STANBIC IBTC BANK PLC

PILLAR III DISCLOSURES

31 DECEMBER 2021

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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 ("Stanbic IBTC" or "the group"), a member of Standard Bank Group (SBG). 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 three core business segments:

Wholesale Client Segment (WC): The bank's Wholesale Client business line comprises of four business units: Corporate Banking (CB), Global Markets (GM), Transactional Products and Services (TPS) and Client Coverage (CC).

- The Corporate Banking team provides corporate finance, project finance, structured finance, acquisition finance and property finance services to corporate and government entities.
- The Global Markets team comprises traders, sales managers and analysts of varying specialisation in equities, fixed income, foreign exchange, and money markets.
- The Transactional Products and Services team offers standardised and tailored transactional products and services including trade finance solutions, working capital and cash management solutions.
- The Client Coverage team manages corporate relationship and is the main point of contact with clients. The team members are skilled at identifying client needs and requirements, and at aligning these with the appropriate product houses for execution

Business and Commercial Clients Segment (BCC): The BCC segment of the bank provides appropriate, affordable, convenient and accessible financial solutions to a wide spectrum of large commercial and small- and- medium-scale enterprises (SMEs). It offers the following products: vehicle and asset finance, unsecured and secured business loans, residential accommodation financing solutions, a range of trade finance products and various current, savings and investment offerings.

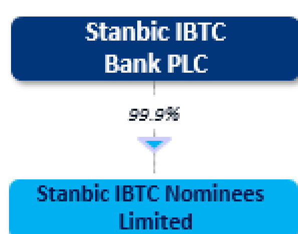
Consumer and High Net Worth Segment (CHNW): The CHNW business segment is the retail banking arm of the bank. It supports everyday banking needs of individual customers and high net worth individuals (HNIs) – saving money, withdrawing money and making payments through the network of branches and self-service digital channels. Overlaying these activities is a strong

relationship management focus to ensure differentiated customer experience for the customer segments

The bank offers custodial services through its subsidiary; Stanbic Nominees Nigeria Limited (SINL). Following the discontinuation of the Stanbic IBTC Bureau De Change Limited and the return of license to the CBN in January 2021, the company, which now bears Stanbic IBTC Financial Services Limited (SIFL) was a subsidiary of the bank between 01 January and 03 November 2021. As at 03 November 2021, CBN approval was obtained to repurpose SIFL as a wholly owned subsidiary of Stanbic IBTC Holdings PLC to be engaged in Financial Technology (FinTech) business.

An illustrative diagram of Stanbic IBTC Bank's structure as at 31 December 2021 is shown below:

Figure 1: Stanbic IBTC Bank structure as at 31 December 2021



Stanbic IBTC Nominees Nigeria Limited - The principal activity of the company is investor services as well as acting as an agent of its parent company, Stanbic IBTC Bank, in the execution of various mandates relating to the custody of assets.

1.2 Basel Framework

The Basel framework stipulates a minimum level of capital and liquidity sufficiency 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 framework is based on three pillars:

- Pillar I - Minimum Capital Requirements and Liquidity Sufficiency. 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 (TSA) for credit and market risk and the Basic Indicator Approach (BIA) for operational risk. It also considers liquidity sufficiency for banking institutions.

- Pillar II - Supervisory Review. This is structured along two separate but complementary stages; the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Assessment Process (ILAAP) and the Supervisory Review and Evaluation process (SREP). The bank conducts a self-assessment of its internal capital and liquidity requirements via the ICAAP and ILAAP whilst the 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 based on the International Financial Reporting Standards (IFRS). These disclosures have been prepared in accordance with the CBN Guidance Notes on Pillar III, which covers the qualitative and quantitative disclosure requirements therein. The investment in subsidiaries, Stanbic IBTC Nominees Nigeria Limited has been deducted from regulatory capital for capital adequacy purposes at the end of the period under review.

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 Stanbic IBTC Holdings PLC, is aligned with the group's strategic focus of being the leading end-to-end financial solutions provider in Nigeria through innovative 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 units and risk

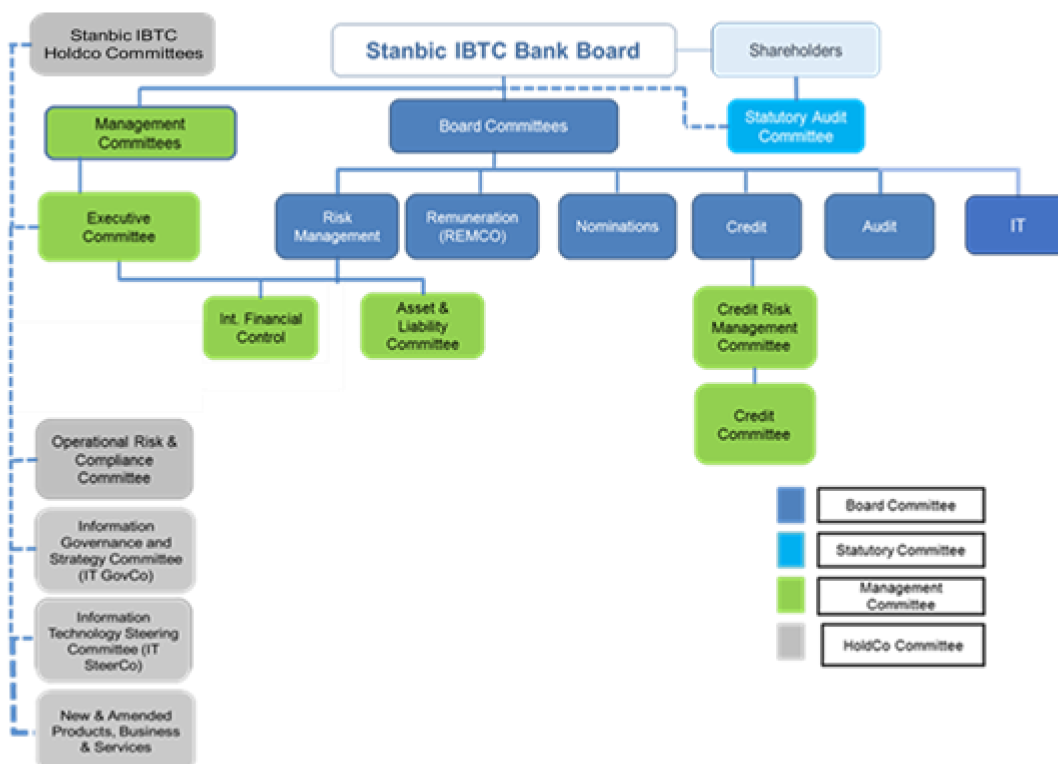
management functions. All principal risks are supported by the risk department through robust risk advisory and oversight responsibilities.

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 2: 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

Stanbic IBTC Bank conducts stress testing in order to:

- Provide a forward-looking assessment of the impact of stress conditions on the bank's earnings, capital, and liquidity position, thus enabling capital buffers to be appropriately determined and informing the budgeting and strategic planning processes;
- Assist in a comprehensive identification of risks and scenarios that the bank should be prepared for;
- Give the bank a clearer understanding of the impact of contingency plan options and the impact of various mitigating actions; and
- Give management and the Board a stronger understanding of the bank's risk exposure and allow closer interaction between different areas of the bank so that they can manage the bank's risk profile in an integrated way.

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. In determining what risks are considered material to the bank, cognisance is taken of:

- Regular risk and control self-assessments (RCSA) performed by management which identify risks that could threaten the achievement of business objectives.
- History of losses as well as potential future losses.
- Those risks to which significant amounts of economic and regulatory capital are allocated.
- The definition of materiality thresholds which are advised by regulations.

The principal risks are defined as follows:

2.3.1 Credit Risk

Credit risk arises primarily in the bank's operations where an obligor or 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, IT operations risk, fraud risk, change risk, conduct risk, money laundering and terrorist financing risk, model risk, environmental and social risk, third party 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 Basel III guidelines were released on 02 September 2021 by the CBN to further strengthen the resilience of Nigerian banks by increasing the minimum requirement for high quality capital which can absorb losses on a going concern basis, and by requiring banks to build up additional capital buffers to cushion against future unexpected losses. The implementation of the Basel III guidelines commenced with a parallel run with the Basel II guidelines effective from November 2021 for an initial period of six months which may be extended by another three months subject to the milestones achieved by banks based on CBN supervisory expectations..

3.2 Regulatory Capital

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

- Common Equity Tier 1 (CET1) which includes share capital, share premium, retained earnings and reserves created by appropriations of retained earnings. Deferred tax asset, intangible assets and total investment in subsidiaries are deductible in arriving at CET1 capital.
- Tier 1 capital which comprises CET1 and Additional Tier 1 (AT1) capital. AT1 capital is made up of perpetual non-cumulative preference shares, perpetual non-callable bonds and related instruments. The bank had no AT1 capital as at 31 December 2021.
- Tier 2 capital which includes subordinated debts and other comprehensive income. Subordinated debt at the end of the year totaled N17.31 billion and is a USD denominated term subordinated non-collateralised facility of USD40 million obtained from Standard Bank of South Africa effective 05 February 2021. The facility expires on 05 February 2031 and is repayable at maturity. Interest on the facility is payable semi-annually at LIBOR (London Interbank Offered Rate) plus 4.82%.

Total eligible CET1 and Tier 1 Capital as at 31 December 2021 both stood at N208.7 billion (Dec 2020: N201.4 billion) while Total eligible Tier 2 Capital as at 31 December 2021 was N19.6 billion (Dec 2020: N18.6 billion).

Investment in financial subsidiary is deducted from CET1 and Tier 2 capital to arrive at total regulatory capital, with Tier 2 capped at 33.33% of Tier 1 under Basel II, resulting in a total qualifying capital of N286.3 billion as at 31 December 2021 (December 2020: N220 billion). Under the Basel III guidelines, the investment in financial subsidiary is deducted from CET1 only and this results in the same total qualifying capital as mentioned above.

3.3 Methodology for Capital Adequacy

Minimum capital requirements

Regulatory capital adequacy is measured based on Pillar 1 of the Basel capital framework. Capital adequacy ratio is calculated by dividing the capital held by the 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 operated above its targeted capitalization range and well over the minimum regulatory capital adequacy ratio of 10% as mandated by CBN. A further breakdown of the requirements are shown in the table below.

Table 1: Minimum regulatory requirement as at 31 December 2021

	Common Equity Tier 1	Tier 1 Capital	Total Capital	Leverage ratio
Capital adequacy ratio	7.0%	7.5%	10.0%	4.0%
Mandatory capital conservation buffer	1.0%	1.0%	1.0%	Not applicable

Leverage ratio

This is non-risk based capital measure introduced in the CBN Basel III guidelines to act as a supplementary measure to the risk-based regulatory capital requirements. The leverage ratio (LeR) is intended to achieve the following:

- Constrain the build-up of excessive on-balance-sheet and off-balance-sheet leverage in the banking system to avoid destabilizing effects of the deleveraging processes which can damage the broader financial system and the economy; and
- Fortify the risk-based capital requirement with a simple, non-risk based “backstop” measure.

The LeR is calculated as capital measure divided by exposure measure and is expressed as a percentage. The capital measure is the Tier I capital of banks while the exposure measure comprises on-balance sheet exposures, derivatives, securities financing transactions and off-balance sheet exposures. Banks are required to maintain a minimum leverage ratio of 4% at all times.

Table 2: Stanbic IBTC Bank capital adequacy computation as at 31 December 2021

Stanbic IBTC Bank	Basel II 31 Dec 2021 N'million	Basel III* 31 Dec 2021 N'million	Basel II 31 Dec 2020 N'million	*Basel II - Adjusted for impact of IFRS 9 transitional adjustment 31 Dec 2020 N'million
Tier 1	226,263	226,263	218,423	220,482
Common Equity Tier I				
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)	115,540	115,540	114,750	114,750
SMEEIS reserve	1,039	1,039	1,039	1,039
AGSMEEIS reserve	10,240	10,240	7,626	7,626
Statutory reserve	55,064	55,064	50,629	50,629
Other reserves	36	36	36	36
IFRS 9 Transitional Adjustment Relief	-	-	-	2,059
Non controlling interests	-	-	-	-
Less: regulatory deduction	17,598	17,598	17,072	17,072
Deferred tax assets	13,626	13,626	12,381	12,381
Other intangible assets	3,972	3,972	4,641	4,641
Investment in the capital of financial subsidiaries	0	0	50	50
Eligible Common Equity Tier I capital	208,665	208,665	201,351	203,410
Eligible Tier I capital	208,665	208,665	201,351	203,410
Tier II	19,635	19,635	18,649	18,649
Hybrid (debt/equity) capital instruments	-	-	-	-
Subordinated term debt	17,312	17,312	12,853	12,853
Other comprehensive income (OCI)	2,323	2,323	5,796	5,796
Less: regulatory deduction	0	-	50	50
Investment in the capital of financial subsidiaries	0	-	50	50
Eligible Tier II capital	19,635	19,635	18,599	18,599
Total regulatory capital	**228,300**	**228,300**	**219,950**	**222,009**
Risk weighted assets:				
Credit risk	1,125,843	1,125,843	870,284	870,284
Operational risk	237,015	237,015	250,030	250,030
Market risk	46,398	46,398	18,665	18,665
Total risk weight asset	**1,409,255**	**1,409,255**	**1,138,979**	**1,138,979**
Total capital adequacy ratio	16.2%	16.2%	19.3%	19.5%
Tier I capital adequacy ratio	14.8%	14.8%	17.7%	17.9%
Common Equity Tier I capital adequacy ratio	14.8%	14.8%	17.7%	17.9%

*Capital adequacy ratio stood at 16.2% under Basel II and Basel III guidelines. The Basel III guidelines were released on 02 September 2021 by the CBN to further strengthen the resilience of Nigerian banks by increasing the minimum requirement for high quality capital which can absorb losses on a going concern basis, and by requiring banks to build up additional capital buffers to cushion against future unexpected losses. The implementation of the Basel III guidelines commenced with a parallel run with the Basel II guidelines effective from November 2021 for an initial period of six months which may be extended by another three months subject to the milestones achieved by banks based on CBN supervisory expectations.

As shown in the table above, Stanbic IBTC Bank maintained a strong capital adequacy position as at 31 December 2021 with a total CAR of 16.2%, Tier 1 and CET1 ratios of 14.8%, all remaining above minimum requirements. In addition, the bank had a high-quality mix of capital to absorb losses, including CET1 capital of NGN208.7 billion (91% of total regulatory capital).

Table 3: Reconciliation of total equity in audited financial statement to regulatory capital elements

December 2021 (N' million)		Total Equity	Regulatory Capital
Common Equity Tier 1 (CET 1)	Paid-up Share capital	1,875	1,875
	Share premium	42,469	42,469
	General reserve (Retained Profit)*	133,292	115,540
	SMEEIS reserve	11,279	11,279
	Statutory reserve	55,064	55,064
	Other reserves	36	36
	Statutory credit risk reserve	5,439	-
		249,454	**226,263**
Deductions	Deferred tax assets		(13,626)
	Other intangible assets		(3,972)
	Investment in subsidiaries		(0)
			(17,598)
Eligible CET 1			**208,665**
	Additional tier 1 capital	-	-
Total Tier 1		**249,454**	**208,665**
Tier 2 capital	Sub-ordinated debt		17,312
	Other comprehensive income	2,323	2,323
Total Tier 2		**2,323**	**19,635**
Total Capital		**251,775**	**228,300**

The differences between total equity balance in the audited financial statements of the bank and regulatory capital elements are as a result of the following:

- The impact of proposed dividend has been considered under regulatory capital through a deduction from retained earnings.
- Statutory credit risk reserve is not eligible for regulatory capital computation.
- Investment in subsidiaries, deferred tax assets and intangible assets are required deductions to CET1 under regulatory capital.
- The Tier 2 compliant subordinated debt has been included as part of regulatory capital.

Table 4: Leverage ratio as at 31 December 2021

SN	Item	Amount (N' million)
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,572,875
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(17,598)
3	Total on-balance sheet exposures (excluding derivatives and SFTs)	**2,555,277**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	41,212
5	Add-on amounts for PFE associated with all derivatives transactions	48,029
6	Total derivative exposures	**89,241**
Securities financing transaction (SFT) exposures		
7	Total securities financing transaction exposures	**-**
Other off-balance sheet exposures		
8	Off-balance sheet exposure at gross notional amount	289,543
9	(Adjustments for conversion to credit equivalent amounts)	(116,837)
10	Off-balance sheet items	**172,706**
Capital and total exposures		
11	Tier 1 capital – fully phased-in definition	226,263
12	Tier 1 capital - transitional definition	226,263
13	Regulatory adjustments - Tier 1 - fully phased-in definition	(17,598)
14	Regulatory adjustments - Tier 1 - transitional definition	(17,598)
15	Total exposures (sum of lines 3, 11, 16 and 19)	2,817,224
Leverage ratio		
16	Leverage Ratio - using a fully phased-in definition of Tier 1	**7.4%**
17	Leverage Ratio - using a transitional definition of Tier 1	**7.4%**

As a complimentary measure to CAR, leverage ratio (LeR) of the bank stood at 7.4% above the regulatory limit of 4% as at 31 December 2021. The table above shows the various components of LeR.

Table 5: Reconciliation of total assets and total exposure measure for leverage ratio

SN	Item	Amount (N' million)
1	Total consolidated assets as per published financial statements	2,614,087
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(0)
3	Adjustments for derivative financial instruments (add-on amount for PFE)	48,029
4	Adjustment for securities financing transactions	-
5	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	172,706
7	Adjustment for (Asset amounts deducted in determining Basel III Tier 1 capital)	(17,598)
8	**Leverage ratio exposure**	**2,817,224**

The differences between total assets and total exposure measure are as a result of the following;

- The leverage ratio guidelines require a different measurement for derivatives resulting in increased exposure as a result of the add-on amount for Potential Future Exposure (PFE)
- Off-balance sheet exposures were not part of total assets.
- Investment in equity instrument of subsidiary, deferred tax assets and intangible assets have been deducted to derive eligible Basel III tier 1 capital.

Capital requirements based on Internal Capital Adequacy Assessment Process

The bank has embedded a sound Internal Capital Adequacy Assessment Process (ICAAP) in line with the CBN regulations. The ICAAP is an extensive internal assessment of the quality and robustness of the bank's governance, risk management, capital management and financial planning frameworks, and an assessment of the resilience of the bank's business model under normal and stress conditions for within the planning horizon. In implementing the ICAAP, the bank considers other material risk types (Pillar II risks) in addition to the Pillar I risks (credit, market and operational risk). The bank produces the ICAAP report on an annual basis based on regulatory requirement and this is reviewed and approved by the Board.

The table below shows the business units where the material risk types are generated. All the material risk types are applicable to CHNW, BCC and WC with the exception of market risk which resides only with WC. Regulatory risk, legal risk, digitisation risk, model risk, cyber security risk, environmental and social risk and information risk are sub-risk types to operational risk.

Table 6: Sources of material risk types

Business Unit / Risk Type	Consumer and High Networth Clients (CHNW)	Business and Commercial Clients (BCC)	Wholesale Clients (WC)
Credit risk	✓	✓	✓
Market risk	X	X	✓
Operational risk	✓	✓	✓
Business risk	✓	✓	✓
Reputational risk	✓	✓	✓
Regulatory risk	✓	✓	✓
Liquidity risk	✓	✓	✓
Interest rate risk in the banking book (IRRBB)	✓	✓	✓
Legal risk	✓	✓	✓
Model risk	✓	✓	✓
Environmental and social risk	✓	✓	✓
Digitisation risk	✓	✓	✓
Cyber security risk	✓	✓	✓
Information risk	✓	✓	✓

The table below discloses internal capital requirements for the various Pillar I and Pillar II risks of the bank. To determine the amount of capital needed for the risk types, the bank adopts various models in quantifying the impact of the risks and the estimated loss that would result if they crystalise.

Table 7: Capital requirement based on internal assessment of material risk types

N'million	2021	2020
Pillar 1 capital requirements	**190,298**	**189,582**
Credit risk	155,780	144,905
Market risk	8,927	17,971
Operational risk	25,591	26,706
Regulatory risk	6,035	3,740
Model risk	5,439	1,460
Digitisation risk	6,032	6,841
Information risk	147	714
Legal risk	6,112	672
Cyber Security risk	365	427
Environmental & social risk	487	-
Other operational risks	974	12,850
Pillar 2 capital requirements*	**35,199**	**24,934**
Equity risk	1,913	2,013
Interest rate risk in banking book	28,126	17,644
Reputational risk	916	1,932
Business risk	4,245	3,345
Total capital required	**225,497**	**214,516**
Available financial resources**	251,491	258,187
Capital surplus	**25,994**	**43,671**
Capital coverage ratio	**1.12**	**1.20**
CCR Risk Appetite Trigger	1.05	1.15

** Due to the robustness of measurement and monitoring approaches, the level of unencumbered liquid assets, and the necessarily timeous management action required, Stanbic IBTC Bank does not deem it necessary to hold capital for liquidity risk. This is explained further in section 7.2.1.*

***Available Financial Resources (AFR) is management's estimate of the capital that is available to cover potential unexpected losses; similar to regulatory qualifying capital it includes equity equivalent forms of permanent and loss absorbing capital, as well as subordinated debt.*

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 in the bank.

The Wholesale Clients (WC), the Business and Commercial Clients (BCC) and the Consumer and High Net Worth Clients (CHNW) 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 and the respective business segment 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: Probability of Defaults (PDs), Exposures at Defaults (EADs), and Loss Given Defaults (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 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 the 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, 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 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 which has delegated this to the following organs:

Board Credit Committee (BCC)

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 is the senior management credit decision-making function of the bank with a defined delegated authority 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 Credit Committee 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 WC and BCC Credit

The Heads of WC, BCC and CHNW Credit teams 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 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 losses 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 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 delegated authority levels are quantified according to counterparty risk grade. Individuals may be accorded delegated authority 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.

Table 8: Stanbic IBTC Bank credit grading system

Bank'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)		
	2021	**2020**
National		
Long- Term Issuer Default Rating (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

Impairment model

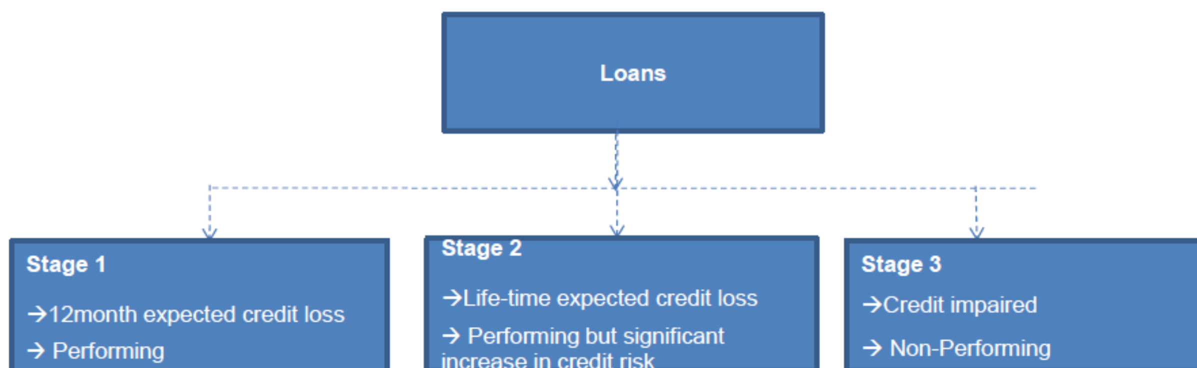
IFRS 9 requires the recognition of expected credit losses (ECL). This applies to all financial debt instruments held at amortised cost, fair value through other comprehensive income (FVOCI), undrawn loan commitments and financial guarantees.

Staging of financial instruments

Financial instruments that are not already credit-impaired are originated into stage 1 and a 12-month expected credit loss allowance 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 3: 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).

Total exposures to credit risk stood at N2.87 trillion as at 31 December 2021 (December 2020: N2.60 trillion). The tables below show the breakdown of the exposures by credit quality.

Table 9: Maximum Exposure to credit risk by credit quality- December 2021

December 2021	Total Loans and Advances to Customers N'million	Balance sheet impairments for performing loans N'million	Performing loans						Non-performing loans													
			Neither past due nor specifically impaired				Not specifically impaired		Specifically impaired loans											Total non-performing loans N'million	Non-performing loans %
									Non-performing loans												
			Normal monitoring N'million		Close monitoring N'million		Early arrears N'million		Stage 3			Purchased/Originated as credit impaired			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 %		
			Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Sub-standard N'million	Doubtful N'million	Loss N'million	Sub-standard N'million	Doubtful N'million	Loss N'million							
Consumer and High Networth Clients (CHNWC)	78,519	1,095	65,920	966	-	31	6,272	1,974	963	547	1,846	-	-	-	3,356	(1,217)	4,573	4,573	136	3,356	4.3
Mortgage loans	4,356	20	3,867	93		-	118	135	83	2	57	-	-	-	143	72	71	71	50	143	3.3
Instalment sale and finance leases	1,552	13	1,452	-		-	14	47	11	20	9	-	-	-	40	24	16	16	40	40	2.6
Card debtors	1,265	35	746	36		-	171	128	49	27	108	-	-	-	185	49	135	135	73	185	14.6
Other loans and advances	71,345	1,027	59,855	837		31	5,970	1,664	820	497	1,672	-	-	-	2,989	(1,362)	4,351	4,351	146	2,989	4.2
Business and Commercial Client (BCC)	284,151	4,501	257,978	505	-	2,855	12,547	2,145	3,177	1,222	3,722	-	-	-	8,121	3,068	5,053	5,053	62	8,121	2.9
Mortgage loans	425	13	425	-		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Instalment sale and finance leases	34,238	706	32,286	-		1,323	172	224	104	92	38	-	-	-	233	162	71	71	30	233	0.7
Card debtors	4	1	4	-		-	-	0	0	0	-	-	-	-	0	0	-	-	-	0	0.0
Other loans and advances	249,483	3,781	225,263	505		1,532	12,374	1,920	3,073	1,130	3,685	-	-	-	7,888	2,906	4,982	4,982	63	7,888	3.2
Wholesale Clients	583,589	3,712	572,071	1,477	-	-	1,180	0	-	-	8,861	-	-	-	8,861	2,579	6,281	6,281	71	8,861	1.5
Corporate loans	583,589	3,712	572,071	1,477	-	-	1,180	0	-	-	8,861	-	-	-	8,861	2,579	6,281	6,281	71	8,861	1.5
Gross loans and advances	**946,259**	9,308	895,970	2,948	-	2,886	19,999	4,118	4,140	1,769	14,428	-	-	-	20,338	4,431	15,907	15,907	269	20,338	2.1
Less: Total expected credit loss for loans and advances at amortised cost																					
12-month ECL	(8,025)																				
Lifetime ECL not credit-impaired	(1,283)																				
Lifetime ECL credit-impaired	(15,907)																				
Purchased/originated credit impaired																					
Net loans and advances	921,044																				
Add the following other banking activities exposures:																					
Cash and cash equivalents	643,014																				
Derivatives	41,212																				
Financial investments (excluding equity)	557,844																				
Loans and advances to banks	2,273																				
Trading assets	-																				
Pledged assets	182,335																				
Other financial assets[1]	119,551																				
Total on-balance sheet exposure	2,467,273																				
Off balance sheet exposures																					
Letters of credit	185,714	132	184,533	1,181	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Guarantees	104,418	644	103,963	455	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Loan commitments	114,374	206	114,374	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total exposure to credit risk	**2,871,779**																				
Expected credit loss for off balance Sheet exposures																					
12-month ECL	**(784)**																				
Lifetime ECL not credit-impaired																					
Lifetime ECL credit-impaired	**-**																				
Total exposure to credit risk at amortised cost	2,870,995																				

[1]Other assets presented in the table above comprise financial assets only. The following items have been excluded: prepayment, indirect / withholding tax receivable, and accrued income.

Table 10: Maximum Exposure to credit risk by credit quality- December 2020

December 2020	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 N'million Stage 2	Close monitoring N'million Stage 1	Close monitoring N'million Stage 2	Not specifically impaired – Early arrears N'million Stage 1	Early arrears N'million 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	Balance sheet impairments for non-performing specifically impaired loans N'million	Gross specific impairment coverage %	Total non-performing loans N'million	Non-performing loans %
Consumer and High Networth Clients (CHNWC)	58,924	814	50,756	1,254	-	-	2,954	1,562	657	828	913	-	-	-	2,399	1,024	1,375	1,375	57	2,399	4.1
Mortgage loans	3,517	67	2,864	325		-	-	232	2	36	57	-	-	-	95	46	49	49	52	95	2.7
Instalment sale and finance leases	1,506	5	1,441	-		-	-	36	26	1	2	-	-	-	30	18	12	12	39	30	2.0
Card debtors	1,196	73	738	64		-	112	114	29	32	109	-	-	-	170	56	114	114	67	170	14.2
Other loans and advances	52,704	669	45,713	865		-	2,842	1,180	601	758	744	-	-	-	2,103	904	1,199	1,199	57	2,103	4.0
Business and Commercial Client (BCC)	182,084	3,807	161,916	316	-	7,241	2,654	422	1,177	1,930	6,428	-	-	-	9,535	1,749	7,786	7,786	82	9,535	5.2
Mortgage loans	719	23	653	-		66	-	-	-	-	-	-	-	-	-	-		-	-	-	-
Instalment sale and finance leases	8,360	282	5,978	11		1,581	491	225	5	25	45	-	-	-	74	34	40	40	54	74	0.9
Card debtors	6	1	4	0		-	0	2	-	-	1	-	-	-	1	0	0	0	68	1	8.5
Other loans and advances	172,999	3,501	155,282	306		5,593	2,163	195	1,173	1,905	6,383	-	-	-	9,460	1,715	7,745	7,745	82	9,460	5.5
Wholesale Clients	414,284	3,569	391,889	5,193	-	-	2,644	-	-	8,885	5,674	-	-	-	14,559	2,495	12,064	12,064	83	14,559	3.5
Corporate loans	414,284	3,569	391,889	5,193		-	2,644	0	-	8,885	5,674	-	-	-	14,559	2,495	12,064	12,064	83	14,559	3.5
Gross loans and advances	**655,292**	8,189	604,561	6,763	-	7,241	8,251	1,984	1,835	11,642	13,016	-	-	-	26,492	5,268	21,224	21,224	222	26,492	4.0
Less: Total expected credit loss for loans and advances at amortised cost																					
12-month ECL	(6,680)																				
Lifetime ECL not credit-impaired	(1,509)																				
Lifetime ECL credit-impaired	(21,964)																				
Purchased/originated credit impaired																					
Interest In Suspense (IIS)																					
Net loans and advances	625,139																				
Add the following other banking activities exposures:																					
Cash and cash equivalents	613,887																				
Derivatives	46,232																				
Financial investments (excluding equity)	526,934																				
Loans and advances to banks	6,323																				
Trading assets	169,655																				
Pledged assets	170,578																				
Other financial assets[1]	158,829																				
Total on-balance sheet exposure	2,317,577																				
Off balance sheet exposures:																					
Letters of credit	119,841	145	118,696	1,145	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Guarantees	113,312	1,072	113,007	304	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loan commitments	49,240	126	48,721	519	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total exposure to credit risk	**2,599,970**																				
Expected credit loss for off balance Sheet exposures																					
12-month ECL	**(1,226)**																				
Lifetime ECL not credit-impaired																					
Lifetime ECL credit-impaired																					
Total exposure to credit risk at amortised cost	2,598,744																				

[1]Other assets presented in the table above comprise financial assets only. The following items have been excluded: prepayment, indirect / withholding tax receivable, and accrued income.

Across the various business lines, a total of N24.12 billion (December 2020: N71.26 billion) loans and advances within the stage 1 and 2 classification are past due but not specifically impaired. The table below provides an ageing analysis of the said exposures.

Table 11: 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 2021						
Consumer and High Networt Clients (CHNWC)	**7,173**	**741**	**333**	**-**	**-**	**8,246**
Mortgage loans	180	62	12	-	-	253
Instalment sales and finance lease	16	40	5	-	-	60
Card debtors	222	61	17	-	-	300
Other loans and advances	6,756	579	299	-	-	7,633
Business and Commercial Client (BCC)	**14,102**	**377**	**212**	**-**	**-**	**14,691**
Mortgage loans	-	-	-	-	-	-
Instalment sales and finance lease	324	44	28	-	-	397
Card debtors	-	0	-	-	-	-
Other loans and advances	13,778	332	184	-	-	14,294
Wholesale Clients (WC)	1,043	137	0	-	-	1,180
Corporate loans	1,043	137	0	-	-	1,180
Total	**22,318**	**1,255**	**545**	**-**	**-**	**24,117**
December 2020						
Consumer and High Networt Clients (CHNWC)	5,370	1,567	357	-	-	7,295
Mortgage loans	334	521	29	-	-	885
Instalment sales and finance lease	907	641	64	-	-	1,612
Card debtors	553	162	60	-	-	775
Other loans and advances	3,575	243	204	-	-	4,023
Business and Commercial Client (BCC)	11,764	4,105	2,692	-	-	18,561
Mortgage loans	-	-	-	-	-	-
Instalment sales and finance lease	1,958	68	64	-	-	2,090
Card debtors	-	-	-	-	-	-
Other loans and advances	9,806	4,037	2,628	-	-	16,471
Wholesale Clients (WC)	19,817	3,670	21,918	-	-	45,406
Corporate loans	19,817	3,670	21,918	-	-	45,406
Total	36,951	9,343	24,967	-	-	71,262

*This section relates to loans and advances in stage 1 and 2 with over due balances

Table 12: Stage 3 loans and advances and lifetime ECL credit-impaired by geography

As at 31 Dec. 2021

	Gross Exposure	Stage 3 loans and advances	Lifetime ECL credit-impaired
	N million	N million	N million
South South	36,917	1,018	1,351
South West	809,446	12,507	18,302
South East	20,887	532	521
North West	39,671	4,606	3,022
North Central	34,495	1,590	1,869
North East	4,843	85	158
Outside Nigeria	2,279	-	-
Total	**948,538**	**20,338**	**25,221**

As at 31 Dec. 2020

	Gross Exposure	Stage 3 loans and advances	Lifetime ECL credit-impaired
	N million	N million	N million
South South	29,737	1,116	846
South West	563,391	18,974	16,589
South East	11,520	487	373
North West	24,776	4,113	2,562
North Central	24,721	1,732	1,538
North East	1,148	70	55
Outside Nigeria	6,327	-	-
Total	**661,620**	**26,492**	**21,963**

The table above sets out the distribution of the bank's loans and advances by geographic area where the loans are recorded including the amounts that have been classified as stage 3 and the specific impairments made in this regard.

Table 13: Stage 3 loans and advances and lifetime ECL credit-impaired by industry

As at 31 Dec. 2021

	Gross Exposure	Stage 3 loans and advances	Lifetime ECL credit-impaired
	N million	N million	N million
Agriculture	34,976	5,398	2,648
Business services	8,348	32	569
Communication	25,350	5	201
Community, social & personal services	-	-	-
Construction & real estate	57,701	8,884	6,887
Electricity, gas & water supply	1,477	-	19
Financial intermediaries & insurance	36,463	-	140
Government	37,590	-	878
Hotels, restaurants and tourism	104	-	2
Manufacturing	170,482	610	1,825
Oil and Gas	168,696	6,759	5,847
Private households	59,013	2,399	2,924
Transport, storage & distribution	1,879	1,340	1,094
Wholesale & retail Trade	59,541	1,065	2,187
Total	**661,620**	**26,492**	**25,221**

As at 31 Dec. 2020

	Gross Exposure	Stage 3 loans and advances	Lifetime ECL credit-impaired
	N million	N million	N million
Agriculture	37,157	4,127	3,953
Business services	31,746	3	29
Communication	49,272	2	3
Community, social & personal services		-	-
Construction & real estate	58,744	8,861	7,034
Electricity, gas & water supply	9,302	-	-
Financial intermediaries & insurance	27,008	-	-
Government	74,788	-	-
Hotels, restaurants and tourism	206	-	-
Manufacturing	304,862	128	452
Oil and Gas	214,640	1,238	6,552
Private households	78,022	3,356	1,717
Transport, storage & distribution	9,603	1,217	1,239
Wholesale & retail Trade	53,188	1,406	984
Total	**948,538**	**20,338**	**21,963**

The table above sets out the distribution of the bank's loans and advances by industry where the loans are recorded including the amounts that have been classified as stage 3 and the specific impairments made in this regard.

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 N275 million as at 31 December 2021 (December 2020: N11.7 billion).

Collateral

The table that follows shows the financial effect that collateral has on the bank's maximum exposure to credit risk. The table is presented according to Basel asset categories and includes collateral that may not be eligible for recognition under Basel 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, 32% (December 2021: 55%) is collateralised. Of the bank's total exposure, 11% (December 2020: 18%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

Table 14: December 2021 Breakdown by Collateral

	Total exposure N'million	Unsecured N'million	Secured N'million	Netting agreements N'million	Secured exposure after netting N'million	Total collateral coverage 1%-50% N'million	50%-100% N'million	Greater than 100% N'million
December 2021								
Corporate	834,959	686,755	148,204	-		18,362	10,973	118,869
Sovereign	1,334,894	1,334,894	-	-	-	-	-	-
Bank	164,623	164,623	-	-	-	-	-	-
Retail	522,933	354,479	168,454	-	-	18,238	15,557	2,976,814
Retail Mortgage	4,781	-	4,781	-	-	-	1,936	2,845,000
Other retail	518,152	354,479	163,673	-	-	18,238	13,621	131,814
Total	**2,857,409**	**2,540,751**	**316,658**	**-**	**-**	**36,600**	**26,530**	**3,095,683**
Add: Financial assets not exposed to credit risk	19,056							
Less: Impairments for loans and advances	(25,215)							
Less: Unrecognised off balance sheet items	(290,132)							
Total exposure	**2,561,118**							
Reconciliation to statement of financial position:								
Cash and balances with central bank	643,014							
Derivatives	41,212							
Financial investments (excluding equities)	557,844							
Loans and advances	923,317							
Trading assets	98,739							
Pledged assets	182,335							
Other financial assets	114,657							
Total	**2,561,118**							

Table 15: December 2020 Breakdown by Collateral

	Total exposure N'million	Unsecured N'million	Secured N'million	Netting agreements N'million	Secured exposure after netting N'million	Total collateral coverage 1%-50% N'million	50%-100% N'million	Greater than 100% N'million
December 2020								
Corporate	685,212	443,590	241,622	-	-	34,016	122,850	84,756
Sovereign	1,328,006	1,328,006	-	-	-	-	-	-
Bank	143,435	143,435	-	-	-	-	-	-
Retail	377,511	168,605	208,906	-	-	1,019	96,745	3,624,625
Retail Mortgage	3,517	-	3,517	-	-	-	-	3,517,000
Other retail	373,994	168,605	205,389	-	-	1,019	96,745	107,625
Total	**2,534,164**	**2,083,636**	**450,528**	**-**	**-**	**35,034**	**219,595**	**3,709,381**
Add: Financial assets not exposed to credit risk	46,238							
Less: Impairments for loans and advances	(30,153)							
Less: Unrecognised off balance sheet items	(232,809)							
Total exposure	**2,317,440**							
Reconciliation to statement of financial position:								
Cash and balances with central bank	613,887							
Derivatives	46,232							
Financial investments	526,796							
Loans and advances	631,462							
Trading assets	169,655							
Pledged assets	170,578							
Other financial assets	158,829							
Total	**2,317,440**							

Concentration of risks of financial assets with credit risk exposure

a) Geographical sectors

Table 16: Breakdown by Geography

At 31 December 2021	Trading assets	Derivative assets	Pledged assets	Financial investments (excluding equity)	Loans and advances to customers	Loans and advances to banks	Total
	N'million	N'million	N'million	N'million	N'million	N'million	N'million
South South	-	6,102	-	-	36,917	-	**43,019**
South West	445	2,818	-	9,557	809,445	-	**822,265**
South East	-	1	-	-	20,887	-	**20,888**
North West	-	-	-	-	39,671	-	**39,671**
North Central	98,294	25,743	182,335	551,143	34,495	2,000	**894,010**
North East	-	-	-	-	4,843	-	**4,843**
Outside Nigeria	-	6,548	-	-	-	747	**7,295**
Carrying amount	**98,739**	**41,212**	**182,335**	**560,700**	**946,258**	**2,747**	**1,831,991**

At 31 December 2020	Trading assets	Derivative assets	Pledged assets	Financial investments (excluding equity)	Loans and advances to customers	Loans and advances to banks	Total
	N'million	N'million	N'million	N'million	N'million	N'million	N'million
South South	-	79	-	-	28,601	-	**28,681**
South West		3,907	-	18,156	565,773	-	**587,836**
South East	-	9	-	-	12,656	-	**12,664**
North West	-	-	-	-	21,863	-	**21,863**
North Central	169,655	37,124	85,947	508,698	26,400	1,995	**829,819**
North East	-	-	-	-	-	-	**-**
Outside Nigeria	-	5,114	84,631	-	-	4,328	**94,073**
Carrying amount	**169,655**	**46,233**	**170,578**	**526,854**	**655,292**	**6,323**	**1,574,935**

b) Industry Sector

Table 17: Breakdown by Industry Sector

At 31 December 2021	Trading assets	Derivative assets	Pledged assets	Financial investments (excluding equity)	Loans and advances to customers	Loans and advances to banks	Total
	N'million	N'million	N'million	N'million	N'million	N'million	N'million
Agriculture	-	48	-	-	37,157	-	**37,205**
Business services	-	1,637	-	-	31,745	-	**33,382**
Communication	-		-	-	49,271	-	**49,271**
Community, social & personal services	-	-	-	-	-	-	**-**
Construction and real estate	-	-	-	-	58,744	-	**58,744**
Electricity	-	-	-	-	9,302	-	**9,302**
Financial intermediaries & insurance	-	6,578	-	2,856	24,728	2,747	**36,909**
Government (including Central Bank)	98,739	25,741	182,335	551,143	74,788	-	**932,746**
Hotels, restaurants and tourism	-	-	-	-	207	-	**207**
Manufacturing	-	6,812	-	-	304,863	-	**311,675**
Mining	-	386	-	-	214,640	-	**215,026**
Private households	-	10	-		78,022	-	**78,032**
Transport, storage and distribution	-	-	-	-	9,603	-	**9,603**
Wholesale & retail trade	-	-	-	6,701	53,188	-	**59,889**
Carrying amount	**98,739**	**41,212**	**182,335**	**560,700**	**946,258**	**2,747**	**1,831,991**

At 31 December 2020	Trading assets	Derivative assets	Pledged assets	Financial investments (excluding equity)	Loans and advances to customers	Loans and advances to banks	Total
	N'million	N'million	N'million	N'million	N'million	N'million	N'million
Agriculture	-	-	-	-	34,977	-	**34,977**
Business services	-	-	-	-	8,348	-	**8,348**
Communication	-	-	-	-	25,350	-	**25,350**
Community, social & personal services	-	-	-	-	-	-	**-**
Construction and real estate	-	-	-	-	57,702	-	**57,702**
Electricity	-	-	-	-	1,477	-	**1,477**
Financial intermediaries & insurance	-	46,233	84,631	2,485	32,130	4,328	**169,807**
Government (including Central Bank)	169,655	-	85,947	508,698	35,593	1,995	**801,888**
Hotels, restaurants and tourism	-	-	-	-	104	-	**104**
Manufacturing	-	-	-	-	170,482	-	**170,482**
Mining	-	-	-	-	168,697	-	**168,697**
Private households	-	-	-	-	59,013	-	**59,013**
Transport, storage and distribution	-	-	-	-	1,879	-	**1,879**
Wholesale & retail trade	-	-	-	15,671	59,541	-	**75,212**
Carrying amount	**169,655**	**46,233**	**170,578**	**526,854**	**655,292**	**6,323**	**1,574,935**

c) Analysis of financial assets disclosed above by risk rating

Table 18: 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 2021	2,262	889,345	811,173	129,212	**1,831,991**
At 31 December 2020	6,054	1,333,011	140,279	95,591	**1,574,935**

Concentration of risks of off balance-sheet engagements

a) Geographical sectors

Table 19: Breakdown by Geography

	31 December 2021				31 December 2020			
	Loan Commitments N' million	Bonds and guarantees N' million	Letters of credit* N' million	December 2021 Total N'million	Loan Commitments N' million	Bonds and guarantees N' million	Letters of credit* N' million	December 2020 Total N'million
South South	475	21,209	2,241	**23,925**	758	20,642	-	**21,400**
South West	111,301	42,922	174,563	**328,786**	43,446	86,589	119,841	**249,876**
South East	764	153	83	**1,000**	902	161	-	**1,063**
North West	1,399	11,023	345	**12,767**	1,803	5,412	-	**7,215**
North Central	416	3,438	-	**3,854**	2,332	507	-	**2,839**
North East	19	11,023	-	**11,042**	-	-	-	**-**
Outside Nigeria	-	14,650	8,482	**23,132**	-	-	-	**-**
Carrying amount	114,374	104,418	185,714	**404,506**	49,240	113,312	119,841	**282,393**

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

b) Industry sectors

Table 20: Breakdown by Industry Sector

	31 December 2021				31 December 2020			
	Loan Commitments N' million	Bonds and guarantees N' million	Letters of credit N' million	**December 2021 Total** **N'million**	Loan Commitment N' million	Bonds and guarantees N' million	Letters of credit N' million	**December 2020 Total** **N'million**
Agriculture	1,588	2,869	-	**4,457**	2,930	2,552	3,484	**8,965**
Business services	28,844	16,560	-	**45,404**	8,548	93	468	**9,109**
Communication	-	5,209	-	**5,209**	153	870	8,016	**9,040**
Construction and real estate	7,808	7,004		**14,812**	-	-	-	**-**
Government	-	-	400	**400**	5	11,470	194	**11,668**
Electricity	-	267	-	**267**	-	2,094	197	**2,291**
Telecommunications	-	-	-	**-**	-		-	**-**
Financial intermediaries & insurance	14,332	-	-	**14,332**	-	37,620	-	**37,620**
Hotels, restaurants and tourism	-	-	-	**-**	354	1,186	-	**1,540**
Manufacturing	24,550	104,174	100,700	**229,424**	15,364	14,223	74,725	**104,312**
Mining/Oil an Gas	25,086	7,636	4,678	**37,400**	9,449	33,262	17,851	**60,562**
Private households	-	-	2,412	**2,412**	5,309	-	-	**5,309**
Transport, storage and distribution	-	16,184	-	**16,184**	9	10	-	**19**
Wholesale & retail trade	2,210	25,811	6,184	**34,205**	7,119	9,932	14,906	**31,957**
Carrying amount	104,418	185,714	114,374	**404,506**	49,240	113,312	119,841	**282,393**

4.4 Credit Risk Capital

The bank currently allocates capital for credit risk using the Standardised Approach (TSA). Risk wights 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 2021.

Table 21: Credit Exposure and Risk Weighted Asset as at 31 December 2021

Asset Class	2021		2020	
	Exposure Amount N'million	RWA N'million	Exposure Amount N'million	RWA N'million
Sovereigns and Central Banks	1,288,507	-	1,214,223	-
State Govt and Local Authorities	-	-	-	-
Public Sector Entities (PSEs)	74,186	73,716	35,203	34,515
Multilateral Development Banks (MDB)	-	-	-	-
Supervised Institutions	192,203	112,588	181,189	125,787
Corporate and Other Persons	728,477	618,408	500,427	451,504
Regulatory Retail Portfolio	49,429	34,191	30,222	20,659
Secured by Mortgages on Residential Properties	4,194	3,271	3,355	2,849
Exposures Secured by Mortgages on Commercial Real Estates	43,109	35,458	37,676	32,133
Past Due Exposures	4,431	4,431	4,529	4,529
High Risk Exposures	2,856	4,284	1,913	2,870
Unsettled and Failed Transactions	44,056	-	-	-
Other Assets	100,822	61,590	114,654	68,416
Off Balance Sheet Exposures	2,005,731	183,346	166,818	128,483
Regulatory Risk Reserve	-	(5,439)	-	(1,460)
Total	**4,538,000**	**1,125,843**	**2,290,210**	**870,284**

The increase in credit risk weighted assets from N870 billion in December 2020 to N1.13 trillion in December 2021 was on the back of a 46% (N292 billion) growth in the loan book year-on-year largely driven by the corporate portfolio.

Internal capital assessment for credit risk

For internal purposes, the bank also employs a credit portfolio model that measures the probabilities that the bank could sustain different levels of unexpected loss; this model uses a significant amount of granular credit portfolio information including probability of default, loss given default, exposure at default, and maturity. The calculation of capital requirement is affected by the level of specific provisions for credit losses (relating to non-performing loans) that the bank has taken. Specific provisions are taken in accordance with regulations and also take into account expected recoveries and the timing of such recoveries.

Stanbic IBTC Bank makes use of Moody’s Analytics Risk Frontier (Moody’s RF) to assess the overall credit and equity risk.

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 Wholesale Clients' 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 equity investments are designated as Fair Value through Other Comprehensive Income (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 Assets and Liabilities Committee (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 Board Risk Management Committee (BRMC). The in-country risk management is subject to Standard Bank Group (SBG) oversight for compliance with SBG 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 foreign currency trading position, daily VaR, back-testing, stress testing, PV01, annual net interest income at risk and other market risk measures.

Daily foreign currency trading 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 foreign currency trading 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 N93 million and N803 million respectively with an annual average of N374 million which translates to a conservative VaR limit utilisation of 14.9% on average.

Table 22: Diversified normal VaR exposures

Desk (N'million)	Maximum	Minimum	Average	31-Dec-21	31-Dec-20	Limit
Bankwide	803	93	374	498	290	2,503
FX Trading	393	1	106	46	73	548
Money markets trading	425	22	128	202	224	712
Fixed income trading	270	6	72	8	30	582
Credit valuation adjustment	410	23	261	291	-	270
Credit trading	-	-	-	-	-	234
Derivatives	-	-	-		-	52

Analysis of PV01

The table below shows the PV01 of the money markets banking and the individual trading books as at year end. The money markets trading book PV01 exposure increased to N2.3 million from N1.4 million in the previous year mainly due to increased treasury bills position as well as an increase in the duration of the book. The money markets banking book PV01 exposure stood at N6.5 million, lower than the previous year level of N14.2 million, as a result of the sale of treasury bills, while the fixed income trading book PV01 exposure decreased to N0.2 million from previous year level of N1.9 million primarily as a result of the sale of bonds. Overall trading PV01 exposure was N2.5 million against a limit of N16.6 million thus reflecting a very conservative exposure utilisation.

Table 23: Analysis of PV01

PV01 (N'million)	31-Dec-21	31-Dec-20	Limit
Money market trading book	2	1	8
Fixed income trading book	0	2	6
Credit trading book	-	-	2
Derivatives trading book	-	-	1
Total trading book	3	3	17
Money market banking book	6	14	37

Market risk on equity investment

The Equity Investment Committee 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 2021. The table below summarises foreign currency exposures of the bank as at period end and the net open position thereof.

Table 24: Currency Risk Concentration as at 31 December 2021

Concentrations of currency risk – on- and off-balance sheet financial assets and liabilities						
At 31 December 2021	**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	638,073	3,985	317	320	319	643,014
Trading assets	98,739		-	-	-	98,739
Pledged assets	182,334		-	-	-	182,335
Derivative assets	40,968	245	-	-	-	41,212
Financial investments	560,682		-	-	-	560,682
Loans and advances to banks	2,741		-	-	-	2,741
Loans and advances to customers	437,178	404,826	1,889	58,502	18,648	921,044
Other financial assets	35,082	115,223	(3,713)	(26,284)	(965)	119,344
	1,995,797	**524,279**	**(1,507)**	**32,538**	**18,002**	**2,569,111**
Financial liabilities						
Trading liabilities	19,153	92,870	-	-	-	112,023
Derivative liabilities	25,121	245	-	-	-	25,366
Deposits and current accounts from banks	290,621	112,444	651	11,545	16,602	431,863
Deposits and current accounts from customers	783,677	325,709	6,491	24,285	479	1,140,641
Other borrowings	24,370	112,063	-	-	-	136,433
Subordinated debt	30,107	17,312	-	-	-	47,419
Other financial liabilities	414,172	34,391	294	7,391	2,666	458,914
	1,587,221	**695,034**	**7,436**	**43,221**	**19,747**	**2,352,659**
Net on-balance sheet position	408,576	(170,755)	(8,943)	(10,683)	(1,745)	216,452
Off balance sheet	57,389	178,638	420	41,583	12,102	290,132

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

Period-end spot rate*	**2021**	**2020**
US Dollar	424.11	400.33
GBP	573.10	546.85
Euro	481.20	491.02

Table 25: Currency Risk Concentration as at 31 December 2020

Concentrations of currency risk – on- and off-balance sheet financial instruments						
At 31 December 2020	**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	485,752	139,289	8,943	6,441	2,589	643,014
Trading assets	169,655			·		169,655
Pledged assets	170,578			·		170,578
Derivative assets	46,208	25		·		46,233
Financial investments	522,858	6,206		·		529,064
Loans and advances to banks	1,995	4,328		·		6,323
Loans and advances to customers	310,250	268,722	803	43,831	1,534	625,140
Other financial assets	(53,774)	253,036	(3,661)	(31,521)	(581)	163,499
	1,653,522	**671,606**	**6,085**	**18,751**	**3,542**	**2,353,506**
Financial liabilities						
Trading liabilities	63,696	124,804		·		188,500
Derivative liabilities	37,357	25		·		37,382
Deposits and current accounts from banks	348,690	145,048	422	10,113	1,350	505,623
Deposits and current accounts from customers	583,506	234,504	4,505	9,567	564	832,646
Other borrowings	27,357	84,675		·		112,032
Subordinated debt	52,202	16,067		·		68,269
Other financial liabilities	303,124	58,241	339	13,230	1,913	376,847
	1,415,932	**663,364**	**5,266**	**32,910**	**3,827**	**2,121,299**
Net on-balance sheet position	237,590	8,242	819	(14,159)	(285)	232,207
Off balance sheet	48,168	145,691	132	18,231	1,399	213,622

Sensitivity analysis

A reasonably possible strengthening (weakening) of the US dollar, GBP or Euro against Naira as at 31 December 2021 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 26: Sensitivity Analysis

	Profit or loss		**Equity, net of tax**	
Effect in N million	Strengthening	Weakening	Strengthening	Weakening
At 31 December 2021				
USD (20% movement)	(34,151)	34,151	(23,906)	23,906
GBP (10% movement)	(894)	894	(626)	626
EUR (5% movement)	(534)	534	(374)	374
At 31 December 2020				
USD (20% movement)	(2)	2	(2)	2
GBP (10% movement)	(0)	0	(0)	0
EUR (5% movement)	1	(1)	1	(1)

5.4 Market Risk Capital

The bank currently allocates regulatory 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 27: Market risk regulatory capital charge and Risk Weighted Asset (RWA)

Risk Type (Numbers are in N'million)	Capital Charge		RWA (12.5 X Capital Charge)	
	2021	2020	2021	2020
Interest Rate Risk (FGN Bonds & T-Bills)	1,700	395	21,246	4,943
Foreign Exchange Risk (Net Open Position)	2,012	1,098	25,152	13,722
Total	**3,712**	**1,493**	**46,398**	**18,665**

The N27.7 billion increase in market RWA from N18.7 billion in December 2020 to N46.4 billion in December 2021 was due to additional capital requirement for interest rate risk following the purchase of an 18-month $250 million CBN swap in July 2021 and for foreign exchange risk following a $17.7 million year-on-year increase in bank wide USD net open position.

For internal capital assessment purposes, market risk is measured using a VaR which is scaled to a confidence interval of 99.92% and a holding period of 5 to 20 days depending on the liquidity of the exposure.

6 Operational Risk

6.1 Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes but is not limited to information risk, legal risk, compliance risk, financial crime risk, digitization risk, model risk, cyber security risk, strategic change risk, environmental and social risk, and conduct risk. Strategic, reputational, and business risks are excluded from the definition; the reputational effects of operational and other financial risk events are however covered under reputational risk management.

Operational risk is thus categorised as follows:

- Process risk; the risk of loss suffered as a result of failed or inadequate processes. This includes the design and operation of the control framework.
- People risk; the risk of loss arising from issues related to the personnel within the bank.
- Systems risk; the risk of loss suffered as a result of failed or inadequate systems, security breaches, inadequate systems investment, development, implementation, support and capacity.
- External events risks; The risk of loss suffered as a result of external events. This is generally limited to events that impact the operating capability of the bank (i.e. it does not include events that impact the areas of market risk, credit risk, or country risk etc.). It also includes risks arising from suppliers, outsourcing, and external system failures, management, monitoring, and mitigation.

The definition of operational risk also includes the following sub-types:

Table 28: Operational risk sub-types

Operational risk sub -types	Definitions
Information/data privacy risk	Data privacy or information risk is the risk associated with inability to protect customer information and losses related to incomplete and inaccurate data as well as data breaches causing operational inefficiency and increased costs of doing business. Key drivers include lack of information classification, data interpretation errors, insider threats regarding information usage and increasing legislative and regulatory requirements around consumer information management landscape.
Legal risk	This is the risk that legal action will be taken against Stanbic IBTC because of its actions, inactions, products, services or other events. It also entails the risk of unfavourable judgment against Stanbic IBTC in any court proceedings arising from lapses in the daily transaction execution, inefficiencies in processes and compliance with relevant service delivery standards.
Compliance risk	This is the risk that Stanbic IBTC could suffer loss when business rules are not followed. It is also the risk of regulatory sanctions, material financial loss, or loss to reputation that Stanbic IBTC may suffer as a result of its failure to comply with the letter and spirit of laws, regulations,

Operational risk sub -types	Definitions
	rules, and codes of conduct applying to its business activities. Furthermore, the inadvertent non-compliance with regulatory directives could result from misinterpretation of the directives or inability to respond timely to changing regulation.
Digitization risk	Digitization risk relates to the risk emanating from the rapid speed of disruptive innovation and/or new technologies within the financial industry that may outpace Stanbic IBTC ability to compete and manage the risk appropriately without making significant changes to our business operating model. It also entails risk associated with the security and privacy capabilities from advances of digital banking, displacement of staff (job change including losses) arising from the increasing move towards adoption of Artificial Intelligent (AI) and robotics (i.e. replacement of skilled human labour with machines) in the Bank's operations vis-a-vis Brain Risk as well as war for talent to execute the digital strategy.
IT operations risk (technology risk)	These are risks associated with uncoordinated or inefficient information technology (IT) infrastructure, system and processes, making wrong technological choices, failure of projects to deliver the desired outcome, timeliness of project execution, data protection and information privacy, IT sourcing and performance, as well as information security and systems governance. It also includes the risk associated with execution of the IT operating model.
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	Cyber security risk is the risk of financial loss, disruption or damage to the reputation of the institution from the failure of its information technology systems due to cyberattacks and/or security breaches. Emerging cyber-related risks include information risk, technology operations risk and consumer information protection challenges.
Strategic change risk	Strategic change risk is the risk 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. Strategic 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 risk of project implementation costs overrun with failure to achieve the desired objectives; and the risk of significant project delays.
Environmental and social risk	Environmental and social risk includes both the threat of adverse effects on the natural environment through emissions, wastes and resource depletion, as well as risks to livelihoods, the health and rights of communities and cultural heritage arising out of business operations and lending activities. In addition, these risks include the threat to assets as a consequence of environmental impacts, such as extreme weather events.

Operational risk sub -types	Definitions
Conduct risk	Conduct risk is 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 and most importantly how we embed the concept of treating customer fairly (TCF).
Third party risk	Third party / vendor risk is the risk that emanates from lapses in third party/ vendor management process including delay in securing regulatory approvals to effect offshore payments to vendors, on boarding as well as performance monitoring for vendor supported services across the enterprise.
Money Laundering and Terrorist Financing risk	This is the risk that Stanbic IBTC could inadvertently be held responsible for money laundering and terrorist financing in relation to its customers/clients behaviour. It also entails the administrative sanctions instituted by the regulator on principal officers of the institution with respect to non-implementation of the ML/TF risk assessment system amongst other considerations.
Fraud risk	Fraud risk is the risk to earnings or capital arising from an intentional act committed to secure an unfair or unlawful gain. Fraud comprises internal fraud and external fraud.
Government collection/ taxation risk	Government collection/taxation is the risk that emanates from lapses in Stanbic IBTC's role in the facilitation of revenue collections on behalf of government and its agencies and the remittance of taxes as a corporate organisation which pose significant vulnerabilities and potential sanctions and losses arising from non-conformance with the set of agreed procedures and SLAs standards.

6.2 Operational Risk Capital

The bank currently allocates regulatory 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 2021 is based on the last three (3) years (2019, 2020, and 2021) gross income data as defined by the guideline.

Table 29: Operational Risk Capital Charge and Risk Weighted Asset

Item	2019	2020	2021
Gross Income N'million	130,859	142,103	106,262
Aggregate gross income N'million	379,223		
Beta Factor	15%		
Gross Income X Beta Factor	56,883		
Number of years with positive annual gross income	3		
Operational Risk Capital Charge	18,961		
Operational Risk Weighted Asset	237,015		

For internal capital assessment purposes, operational risk capital computation across the various sub-risk types is estimated by adjusting regulatory capital with in-use risk-sensitive operational risk management metrics. These metrics are combined into a score via a scorecard, which quantifies the state of operational risk in the bank. Metrics include the state of incident management, Risk and Control Self Assessments (RCSA), Key Risk Indicators (KRI), Business Continuity Management (BCM), open audit findings, repeat audit findings, KRI threshold breaches, and actual losses.

The scorecard input for the bank are highlighted in the table below;

Figure 4: Operational Risk Scorecard Input

<table>
<tr><td rowspan="10">Operational risk scorecard inputs</td><td rowspan="3">Operational Risk Framework Implementation</td><td>KRI</td><td>*Submissions
*Data Quality</td></tr>
<tr><td>RCSA</td><td>*Submissions
*Data Quality</td></tr>
<tr><td colspan="2">Incident Management</td></tr>
<tr><td rowspan="5">Operational Risk Profile</td><td colspan="2">KRI threshold breaches</td></tr>
<tr><td colspan="2">RCSA Residual Risk</td></tr>
<tr><td>Irrecoverable Losses</td><td>*Irrecoverable Losses % ratio to Gross Income
*Net Loss to Gross Income Ratio YTD</td></tr>
<tr><td>Audits</td><td>*Unsatisfactory Audits to Completed Audits
*Repeat Unsatisfactory Audits
*Overdue audit findings over 30 days</td></tr>
<tr><td colspan="2">BCM</td></tr>
</table>

The operational risk scorecard inputs are broadly categorised into operational risk framework implementation and operational risk profile. The scope of the operational risk framework implementation spans KRI and RCSA submissions and data quality, and incident management, while operational risk profile covers KRI threshold breaches, RCSA residual risk, irrecoverable losses, audits, and BCM.

7 Pillar II Risks

7.1 Business risk

Business risk is the risk of loss, usually from inflexible cost structures or inefficiencies, due to adverse operating conditions caused by market-driven pressures such as decreased demand, increased competition, or cost increases and by Stanbic IBTC Bank specific causes such as choice of strategy (strategic risk) and reputational damage or decisions to absorb costs or losses to preserve reputation (reputational risk).

7.1.1 Strategic risk

Strategic risk is a residual risk type that cannot be eliminated entirely; it is managed throughout the bank in the normal course of business as follows:

- Management constantly monitors the profitability of product lines and customer segments against budget.
- Tight control over the cost base of the bank is maintained, including management of its cost-to-income ratio. This allows for early intervention and management action to reduce costs where necessary. The bank also continually aims to increase the ratio of variable costs to fixed costs allowing for more strategic flexibility to proactively reduce costs during downturn economic conditions.
- Extensive due diligence is conducted during the investment appraisal process (in particular for new acquisitions).
- Product business areas hold new product proposal committee meetings when required at which the risks and mitigating controls for new/amended products and services are tabled and discussed.
- Management remains alert and responsive to changes in market forces (exploiting potentially favourable changes and managing the downside risk due to unfavourable changes).
- Stakeholder management is practiced to ensure favourable outcomes from external factors beyond the bank's control.

7.1.2 Reputational risk

Reputational risk is managed on a proactive basis to reduce the likelihood of occurrence of events and is most dependent on risk identification and assessment processes.

- Each business unit is required to develop processes which ensure that potential areas of reputational risk are identified relative to the transactions or services which they facilitate on behalf of customers.
- Stakeholder management is practiced to ensure favourable outcomes from external factors beyond the bank's control.

Stanbic IBTC Bank recognizes that internal and external activities/events related to the bank play a huge role in how it is perceived by stakeholders. The bank has formal policies and procedures such as the social media policy, brand style guide and communications policies, for managing

brand/ reputation building events and the representation of the bank in the media and by third parties. These policies and procedures cover roles, responsibilities, and processes for managing pre- and post-reputational risk events.

In addition, the Compliance unit of the bank carries out compliance testing to ensure strict adherence to the bank's policies, procedures and documented practices developed to ensure continued operations while preserving the bank's brand and reputation.

7.1.3 Measurement of capital for business risk

Business risk capital is the bank's catch-all measure of all residual risks that impact on earnings, thereby resulting in variability from budget. It is modelled by measuring the historic variability of adjusted Profit Before Tax (PBT), which is calculated by eliminating categories of income and expenditure that correspond to the other principal risk types (credit risk, market risk, operational risk, and IRRBB). A loss distribution is then applied and an economic capital at 99.92% confidence interval is determined.

A methodology is in place for estimating the proportion of the total business risk capital attributable to reputational risk.

7.2 Liquidity risk

The nature of banking and trading activities results in a continuous exposure to liquidity risk. Liquidity problems can have an adverse impact on a bank's earnings and capital and, in extreme circumstances, may even lead to the collapse of a bank which is otherwise solvent. The bank's liquidity risk management framework is designed to measure and manage the liquidity position at various levels of consolidation such that payment obligations can be met at all times, under both normal and considerably stressed conditions.

Under the delegated authority of the Board, the Asset and Liability Committee (ALCO) sets liquidity risk policies in accordance with regulatory requirements, international best practice and Standard Bank Group (SBG) stated risk appetite. Tolerance limits, appetite thresholds and monitoring items are prudently set and reflect the bank's conservative appetite for liquidity risk. ALCO is charged with ensuring ongoing compliance with liquidity risk standards and policies. The bank must, at all times, comply with the more stringent of SBG imposed tolerance limits or regulatory limits.

Liquidity and funding management

A sound and robust liquidity process is required to measure, monitor and manage liquidity exposures. The bank has incorporated the following liquidity principles as part of a cohesive liquidity management process:

- structural liquidity mismatch management;
- long-term funding ratio;
- maintaining minimum levels of liquid and marketable assets;
- depositor restrictions;

- local currency loan to deposit ratio;
- foreign currency loan to deposit ratio;
- interbank reliance limit;
- intra-day liquidity management;
- collateral management;
- daily cash flow management;
- liquidity stress and scenario testing;
- funding plans; and
- liquidity contingency planning.

The cumulative impact of the above principle is monitored, at least monthly by ALCO through a process which is underpinned by a system of controls. The latter includes the application of purpose-built technology, documented processes and procedures, independent oversight and regular independent reviews and evaluations of the effectiveness of the system.

The bank ensures compliance with the regulatory liquidity ratio of 30% on a daily basis.

Table 30: Stanbic IBTC Bank liquidity ratio in 2021

Liquidity ratio	2021	2020
Minimum	95.01%	106.33%
Average	111.63%	130.30%
Maximum	118.23%	163.71%
As at year-end	97.90%	138.97%

Structural liquidity mismatch management

The mismatch principle measures the bank's liquidity by assessing the mismatch between its inflow and outflow of funds within different time bands on a maturity ladder. The structural liquidity mismatch is based on behaviourally-adjusted cash flows which factor a probability of maturity into the various time bands. As expected cash flows vary significantly from the contractual position, behavioural profiling is applied to assets, liabilities and off-balance sheet items with an indeterminable maturity or drawdown year.

A net mismatch figure is obtained by subtracting liabilities and netting off-balance sheet positions from assets in each time band. The bank's liquidity position is assessed by means of the net cumulative mismatch position, while its liquidity mismatch performance is an aggregation of the net liquidity position in each successive time band expressed as a percentage of total funding related to deposits.

Maintaining minimum levels of liquid and marketable assets

Minimum levels of prudential liquid assets are held in accordance with all prudential requirements as specified by the regulatory authorities. The bank needs to hold additional unencumbered marketable assets, in excess of any minimum prudential liquid asset requirement, to cater for volatile depositor withdrawals, draw-downs under committed facilities, collateral calls, amongst others.

The following criteria apply to readily marketable securities:

- the asset class must be regularly traded;
- the asset may be sold or repurchased in a liquid market, for payment in cash; and
- settlement must be according to a prescribed, rather than a negotiated, timetable.

Depositor concentration

To ensure that the bank does not place undue reliance on any single entity as a funding source, restrictions are imposed on the short dated (0 – 3 months term) deposits accepted from any entity. These include:

- the sum of 0 – 3 month deposits and standby facilities provided by any single deposit counterparty must not, at any time, exceed 10% of total funding related liabilities to the public; and
- the aggregate of 0 – 3 month deposits and standby facilities from the 10 largest single deposit counterparties must not, at any time, exceed 20% of total funding related liabilities to the public.

Concentration risk limits are used to ensure that funding diversification is maintained across products, sectors, and counterparties. Primary sources of funding are in the form of deposits across a spectrum of retail and wholesale clients. As mitigants, the bank maintains marketable securities in excess of regulatory requirements in order to condone occasional breaches of concentration limits.

Table 31: Depositor concentration

	Dec 2021	Dec 2020
	%	%
Single depositor	2	5
Top 10 depositors	11	15

Loan to deposit limit

A limit is put in place, restricting the local currency loan to deposit ratio (LDR) to a maximum specified level, which is reviewed periodically. Similarly, in order to restrict the extent of foreign currency lending from the foreign currency deposit base, a foreign currency loan to deposit limit, which is also referred to as own resource lending, is observed. As mitigants, the bank maintains high levels of unencumbered marketable and liquid assets in excess of regulatory benchmark. The CBN requires all banks to maintain a minimum loan to deposit ratio of 65% by December 2021. This ratio is subject to review quarterly. The bank's LDR as at 31 December 2021 was 72.08% (December 2020: 68.57%).

Intra-day liquidity management

The bank manages its exposures in respect of payment and settlement systems. Counterparties may view the failure to settle payments when expected as a sign of financial weakness and in turn delay payments to the bank. This can also disrupt the functioning of payment and settlement

systems. At a minimum, the following operational elements are included in the bank's intra-day liquidity management:

- capacity to measure expected daily gross liquidity inflows and outflows, including anticipated timing where possible;
- capacity to monitor its intra-day liquidity positions, including available credit and collateral;
- sufficient intra-day funding to meet its objectives;
- ability to manage and mobilise collateral as required;
- robust capacity to manage the timing of its intra-day outflows; and
- readiness to deal with unexpected disruptions to its intra-day liquidity flows.

Daily cash flow management

The bank generates a daily report to monitor significant cash flows. Maturities and withdrawals are forecast at least three months in advance and management is alerted to large outflows. The report, which is made available to the funding team, ALM and market risk also summarises material daily new deposits as well as the interbank and top depositor reliance (by value and product).

The daily cash flow management report forms an integral part of the ongoing liquidity management process and is a crucial tool to proactively anticipate and plan for large cash outflows.

Interbank reliance

Interbank funding traditionally is seen as the most volatile and least stable source of funding, easily influenced by market sentiment and prone to flight under stress situations. Consequently, to ensure prudent liquidity management is enforced, the bank restricts the local currency interbank funding as a proportion of the local currency funding base to a maximum of 15% of the total currency funding base.

Liquidity stress testing and scenario testing

Anticipated on- and off-balance sheet cash flows are subjected to a variety of the bank specific and systemic stress scenarios in order to evaluate the impact of unlikely but plausible events on liquidity positions. Scenarios are based on both historical events, such as past emerging markets crises, past local financial markets crisis and hypothetical events, such as an entity specific crisis. The results obtained from stress testing provide meaningful input when defining target liquidity risk positions.

Maturity analysis of financial liabilities by contractual maturity

The tables below analyse cash flows on a contractual, undiscounted basis based on the earliest date on which the bank can be required to pay (except for trading liabilities and trading derivatives) and may therefore not agree directly to the balances disclosed in the consolidated statement of financial position.

Derivative liabilities are included in the maturity analysis on a contractual, undiscounted basis when contractual maturities are essential for an understanding of the derivatives' future cash flows. All other derivative liabilities are treated as trading instruments and are included at fair value in the redeemable on demand stage since these positions are typically held for short periods of time.

The following tables also include contractual cash flows with respect to off-balance sheet items which have not yet been recorded on-balance sheet. Where cash flows are exchanged simultaneously, the net amounts have been reflected.

Table 32: Maturity analysis of financial liabilities by contractual maturity

	Redeemable on demand N'million	Maturing within 1 month N'million	Maturing between 1-6 months N'million	Maturing between 6-12 months N'million	Maturing after 12 months N'million	Total N'million
31 December 2021						
Financial liabilities						
Derivative financial instruments	-	-	-	12,396	12,968	25,364
Trading liabilities	-	71,192	29,834	10,880	117	112,023
Deposits and current accounts	857,137	96,180	143,405	42,020	526	1,139,268
Debt securities issued	-	-	-	-	47,419	47,419
Other borrowings	47,663	-	34,148	2,621	66,316	150,748
Other financial liabilities	457,973					457,973
Total	**1,362,773**	**167,372**	**207,387**	**67,917**	**127,346**	**1,932,795**
Unrecognised financial instruments						
Letters of credit		31,082	120,139	34,375	118	185,714
Guarantees	-	36,300	17,185	20,034	30,899	104,418
Total	**-**	**67,382**	**137,324**	**54,409**	**31,017**	**290,132**

	Redeemable on demand N'million	Maturing within 1 month N'million	Maturing between 1-6 months N'million	Maturing between 6-12 months N'million	Maturing after 12 months N'million	Total N'million
31 December 2020						
Financial liabilities						
Derivative financial instruments	-	3,113	27,056	1,294	3,095	34,558
Trading liabilities	-	389	9,990	124,804	53,318	188,501
Deposits and current accounts	738,748	24,571	39,697	2,726	17	805,759
Debt securities issued	-	-	53,621	-	61,677	115,298
Other borrowings	545	12,422	3,308	4,229	91,528	112,032
Other financial liabilities	371,860		-			371,860
Total	1,111,153	40,495	133,673	133,053	209,635	1,628,008
Unrecognised financial instruments						
Letters of credit		8,051	78,326	16,048	-	102,426
Guarantees	-	5,176	35,484	10,384	33,318	84,362
Loan commitments	-	-	-	-	-	-
Total	-	13,227	113,810	26,432	33,318	186,788

Liquidity contingency plans

The bank recognises that it is not possible to hold sufficiently large enough quantity of readily available liquidity to cover the least likely liquidity events. However, as such events can have devastating consequences, it is imperative to bridge the gap between the liquidity the bank chooses to hold and the maximum liquidity the bank might need.

The bank's liquidity contingency plan is designed to, as far as possible, protect stakeholder interests and maintain market confidence in order to ensure a positive outcome in the event of a liquidity crisis. The plan incorporates an extensive early warning indicator methodology supported by a clear and decisive crisis response strategy. Early warning indicators span bank specific crises, systemic crises, contingency planning, and liquidity risk management governance and are monitored based on assigned frequencies and tolerance levels. The crisis response strategy is formulated around the relevant crisis management structures and addresses internal and external communications, liquidity generation, operations, as well as heightened and supplementary information requirements.

Funding strategy

Funding markets are evaluated on an ongoing basis to ensure appropriate bank funding strategies are executed depending on the market, competitive and regulatory environment. The bank employs a diversified funding strategy, sourcing liquidity in both domestic and offshore markets, and incorporates a coordinated approach to accessing capital and loan markets across the bank.

Concentration risk limits are used within the bank to ensure that funding diversification is maintained across products, sectors, geographic regions and counterparties.

Primary funding sources are in the form of deposits across a spectrum of retail and wholesale clients, as well as long-term capital and loan markets. The bank remains committed to increasing its core deposits and accessing domestic and foreign capital markets when appropriate to meet its anticipated funding requirements.

7.2.1 Measurement of capital for liquidity risk

Due to the robustness of the measurement and monitoring approaches, the level of unencumbered liquid assets, and the necessarily timeous management action required, Stanbic IBTC Bank does not consider it necessary to hold capital for liquidity risk as it is considered remote that the bank would suffer capital impairment loss as a consequence of liquidity risk. Another reason for not holding capital for this risk is due to the fact that extreme losses suffered under liquidity risk will always be consequential losses, i.e. the loss event was triggered within another risk type such as market, credit and/or operational risk which then resulted in a liquidity risk event. Or put differently, considering cause and effect, the cause would be credit, market or operational risk, and a related effect could be liquidity risk event. The purpose of internal capital assessment is to consider the risk types that caused the primary event, and not to consider consequential risks to avoid double counting and more complexity. The main mitigations for liquidity risk events are frequent stress testing and upfront formulated management actions to be taken should an event occur.

This view is further supported with the latest Basel III liquidity frameworks whereby additional stress testing (Internal Stress Ratio) and mismatch management (Internal Net Stable Funding Ratio) tools were introduced supported by enhanced disclosure standards. No capital for liquidity risk is proposed by the Basel frameworks.

7.3 Interest Rate Risk in the Banking Book (IRRBB)

IRRBB refers to the current and/or future risk to the bank's earnings and capital arising from adverse movements in interest rates that impact the banking book positions.

Changes in interest rates affect the bank's earnings by altering the level of Net Interest Income (NII) generated from interest rate sensitive assets, liabilities and off-balance sheet items. The economic value of the bank is also affected when interest rates change, as the present value and timing of future cashflows change, impacting the underlying value of the bank's assets, liabilities and off-balance sheet items. Excessive levels of IRRBB can pose a significant threat to the bank's future earnings and/or capital base if not managed appropriately.

The three main sub-types of IRRBB are:

(i) Gap risk: arises from the term structure of banking book instruments, and describes the risk arising from the timing of instruments' rate changes. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk, also referred to as yield curve risk);

(ii) Basis risk: the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices; and

(iii) Option risk: arises from derivative positions containing optionality or from optionality embedded in a bank's assets, liabilities and/or off-balance sheet items, where the optionality provides the bank or its customer the right but not the obligation to alter the level and timing of cashflows. Option risk can be characterised as automatic (e.g. derivative positions) or behavioural (i.e. prepayment) option risk.

Given the general business model and strategy of the bank, as well as the markets in which the bank operates, the largest contributor to IRRBB is endowment risk, which is defined as a special instance of gap risk. Endowment risk refers to the interest rate risk exposure arising from interest rate insensitive assets (such as non-earning assets) and/or interest rate insensitive liabilities (such as non-paying liabilities) and capital. This includes partially sensitive assets and liabilities, where the asset or liability can be modelled by both a fully rate sensitive and a fully rate insensitive portion. Examples of partially sensitive liabilities are deposits with so called "lazy rate" yields where only a portion of an interest rate change is passed through to clients at the bank's discretion.

The endowment base calculation is outlined below.

Liabilities and Equity	Less Assets
• Shareholders' equity and reserves	• Cash with central bank (where interest rate insensitive)

Liabilities and Equity	Less Assets
• Non-interest bearing transactional accounts • Modelled interest rate insensitive portion of interest-bearing deposits • Other non-earning liabilities	• Notes and coins • Property and equipment • Other non-interest-bearing assets

7.3.1 Measurement, monitoring and mitigation

Measurement and monitoring of IRRBB

Stanbic IBTC Bank is required to identify, measure, manage, monitor and report IRRBB in accordance with the principles outlined in the SBG IRRBB policy as well as the CBN guidelines on IRRBB.

Earnings and valuation based approaches are used in the measurement and monitoring of IRRBB. The measurement of these metrics is performed on a monthly basis with the results reported to the ALCO.

Earnings Based Measures

A dynamic, forward-looking NII forecast is used to quantify the bank's anticipated interest rate exposure over a minimum period of 12-months. This approach involves a reinvested balance sheet, and the forecasting of interest rate scenarios, to determine the impact changes in interest rates may have on future NII. A static balance sheet is assumed whereby maturing volumes are replaced with new volumes, with similar characteristics, to create a balance sheet with consistent mix and size over time. This approach allows for the isolation of the impact of changing interest rates on earnings.

Optional scenarios, incorporating the impact of changing balance sheet mix and size, as well as management actions such as hedging, may be incorporated to aid in the analysis and management of IRRBB exposures. In addition to the Basel standardised interest rate shocks, house interest rate views and stress interest rate shocks are applied. Board approved limits are set for the level of acceptable earnings at risk under these stress interest rate shocks.

Under the standardised interest rate shock earnings based measure adopted by the bank, the IRRBB exposure limit reflects acceptable levels of decline in NII. The tolerance limit imposed by ALCO is a maximum 10% adverse change in 1-year forecast NII when the balance sheet is subjected to the standardised interest rate shock. The parallel rate shocks are calibrated per material currency, considering both the current and historic interest rate environments in Nigeria.

As at 31 December 2021, the forecast NII for the local currency and foreign currency balance sheets were subject to parallel interest rate shocks of ±300 basis points and ±100 basis points respectively. The table below shows the sensitivity of the bank's net interest income in response to standardised parallel rate shocks.

Table 33: Parallel Rate Shock Result

31 Dec 2021		NGN	USD	Other	Total
Increase in basis points		300	100	100	
Sensitivity of annual net interest income	N' million	14,220	1,332	196	15,747
Decrease in basis points		300	100	100	
Sensitivity of annual net interest income	N' million	(16,007)	(629)	5	(16,631)
31 Dec 2020		**NGN**	**USD**	**Other**	**Total**
Increase in basis points		300	100	100	
Sensitivity of annual net interest income	N' million	17,372	685	196	18,253
Decrease in basis points		300	100	100	
Sensitivity of annual net interest income	N' million	(9,873)	(314)	5	(10,182)

Valuations Based Measures

The economic value of an instrument represents an assessment of the present value of its expected future cashflows. Economic value of equity (EVE) provides a view of the potential long-term effects of changes in interest rates and may highlight risk that is not covered by earnings based metrics which focus on the short- to medium-term. In calculating the EVE metric, commercial margins and other spreads are stripped from all items with a single risk-free yield curve used as the base valuation curve. The bank also calculates the change in EVE under the six prescribed interest rate scenarios (parallel up, parallel down, steepener, flattener, short rate up and short rate down) as per the CBN's guidelines on the management of IRRBB to capture parallel and non-parallel gap risks and measured against Board approved limits. The bank's maximum change in EVE (under the six prescribed interest rate shock scenarios) is expected to be within 15% of the bank's Tier I capital.

Table 34: Economic value of equity results – 31 December 2021

In reporting currency (N' million)	⊿ EVE		⊿ NII	
Period	31 December 2021	31 December 2020	31 December 2021	31 December 2020
Parallel up	-	-	-	-
Parallel down	19,492	19,492	21,383	11 936
Steepener	86	1,126		
Flattener	2,710	1,014		
Short rate up	-	-		
Short rate down	5,268	7,467		
Maximum	19,492	19,492		

EVE sensitivity result for the bank was 9.4%, within the regulatory limit of 15% of the bank's Tier 1 capital as at 31 December 2021.

Quantitative disclosures		
1	Average repricing maturity assigned to Non-maturing Deposits (NMDs)	0.5 years
2	Longest repricing maturity assigned to NMDs	8.5 years

Macroeconomic stress testing is performed at least annually at a bank level. The overall earnings impact from the macroeconomic interest rate scenarios provided considers the expected changes in the balance sheet as well as the interaction with other risk types.

Management of IRRBB

The bank must comply with the more stringent of the internal limits and any applicable regulatory limits. IRRBB is managed to ensure that the bank remains compliant with all limits and appetite triggers. Non-endowment IRRBB (other gap risk, basis risk and optionality) is centrally managed within the treasury portfolio where possible. Endowment risk however remains within the bank's business units where this risk is generated. The level of endowment risk within the bank's business units may be reduced through endowment hedging.

An endowment hedging framework, which provides guidance on how endowment hedging is to be approached, has been adopted by the bank. The framework contains the rationale, approaches, main factors and considerations, and the governance structures required in respect of hedging endowment risk. Hedging activity is to be executed using suitable instruments (including, but not limited to, fixed rate government bonds and treasury bills, receive fixed interest rate swaps and other interest rate derivatives, and designated unhedged fixed rate loan portfolios) in the same currency as the underlying endowment base to be hedged. Fixed rate government bonds and treasury bills are held in either amortised cost or fair value through other comprehensive income (FVOCI) portfolios as deemed appropriate. Hedge accounting is applied for derivative portfolios where applicable. The responsibility for endowment hedging ultimately resides with the ALCO, with day to day responsibilities allocated to the treasury unit.

7.3.2 Internal capital assessment for IRRBB

IRRBB is contained within the capital buffer determined by the bank's comprehensive stress testing. The calculation of capital associated with IRRBB is based on the measurement of the worst-case tail loss from the expected 3-year NII at a set confidence level and forms part of the bank's risk appetite measures. The 12-month forecasted adverse NII impact from a parallel, instantaneous interest rate shock is increased to the 3-year time horizon through the application of a square root of time rule.

The size of the interest rate shock is reviewed at least annually and is currently +300bps/-300bps for LCY and +/- 100bps for FCY.

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