-	12,447	7.6
Corporate & Investment Banking	279,133	5,891	238,798	6,613	-	19,973	1,521	10,653	1,575	-	-	-	-	-	-	(750)	750	750	-	1,575	0.6
Corporate loans	279,133	5,891	238,798	6,613	-	19,973	1,521	10,653	1,575	-	-	-	-	-	-	(750)	750	750	-	1,575	0.6
Gross loans and advances	**458,946**	12,794	379,378	13,071	-	20,815	7,922	20,047	3,335	4,076	10,304	-	-	-	-	(10,843)	10,843	10,843	-	17,715	3.9
Less: Total expected credit loss for loans and advances at amortised cost																					
12-month ECL	(4,245)																				
Lifetime ECL not credit-impaired	(8,823)																				
Lifetime ECL credit-impaired	(10,843)																				
Purchased/originated credit impaired																					
Interest In Suspense (IIS)	(23,637)																				
Net loans and advances	411,398																				
Add the following other banking activities exposures:																					
Cash and cash equivalents	451,666																				
Derivatives	30,286																				
Financial investments (excluding equity)	356,156																				
Loans and advances to banks	8,548																				
Trading assets	84,276																				
Pledged assets	142,543																				
Other financial assets	59,439																				
Total on-balance sheet exposure	1,544,312																				
Unrecognised financial assets:																					
Letters of credit	20,543	70	18,499	2,044	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees	41,299	462	41,248	52	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loan commitments	32,334	142	31,895	438	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total exposure to credit risk	**1,638,488**																				
Expected credit loss for off balance Sheet exposures																					
12-month ECL	**-664**																				
Lifetime ECL not credit-impaired																					
Lifetime ECL credit-impaired																					
Total exposure to credit risk on Loans and advances at amortised	**1,637,824**																				

Table 4: Ageing of loans and advances with lifetime ECL but no credit impaired

	Less than 31 days N'million	31-60 days N'million	61-89 days N'million	90-180 days N'million	More than 180 days N'million	Total N'million
December 2019						
Personal and Business Banking	**9,435**	**709**	**469**	**-**	**-**	**10,613**
Mortgage loans	932	104	56	-	-	1,092
Instalment sales and finance lease	1,049	20	10	-	-	1,079
Card debtors	218	34	16	-	-	268
Other loans and advances	7,236	551	387	-	-	8,174
Corporate and Transactional Banking	4,546	-	-	-	-	4,546
Corporate loans	4,546	-	-	-	-	4,546
Total	**13,981**	**709**	**469**	**-**	**-**	**15,159**
December 2018						
Personal and Business Banking	939	1,151	99	-	-	2,189
Mortgage loans	101	46	6	-	-	153
Instalment sales and finance lease	60	42	-	-	-	102
Card debtors	42	23	7	-	-	72
Other loans and advances	736	1,040	86	-	-	1,862
Corporate and Transactional Banking	19	5	1	-	-	25
Corporate loans	19	5	1	-	-	25
Total	958	1,156	100	-	-	2,214

Table 5: Stage 3 loans and advances and lifetime ECL credit-impaired by geography

As at 31 Dec. 2019

	Gross Exposure N million	Stage 3 loans and advances N million	Lifetime ECL credit-impaired N million
South South	**32,298**	**691**	**499**
South West	**484,811**	**13,264**	**8,135**
South East	**7,763**	**2,405**	**2,044**
North West	**18,689**	**3,533**	**1,841**
North Central	**13,826**	**1,627**	**1,185**
North East	**997**	**74**	**55**
Outside Nigeria	**1,048**	**-**	**-**
Total	**559,432**	**21,594**	**13,759**

As at 31 Dec. 2018

	Gross Exposure N million	Past Due Exposure N million	Specific Impairment N million
South South	24,112	1,401	805
South West	377,983	9,266	5,933
South East	10,876	3,118	1,967
North West	21,468	824	479
North Central	23,385	2,962	1,582
North East	1,122	143	77
Outside Nigeria	8,605	-	-
Total	467,551	17,714	10,843

Table 6: Stage 3 loans and advances and lifetime ECL credit-impaired by industry

As at 31 Dec. 2019

	Gross Exposure	Stage 3 loans and advances	Lifetime ECL credit-impaired
	N million	N million	N million
Agriculture	31,465	8,861	5,567
Business services	6,146	279	217
Communication	21,123	-	-
Community, social & personal services	-	-	-
Construction & real estate	44,354	3,429	977
Electricity, gas & water supply	-	-	-
Financial intermediaries & insurance	6,706	-	
Government	33,686	85	75
Hotels, restaurants and tourism	217	-	-
Manufacturing	153,571	70	57
Oil and Gas	164,359	843	539
Private households	56,543	3,836	2,965
Transport, storage & distribution	4,061	3,268	2,642
Wholesale & retail Trade	37,201	923	720
Total	559,432	21,594	13,759

As at 31 Dec. 2018

	Gross Exposure	Past Due Exposure	Specific Impaiment
	N million	N million	N million
Agriculture	37,466	2,201	1,411
Business services	9,126	288	140
Communication	8,162	-	-
Community, social & personal services	-	-	-
Construction & real estate	43,507	518	316
Electricity, gas & water supply	-	-	-
Financial intermediaries & insurance	9,867	-	-
Government	32,656	1,660	803
Hotels, restaurants and tourism	428	18	10
Manufacturing	163,055	130	91
Oil and Gas	70,814	989	680
Private households	51,452	7,948	4,333
Transport, storage & distribution	4,600	2,502	1,639
Wholesale & retail Trade	36,418	1,460	1,420
Total	467,551	17,714	10,843

Renegotiated loans and advances

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified due to weaknesses in the counterparty's financial position, and where it has been judged that normal repayment will likely continue after the restructure. Renegotiated loans that would otherwise be past due or impaired amounted to N884.2 million as at 31 December 2019 (Dec 2018: N10.3 billion).

Collateral

The table that follows shows the financial effect that collateral has on the bank's maximum exposure to credit risk. The table is presented according to Basel II asset categories and includes collateral that may not be eligible for recognition under Basel II but that management takes into consideration in the management of the bank's exposures to credit risk. All on- and off-balance sheet exposures which are exposed to credit risk, including non-performing assets, have been included.

Collateral includes:

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

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

In the retail portfolio, 64% (Dec 2018: 56%) is collateralised. Of the bank's total exposure, 36% (Dec 2018: 44%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

Table 7: December 2019 Breakdown by Collateral

						Total collateral coverage		
	Total exposure N'million	Unsecured N'million	Secured N'million	Netting agreements N'million	Secured exposure after netting N'million	1%-50% N'million	50%-100% N'million	Greater than 100% N'million
December 2019								
Corporate	597,137	429,023	168,114	-	-	62,697	26,243	79,174
Sovereign	949,129	949,129		-	-	-	-	-
Bank	113,329	113,329		-	-	-	-	-
Retail	255,525	127,612	127,913	-	-	40,855	63,893	23,174
Retail Mortgage	4,488	-	4,488	-	-	-	4,488	-
Other retail	194,286	70,852	123,434	-	-	40,855	59,405	23,174
Total	1,915,120	1,619,093	296,027	-	-	103,552	90,136	102,348
Add: Financial assets not exposed to credit risk	26,661							
Less: Impairments for loans and advances	(24,259)							
Less: Unrecognised off balance sheet items	(173,255)							
Total exposure	1,744,267							
Reconciliation to statement of financial position:								
Cash and balances with central bank	446,551							
Derivatives	32,871							
Financial investments (excluding equities)	97,328							
Loans and advances	535,170							
Trading assets	248,909							
Pledged assets	231,972							
Other financial assets	151,465							
Total	1,744,267							

Table 8: December 2018 Breakdown by Collateral

	Total exposure N'million	Unsecured N'million	Secured N'million	Secured exposure after netting N'million	Total collateral coverage 1%-50% N'million	50%-100% N'million	Greater than 100% N'million
December 2018							
Corporate	433,476	277,837	155,639	-	63,368	76,818	15,453
Sovereign	838,431	838,431	-	-	-	-	-
Bank	130,476	130,476	-	-	-	-	-
Retail	250,698	150,074	100,624	-	25,705	25,515	49,414
Retail Mortgage	5,801	-	5,801	-	-	43	5,759
Other retail	244,897	150,074	94,823	-	26,014	25,472	43,655
Total	1,653,081	1,396,818	256,263	-	89,073	102,333	64,867
Add: Financial assets not exposed to credit risk	102,344						
Less: Impairments for loans and advances	(26,233)						
Less: Unrecognised off balance sheet items	(163,565)						
Total exposure	1,565,627						
Reconciliation to statement of financial position:							
Cash and balances with central bank	451,666						
Derivatives	30,286						
Financial investments (excluding equities)	356,156						
Loans and advances	441,261						
Trading assets	84,276						
Pledged assets	142,543						
Other financial assets	59,439						
Total	1,565,627						

Concentration of risks of financial assets with credit risk exposure

a) Geographical sectors

Table 9: Breakdown by Geography

At 31 December 2019	**Trading assets N'million**	**Derivative assets N'million**	**Pledged assets N'million**	**Financial investments (excluding equity) N'million**	**Loans and advances to customers N'million**	**Loans and advances to banks N'million**	**Total N'million**
South South	1,332	318	-	-	32,298	-	**33,948**
South West	2,263	281	-	22,114	484,811	2,000	**511,468**
South East	-	-	-	-	7,763	-	**7,763**
North West	-	-	-	-	18,689	-	**18,689**
North Central	245,314	30,960	74,992	75,261	11,826	-	**438,353**
North East	-	-	-	-	997	-	**997**
Outside Nigeria	-	1,312	156,980	-	-	1,049	**159,341**
Carrying amount	**248,909**	**32,871**	**231,972**	**97,375**	**556,384**	**3,049**	**1,170,559**

At 31 December 2018	Trading assets N'million	Derivative assets N'million	Pledged assets N'million	Financial investments (excluding equity) N'million	Loans and advances to customers N'million	Loans and advances to banks N'million	Total N'million
South South	-	-	-	-	24,112	-	24,112
South West	2,451	533	-	5,689	377,983	-	386,656
South East	-	8	-	-	10,876	-	10,884
North West	-	1	-	-	21,469	-	21,470
North Central	81,825	29,350	142,543	350,349	23,384	-	627,451
North East	-	-	-	-	1,122	-	1,122
Outside Nigeria	-	394	-	-	-	8,605	8,999
Carrying amount	84,276	30,286	142,543	356,038	458,946	8,605	1,080,694

b) Industry Sector

Table 10: Breakdown by Industry Sector

At 31 December 2019	**Trading assets N'million**	**Derivative assets N'million**	**Pledged assets N'million**	**Financial investments (excluding equity) N'million**	**Loans and advances to customers N'million**	**Loans and advances to banks N'million**	**Total N'million**
Agriculture	159	25	-	-	31,465	-	**31,649**
Business services	-	165	-	-	6,146	-	**6,311**
Communication	-	-	-	-	21,123	-	**21,123**
Community, social & personal services	-	-	-	-	-	-	**-**
Construction and real estate	261	-	-	-	44,355	-	**44,616**
Electricity	-	-	-	-	-	-	**-**
Financial intermediaries & insurance	-	1,279	156,980	132	3,657	3,049	**165,097**
Government (including Central Bank)	245,314	30,960	74,992	75,261	33,686	-	**460,213**
Hotels, restaurants and tourism	-	-	-	-	217	-	**217**
Manufacturing	3,066	307	-	-	153,571	-	**156,944**
Mining	109	135	-	5,674	164,359	-	**170,277**
Private households	-	-	-	-	56,543	-	**56,543**
Transport, storage and distribution	-	-	-	-	4,061	-	**4,061**
Wholesale & retail trade	-	-	-	16,308	37,201	-	**53,509**
Carrying amount	**248,909**	**32,871**	**231,972**	**97,375**	**556,384**	**3,049**	**1,170,560**

At 31 December 2018	Trading assets N' million	Derivative assets N' million	Pledged assets N'million	Financial investments N' million	Loans and advances to customers N' million	Loans and advances to banks N' million	Total N' million
Agriculture	-	-	-	-	37,466	-	37,466
Business services	-	-	-	-	9,126	-	9,126
Communication	-	-	-	-	8,162	-	8,162
Community, social & personal services	-	-	-	-	-	-	-
Construction and real estate	-	-	-	-	43,506	-	43,506
Electricity	-	-	-	-	-	-	-
Financial intermediaries & insurance	2,451	320	-	5,312	1,262	8,605	17,950
Government (including Central Bank)	81,825	616	142,543	349,303	32,657	-	606,944
Hotels, restaurants and tourism	-	-	-	-	428	-	428
Manufacturing	-	-	-	-	163,055	-	163,055
Mining	-	-	-	-	70,814	-	70,814
Private households	-	-	-	-	51,452	-	51,452
Transport, storage and distribution	-	-	-	-	4,600	-	4,600
Wholesale & retail trade	-	29,350	-	1,423	36,418	-	67,191
Carrying amount	84,276	30,286	142,543	356,038	458,946	8,605	1,080,694

c) Analysis of financial assets disclosed above by risk rating

Table 11: Breakdown by risk rating

	AAA to A- N'million	BBB+ to BBB- N'million	Below BBB- N'million	Unrated N'million	Total N'million
At 31 December 2019	**13,757**	**950,821**	**105,850**	**100,146**	**1,170,574**
At 31 December 2018	4,128	814,886	261,680	-	1,080,694

Concentration of risks of off balance-sheet engagements

a) Geographical sectors

Table 12: Breakdown by Geography

	31 December 2019				31 December 2018			
	Loan Commitments N' million	**Bonds and guarantees N' million**	**Letters of credit* N' million**	**December 2019 Total N'million**	**Loan Commitments N' million**	Bonds and guarantees N' million	Letters of credit N' million	December 2018 Total N'million
South South	414	296	-	710	1,837	1,391	-	3,228
South West	96,064	59,577	93,753	249,394	41,743	59,448	83,199	184,390
South East	663	17,263	-	17,926	720	33	-	753
North West	796	493	-	1,289	1,615	1,254	-	2,869
North Central	2,902	1,873	-	4,775	608	1,154	-	1,762
North East	20	-	-	20	44	2	-	46
Outside Nigeria	-	-	-	-		-	-	-
Carrying amount	100,859	79,502	93,753	274,114	46,568	63,282	83,199	193,049

b) Industry sectors

Table 13: Breakdown by Industry Sector

	31 December 2019				31 December 2018			
	Loan Commitments N' million	**Bonds and guarantees N' million**	**Letters of credit N' million**	**December 2019 Total N'million**	Loan Commitments N' million	Bonds and guarantees N' million	Letters of credit N' million	December 2018 Total N'million
Agriculture	690	4,173	1,418	6,281	1,493	1,677	-	3,170
Business services	199	267	1,247	1,713	52	17,160	1,246	18,458
Communication	10,028	127	2,941	13,096	746	-	-	746
Construction and real estate	-	3,900	65	3,965	-	10	-	10
Government	2,000	-	-	2,000	-	-	-	-
Electricity	-	210	-	210	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-
Financial intermediaries & insurance	1,134	13,732	-	14,866	1,260	25,939	-	27,200
Food and Beverages	-	-	-	-	-	-	37,850	37,850
Hotels, restaurants and tourism	85	1,720	-	1,805	101	-	-	101
Manufacturing	66,059	15,977	73,264	155,300	22,029	13,279	34,038	69,347
Mining/Oil an Gas	9,729	30,158	1,207	41,094	6,193	199	8,432	14,824
Private households	2,767	179	-	2,946	11,257	-	-	11,257
Transport, storage and distribution	2	66	-	68	-	-	129	129
Wholesale & retail trade	8,166	8,993	13,611	30,770	3,435	5,018	1,504	9,957
Carrying amount	100,859	79,502	93,753	274,114	46,568	63,282	83,199	193,049

4.4 Credit Risk Capital

The bank currently allocates capital for credit risk using the Standardised approach. Risk Weights (RW) have been assigned as per CBN Guidelines for Credit Risk Capital Requirement. The table below shows the credit exposure and risk weighted asset as at 31 December 2019.

Table 14: Credit Exposure and Risk Weighted Asset as at 31 December 2019

Asset Class	Exposure Amount N'million	RWA N'million
Sovereigns and Central Banks	846,046	-
State Govt and Local Authorities	-	-
Public Sector Entities (PSEs)	33,339	32,405
Multilateral Development Banks (MDB)	-	-
Supervised Institutions	112,158	71,198
Corporate and Other Persons	447,521	417,967
Regulatory Retail Portfolio	25,239	17,661
Secured by Mortgages on Residential Properties	2,242	1,987
Exposures Secured by Mortgages on Commercial Real Estates	37,930	35,715
Past Due Exposures	7,834	7,834
High Risk Exposures	1,779	2,669
Unsettled and Failed Transactions	-	-
Other Assets	99,757	73,097
Off Balance Sheet Exposures	133,376	100,818
Regulatory Risk Reserve	-	-
Total	**1,747,222**	**761,350**

5 Market Risk

5.1 Overview

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

Trading market risk

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

Banking book interest rate risk

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

Foreign currency risk

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

Equity investment risk

These risks arise from equity price changes in listed and unlisted investments, and managed through the equity investment committee, which is a sub-committee of the executive committee. The primary objective of the bank's investment in equity securities is to hold the investments for the long term for strategic purposes. Management is assisted by external advisers in this regard. All the bank's investments are designated as at FVOCI, as they are not held for making short term profit.

5.2 Framework and governance

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

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

5.3 Market risk measurement

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

Daily net open position

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

Daily value-at-risk (VaR)

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

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

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

VaR back-testing

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

Stress tests

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

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

PV01

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

Other market risk measures

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

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

Annual net interest income at risk

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

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

The table below highlights the historical diversified normal VaR across the various trading desks. The minimum and maximum trading diversified normal VaR stood at N145m and N473m respectively with an annual average of N264m which translates to a conservative VaR limit utilisation of 18.1% on average.

Analysis of PV01

The table below shows the PV01 of the money markets banking and the individual trading books as at period end. The money markets trading book PV01 exposure increased to N3.8m from that of the previous year mainly due to T-bill purchases of N164bn, the money markets banking book PV01 exposure stood at N11.3m; lower than that of the previous year as a result of a reduction in the duration of the book, while the fixed income trading book PV01 exposure increased to N4.5m from that of previous year largely on the back of the purchase of N2bn worth of 30yr bonds. Overall trading PV01 exposure was N8.3m against a limit of N18m thus reflecting a very conservative exposure utilisation.

Table 15: Analysis of PV01

PV01 (NGN'000)	31-Dec-19	31-Dec-18	Limit
Money market trading book	3,785	1,169	6,099
Fixed income trading book	4,545	117	3,872
Credit trading book	-	-	2,050
Derivatives trading book	-	-	539
Total trading book	8,329	1,287	12,560
Money market banking book	11,256	15,263	17,000

Interest rate risk in the banking book

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

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

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

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

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

The analyses are done under normal market conditions i.e. under a bullish, expected and bearish interest rate scenario and, under stressed market conditions in which the banking book is subjected to an upward and downward 450 basis points parallel rate shock for local currency and 75 basis points for foreign currency.

Measurement of IRRBB

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

The impact on net interest income due to interest rate changes cover 12 months of forecasting and allows for the dynamic interaction of payments, new business and interest rates. The analyses are done under stressed market conditions in which the banking book is subjected to an upward 300 basis points (2018: 300 basis points) and downward 300 basis points (2018: 300 basis points) parallel rate shocks for local currency and 100 basis points (2018: 100 basis points) upward and downward parallel rate shocks for foreign currency positions. The table below shows the sensitivity of the bank's net interest income in response to standardised parallel rate shocks.

Table 16: Parallel Rate Shock Result

31 Dec 2019		NGN	USD	Other	Total
Increase in basis points		300	100	100	
Sensitivity of annual net interest income	NGNm	9,279	1,044	(16)	10,307
Decrease in basis points		300	100	100	
Sensitivity of annual net interest income	NGNm	(8,779)	(1,053)	16	(9,816)

31 Dec 2018		NGN	USD	Other	Total
Increase in basis points		300	100	100	
Sensitivity of annual net interest income	NGNm	5,021	2,284	3	7,308
Decrease in basis points		300	100	100	
Sensitivity of annual net interest income	NGNm	(4,934)	(2,313)	(3)	(7,250)

Hedging of endowment risk

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

Market risk on equity investment

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

Exposure to currency risk

The bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The board sets limits on the level of exposure by currency and in aggregate for both overnight and intra day positions, which are monitored daily. The table below summarises the bank’s exposure to foreign currency exchange risk as at 31 December 2019. The bank's policy is not to hold open exposures in respect of the banking book of any significance. The table below summarises foreign currency exposures of the bank as at period end and the net open position thereof.

Table 17: Currency Risk Concentration as at 31 December 2019

Concentrations of currency risk – on- and off-balance sheet financial assets and liabilities						
At 31 December 2019	**Naira**	**US Dollar**	**GBP**	**Euro**	**Others**	**Total**
Financial assets	**N million**	**N million**	**N million**	**N million**	**N million**	**N million**
Cash and cash equivalents	333,175	92,689	4,850	12,981	2,856	446,551
Trading assets	248,909	-	-	-	-	248,909
Pledged assets	231,972	-	-	-	-	231,972
Derivative assets	32,871	-	-	-	-	32,871
Financial investments	93,559	5,674	-	-	-	99,233
Loans and advances to banks	1,998	1,048	-	-	-	3,046
Loans and advances to customers	284,056	241,095	468	5,706	799	532,124
Other financial assets	151,702	(957)	(25)	(412)	1,157	151,465
	1,378,242	**339,549**	**5,293**	**18,275**	**4,812**	**1,746,171**
Financial liabilities						
Trading liabilities	55,332	194,871	-	-	-	250,203
Derivative liabilities	4,343	-	-	-	-	4,343
Deposits and current accounts from banks	131,279	108,450	348	6,927	1,898	248,902
Deposits and current accounts from customers	428,108	205,694	4,717	9,222	143	647,884
Other borrowings	37,473	54,692	-	-	-	92,165
Subordinated debt	82,079	24,579	-	-	-	106,658
Other financial liabilities	214,007	7,698	158	5,052	2,372	229,287
	952,621	**595,984**	**5,223**	**21,201**	**4,413**	**1,579,442**
Net on-balance sheet position	425,621	(256,435)	70	(2,926)	399	166,729
Off balance sheet	140,559	121,441	313	9,803	1,988	274,104

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

Period-end spot rate*	**2019**	2018
US Dollar	364.70	364.18
GBP	482.52	466.22
Euro	409.43	416.51

Table 18: Currency Risk Concentration as at 31 December 2018

Concentrations of currency risk – on- and off-balance sheet financial instruments						
At 31 December 2018	**Naira**	**US Dollar**	**GBP**	**Euro**	**Others***	**Total**
Financial assets	**N million**	**N million**	**N million**	**N million**	**N million**	**N million**
Cash and cash equivalents	257,340	167,929	4,413	21,468	516	451,666
Trading assets	84,276	-	-	-	-	84,276
Pledged assets	142,543	-	-	-	-	142,543
Derivative assets	30,286	-	-	-	-	30,286
Financial investments	351,768	5,688	-	-	-	357,456
Loans and advances to banks	1,401	7,146	-	-	-	8,548
Loans and advances to customers	218,925	198,069	465	13,433	1,821	432,713
Other financial assets	42,466	21,341	30	649	29.00	64,515
	1,129,005	**400,173**	**4,908**	**35,550**	**2,366**	**1,572,002**
Financial liabilities						
Trading liabilities	50,755	74,929	-	-	-	125,684
Derivative liabilities	4,151	-	-	-	-	4,151
Deposits and current accounts from banks	84,510	62,661	453	10,927	1,721	160,272
Deposits and current accounts from customers	543,184	284,436	3,839	7,536	715	839,710
Other borrowings	15,362	54,555	-	-	-	69,917
Subordinated debt	46,028	14,567	-	-	-	60,595
Other financial liabilities	129,484	19,223	473	6,035	1,513	156,728
	873,474	**510,371**	**4,765**	**24,498**	**3,949**	**1,417,057**
Net on-balance sheet position	255,531	(110,198)	143	11,052	(1,583)	154,945
Off balance sheet	52,686	74,561	697	11,713	6,824	146,481

Sensitivity analysis

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

Table 19: Sensitivity Analysis

	Profit or loss		**Equity, net of tax**	
Effect in N million	Strengthening	Weakening	Strengthening	Weakening
At 31 December 2019				
USD (20% movement)	**(51,287)**	**51,287**	**(35,901)**	**35,901**
GBP (10% movement)	**7**	**(7)**	**5**	**(5)**
EUR (5% movement)	**(146)**	**146**	**(102)**	**102**
At 31 December 2018				
USD (20% movement)	(22,040)	22,040	(15,428)	15,428
GBP (10% movement)	14	(14)	10	(10)
EUR (5% movement)	553	(553)	387	(387)

5.4 Market Risk Capital

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

Table 20: Market Risk Capital Charge and Risk Weighted Asset

Risk Type (Numbers are in N'million)	**Capital Charge**	**RWA (12.5 X Capital Charge)**
Interest Rate Risk (FGN Bonds & T-Bills)	1,078	13,480
Foreign Exchange Risk (Net Open Position)	208	2,602
Total	1,287	16,082

6 Operational Risk

6.1 Overview

Operational risk is defined as the risk of loss resulting from inadequate or failed processes, people and systems (including information technology and infrastructure) or from external events. Strategic, reputational, and business risks are excluded from this definition. The definition of operational risk also includes the following sub-types:

Table 21: Operational risk sub-types

Operational risk sub -types	Definitions
Information risk	This is the risk of unauthorised use, modification or disclosure of information resources.
Legal risk	The risk that legal action will be taken against Stanbic IBTC because of its actions, inactions, products, services or other events.
Compliance risk	This is the risk of regulatory sanctions, material financial loss, or loss to reputation the bank may suffer as a result of its failure to comply with laws, regulations, rules, and codes of conduct applying to its business activities.
Financial crime risk	This is the risk of economic loss, reputational risk and regulatory sanctions arising from any type of financial crime against the Group. Financial crime includes fraud, money laundering, violent crime, and misconduct by staff, customers, suppliers, business partners, stakeholders and third parties.
Digitization risk	This relates to risk emanating from the rapid rollout of disruptive innovation and/or new technologies within the financial services industry that may outpace Stanbic IBTC ability to compete and/manage the risk appropriately without making significant changes to our business operating model. It further includes concerns around the security and privacy capabilities emanating from the continued advances of technology in the form of digital operations to harvest new sources of value through business model innovation.
Model risk	This arises from potential weaknesses in a model that is used in the measurement, pricing and management of risk. These weaknesses include incorrect assumptions, incomplete information, inaccurate implementation, limited model understanding, inappropriate use, or inappropriate methodologies leading to incorrect conclusions by the user.
Cyber security risk	This is the risk of financial loss, disruption or damage to the reputation of Stanbic IBTC from the failure of its information technology systems due to cyber-attacks or security breaches. This remains a top risk for Stanbic IBTC as it also continues its digital transformation journey. Emerging cyber-related risks include information risk, technology risk and consumer information protection challenges
Change risk	The risks that exist in any change initiatives for business adaptation which involve understanding and controlling the exposure to negative consequences of such initiatives if not properly handed in an efficient and effective manner. Change risk involves different areas such as the risk of unauthorized access to the change process; the risk on unplanned outages; the risk of a low change success rate; the risk of high numbers of emergency changes, the implication of these change initiatives in terms of organizational readiness; and the risk of significant project delays
Environmental risk	The risk is described as a measure of the potential threats to the environment that Group activities may have. It combines the probability that events will cause or lead to the degradation of the environment and the magnitude of the degradation.
Conduct risk	The risk that actions will be taken against Stanbic IBTC by our customers, third parties and other entities for issues relating to poor service delivery, lapses in transaction execution and other issues bordering on how Stanbic IBTC conducts its business and manages its operations.

6.2 Operational Risk Capital

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

The computation of operational risk capital requirement as at 31 December 2019 is based on the last three (3) years (2017, 2018, and 2019) gross income data as defined by the guideline.

Table 22: Operational Risk Capital Charge and Risk Weighted Asset

Item	2017	2018	2019
Gross Income N'million	127,528	127,086	130,859
Aggregate gross income N'million		385,473	
Beta Factor		15%	
Gross Income X Beta Factor		57,821	
Number of years with positive annual gross income		3	
Operational Risk Capital Charge		19,274	
Operational Risk Weighted Asset		240,921	

7 List of figures and tables

Figures

Tables