

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021

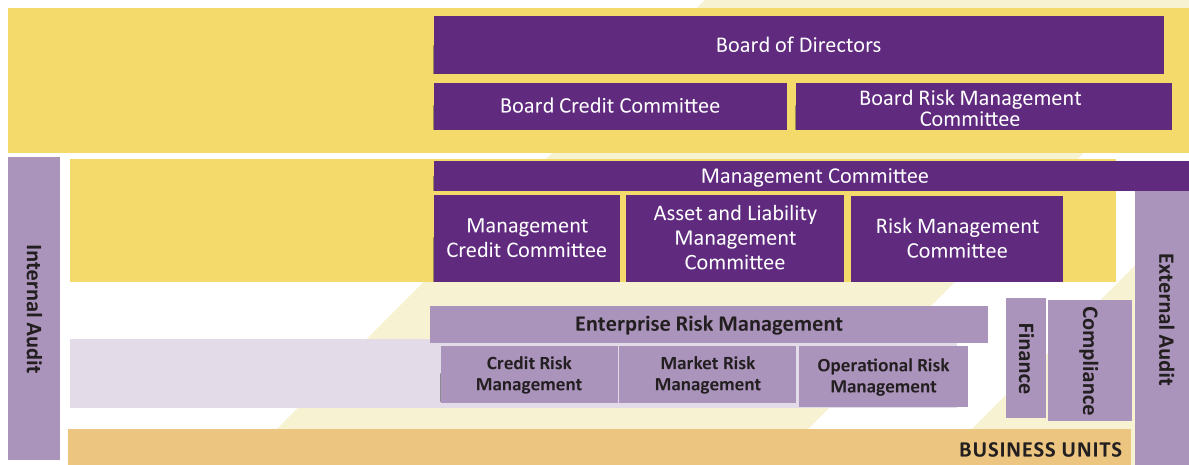
(All amounts in millions of Naira unless otherwise stated)

COMMITTEE	RESPONSIBILITY
Board Audit & Risk Management	Provision of validation, assurance, independence and objectivity of the internal and external auditors. Definition of the Bank's risk appetite and the provision of appropriate structure and resources for the identification, assessment, measurement, monitoring and control of risks across the group.
Management Risk	Planning, management and control of the Bank's overall risks.
Management Credit	Oversees credit approval that falls within the mandated approval limit. Reviews and recommendation of credit policy direction to the BCC
Assets and Liability	Ensures adequate liquidity to meet the Bank's funding need as well as management of the interest rate and foreign exchange risk.
Board Credit	Provision of oversight for the Bank's lending process, including its credit policy, framework and strategy

The Board at all times ensures that a systematic, documented assessment of the processes and outcomes surrounding key risks is undertaken. It also ensures the regular review of risk management systems and policies to reflect prevailing realities.

**Risk Organization and Governance**

The Group's structure defines responsibility for risk management across all levels of authority. The Board of Directors, through its various committees, articulates the vision, sets the tone and provides strategic direction for the management of risk across the Group. Executive Management transforms the strategic direction and policies set by the Board into procedures and processes, they institute an effective hierarchy to execute and implement the policies.

**Diagram 1: Risk Organisation**

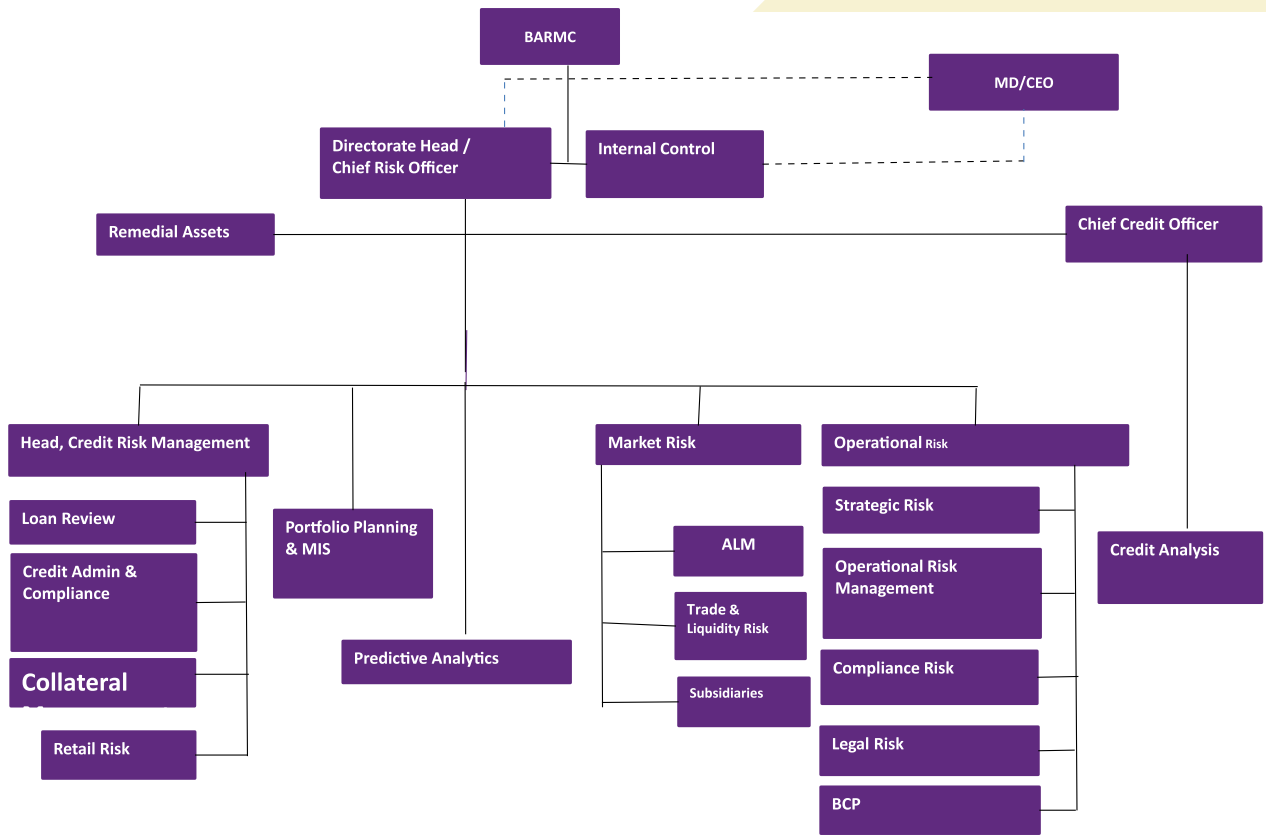
The Enterprise Risk Management Group, headed by a General Manager, who reports to the Board through the BARMC with a dotted line to the Managing Director, has the primary responsibility of managing these risks on a day to day basis and maintains a consolidated and holistic view of the different risk types.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

**Diagram 2: The Enterprise Risk Management Organogram**



The Bank's Enterprise risk management is made of credit, market and operational risks further encompasses strategic and legal risks. MIS and Predictive analytics operate independently of the three major risk classes. The credit analysis team through the chief credit officer reports to the Directorate Head, Risk Management.

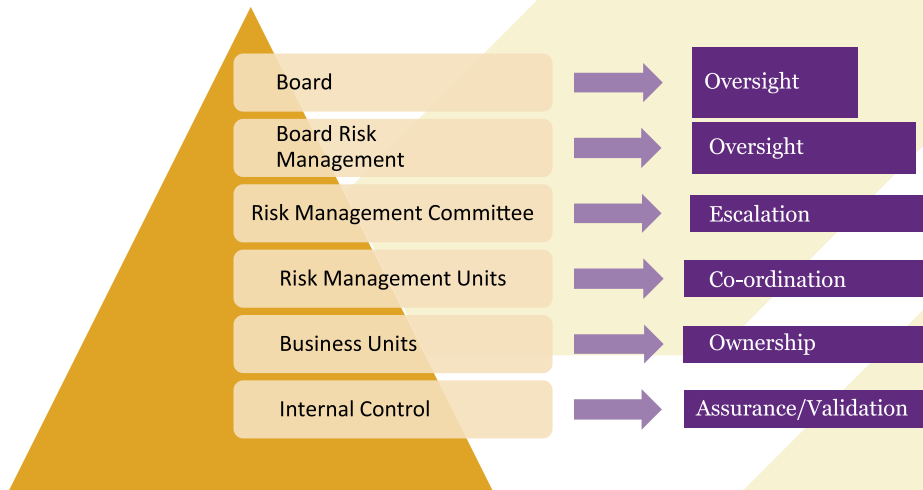
## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

The Group Enterprise-wide Risk Management Directorate manages all aspects of risk including threats and opportunities. The risk management infrastructure therefore encompasses a comprehensive and integrated approach to identifying, managing, monitoring and reporting. It also allows for effective risk communication that results in good awareness which makes collective risk management a culture.

**Diagram 3: The Risk Governance Pyramid**



### Risk management strategies and objectives

The overall business strategy of the bank revolves around present and future practices, policies and projections that would increase earnings. The risk strategies however provide quantitative and qualitative guidance to maximize returns while minimising risks. These strategies align well with the Bank's risk appetite framework and measures. The strategic and principles used include:

- Placing emphasis on diversity, quality and stability of earning after thorough risk assessment
- Leveraging on competitive advantages with a focus on core businesses
- Ability to quantify to a very large extent all material risk faced.
- Making disciplined and selective strategic investments

### Risk management objectives

The Group's risk management objectives are:

- To identify material risks to the Group and ensure that business activities and plans are consistent with its risk appetite.
- To optimise risk/return decisions, while establishing strong and independent review and challenge structures.
- To ensure that business growth plans are properly supported by effective risk infrastructure.
- To manage the Group's risk profile and ensure that its financial deliverables are met given a range of adverse business conditions.
- To improve the control and co-ordination of risk taking across the business.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

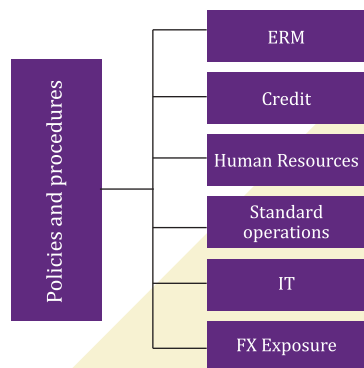
(All amounts in millions of Naira unless otherwise stated)

### Scope of Polaris Bank's Risk Management

<b>Credit risk</b>	Potential loss owing to obligor default
<b>Market risk</b>	Risk that value of on and off-balance sheet positions of a financial institution will be adversely affected by movements in market rates or prices.
<b>Liquidity risk</b>	Potential loss arising from inability to meet obligations, or fund increases in assets as they fall due without incurring unacceptable cost or losses.
<b>Compliance risk</b>	Potential loss arising from non-compliance with laws, regulations, standards or code of conducts of local industry regulators.
<b>Strategic risk</b>	Potential loss arising from current and prospective impact on earnings or capital due to: <ul style="list-style-type: none"> <li>i) Adverse business decisions</li> <li>ii) Improper implementation of decisions</li> <li>iii) Lack of responsiveness to industry changes</li> </ul>
<b>Operational risk</b>	Potential loss arising from inadequate or failed procedures, systems or policies. This includes employee errors, system failures, fraud or other criminal activity. Any event that disrupts business processes.

### Risk Management Methodology

The Group uses risk methodologies that cut across the 4T's of response. The type of risk determines whether it would be transferred, tolerated, treated or terminated. The major risks however fall under the treatment methodology. The Bank manages risk to derive value for all stakeholders. Its sets about achieving this by formulating policies and procedures that guides actions and reactions. Some of the policies and procedures are shown in the diagram below:



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

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

### Risk Appetite

"In the Pursuit of the Group's objectives of maximizing its earnings and shareholders value, the Group exhibits a "moderate" appetite for risk. This measure is quantified by the various board approved risk limits/thresholds and reflected in the Group's culture as well as its approach to Business."

Our Risk Appetite Statement defines the amount and type of risk the Group is willing to accept in the pursuit of its strategic objectives, while recognising a range of possible outcomes as business plans are implemented. In arriving at the risk appetite, the enterprise risk framework which is approved by the Board Risk Committee combines a top-down view of its capacity to take risk with a bottom-up view of the business risk profile requested and recommended by each business area. The Group defines its risk appetite at the enterprise level as well as across different risk areas using qualitative and quantitative measures.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

**Table 1: Risk Appetite Definition Approach**

Risk Element	Risk Appetite Definition Approach		
	Qualitative	Quantitative – Limits and Thresholds	Quantitative – Key Risk Indicators
Enterprise Risk	✓		
Credit Risk		✓	✓
Market Risk		✓	✓
Liquidity Risk		✓	✓
Legal Risk	✓		
Strategic Risk	✓		
Operational Risk	✓		
Compliance Risk	✓		

The Group measures its performance against its Risk Appetite and reports this to the Executive Management and Board on a quarterly basis; this may prompt a rebalancing of the business mix to achieve less risk on a diversified basis. The risk appetite definition and monitoring enables the Group to:

- Identify unused risk capacity, and thus highlight profitable opportunities
- Improve risk and return characteristics across the business
- Meet growth targets within an overall risk appetite and protect the Group's performance
- Improve executive management control and co-ordination of risk-taking across businesses

### The Risk Management Process

The risk management process begins with establishing a context followed by risk identification and definition. Risks identified must be analysed and measured before effective monitoring and reporting can be executed.

#### Establishing a Context

This is achieved through policies and strategies adopted by the Bank to guide its business and operations. The Management approves of these policies and have a role to play in their implementation. Lines of action and responses are detailed in the event of crystallisation of risks.

#### Risk identification

The Group embarks on a thorough risk identification process on a cause, effect and impact basis. This helps to unearth risk in new products, processes and activities. This risks discovered are added to risk register. These actions are carried out in addition to the periodic review of the risk profile of existing products, processes and activities. The concept of risk identification at a fundamental stage cuts across credit, operations, Market, Liquidity, Legal, Compliance and Strategic Risks. This is achieved through:

- Periodic review of existing products
- Defined Key Risk Indicators
- Regular update of the risk register
- Periodic risk and control self-assessment exercise
- A framework for the analysis and assessment of risks associated with new markets or products.

#### Risk Measurement

The risk management group is responsible for developing and sustaining an appropriate suite of risk management techniques to support the operations of the various business lines. This function includes estimating the value of transactions, risk exposures, credit risk rating and parameters for regulatory and economic capital for the Bank. The techniques used are dependent of the risk types. Some risk require quantitative modelling and stress testing while some are more subjectively or qualitatively measured. At every point, the use of models is balanced with a good governance structure and application of sound and experienced judgment. All methodologies used for risk measurement are subject to internal and external validation for relevance, accuracy and to determine whether risk level are within the Bank's appetite.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

### Risk monitoring and Reporting

Monitoring is a very important part of the risk management process. It helps to ensure that business activities are within the approved limits of guideline. It also aligns the transactions to the Bank's strategies and risk appetite. Where there is a breach, such is reported to senior management and/or the Board depending on the limit of guideline.

Reporting helps to capture the collective measures of risk across products and businesses in compliance or in breach of the policies, limits and guidelines. They also provide a clear statement of the amounts, types, and sensitivities of the various risks in the Bank's portfolios. Senior management and the Board use this information to understand the Bank's risk profile and the performance of the portfolios. Reports are rendered daily, weekly, monthly, quarterly, semi-annually or annually depending on the risk and recipient. The control functions also work independently to review risk practices in line with the framework. They also submit reports that are used to check if the risk reports are reflective of the actual practices.

### • Sensitivity Analysis and Stress Testing

The Group conducts sensitivity analysis and stress test to estimate the potential impact of risk levels on income and capital as a result of fluctuations in market conditions, liquidity and other risk factors. This gives the bank an idea of its expected and unexpected losses. The results from different areas (credit, market, operational liquidity etc.) are consolidated at an enterprise level. Enterprise-wide stress testing is also integrated with both the strategic and financial planning processes. It is developed with input from a broad base of stakeholders, and results are integrated into management decision-making processes for capital, funding, market risk limits, and credit risk strategy. The development and review of this exercise is subject to formalized policies and approval from senior management.

Models are veritable tools used for stress test and other quantitative risk measures. They help achieve outputs like Expected Losses(EL), Unexpected Losses(UL), stressed non-performing loans, Exposure at Default(EAD), Probability of Default(PD), Loss Given Default(LGD), Value at Risk (VaR), duration, maturity gap and rating grades. Since these models have become a vital part of decision making, the Banks manages the risk inherent in their usage by validation, and revalidation internally and by reputable External Consultants. In addition, staff are trained to use these models to achieve a high level of accuracy. The models are also frequently used to reflect prevailing risk factors and best practice.

### Basel and Capital Management

Polaris Bank is in the forefront of Basel implementation and it is constantly building resource capacity for the migration to the internal rating based approach of capital management.

The Basel II regulatory capital framework governs minimum regulatory capital requirements. This framework is organised under three pillars:

**Pillar 1:** The Bank uses Basel and CBN compliant methodologies and parameters to calculate its minimum capital requirements while putting in place measures to achieve the regulatory capital figures stipulated by Basel and CBN

**Pillar 2:** This pillar contains the internal capital adequacy and assessment process (ICAAP). It is a formal internal assessment of capital adequacy in relation to strategies, risk appetite, and actual risk profile. It is also a regulatory requirement. To this end, the Bank has an ICAAP committee charged with producing the ICAAP report on an annual basis as required by the regulators. The Bank also has a capital management committee that allocates capital after proper reviews of risk profile and concentration vis a vis return.

**Pillar 3:** The Bank is transparent in all its process and reports its business operations in a precise manner. It enhances public disclosure (both quantitative and qualitative) of specific details of risks being assumed, and how capital and risk are being managed under the Basel framework.

The CBN specifies approaches for quantifying the risk weighted assets for credit, market and operational risk for the purpose of determining regulatory capital. Although the computations are consistent with the requirements of Pillar 1 Basel II Accord, certain sections have been adjusted to reflect the peculiarities of the Nigerian environment. In compliance with CBN, the Bank has adopted the Standardized approach in determining capital charge for credit risk and market risk while capital charge for operational risk was determined using Basic Indicator Approach (BIA).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

### Credit Risk Management

Credit risk is the risk of suffering financial loss, should any of the Group's customers, client or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit derivatives (credit default swaps), financial guarantees, letters of credit, endorsements and acceptances.

Credit risk is the single largest risk within the Group, being an integral part of the Group's business activities and is inherent in traditional products – loans, commitments to lend and contingent liabilities, such as letters of credit – and in "traded products" such as repurchase agreements (repos and reverse repos). The Group is also exposed to credit risks arising from investments in debt securities and other exposures arising from its trading activities - trading exposures.

The Group defines credit risk as the risk that its customers will be unable or unwilling to pay interest, and/or principal or fail to perform their obligations as specified in the loan contract engaged between the customer and the Group.

Credit risk is the risk of an economic loss arising from the failure of a counterparties to fulfil its contractual obligations; its effect is measured by the cost of replacing cash flows if the other party defaults.

### Credit Risk Guiding Principles

Credit Risk Management in the Group is guided by the following principles:

- a. A strategic rather than a purely opportunistic approach in the creation of its credit risk portfolio.
- b. Clear articulation of policy guidelines on exposures, concentrations, pricing, collateral, customer-product matrices and portfolio liquidity.
- c. Maintenance of an integrated tracking system to measure actual against targeted risk asset composition and close monitoring of risk, return and asset quality indicators.
- d. The Group shall work to minimize the risk arising from a build-up of concentration in its Credit Risk Asset portfolio in any sector, obligor or industry.
- e. Portfolio liquidity and flexibility shall be important balancing elements in the creation of Credit Risk Assets by the Group.
- f. Loan pricing for each exposure shall be determined by the obligor's risk profile as represented by his risk rating.
- g. Irrespective of the rewards, the Group will always put Credit Risk before pecuniary considerations.
- h. The Group shall not engage in lending activities where though the returns look promising, the purpose of the loan and or its source of repayment are unknown or at best speculative.

### Management of Credit Risk

The Management of Credit Risk occurs broadly on 3 levels: the Board level, Management level and Risk Management Group level.

At the Board level, Credit Risk is managed by the Board Credit Committee and Board Audit Risk Management Committee with the following roles:

- i. Regular and ad-hoc review and approval of Credit Risk Strategy
- ii. Approval of the Group's Credit Risk Appetite
- iii. Monitoring the effectiveness of the Group's Credit Risk Measurement and Control Systems
- iv. Custody of the Group's Credit Risk Framework
- v. Approval of credit requests above Management Credit Committee limits
- vi. Approval of the Group's Credit Risk Rating Systems
- vii. Monitoring compliance to portfolio concentration limits

At the Management level, Credit Risk is managed by the Management Risk Committee(MRC), Management Credit Committee (MCC), the Portfolio Planning Committee (PPC) and the Rating Committee.

The role of the MCC includes among others:

- a. Approval of credit facility requests within the limits of management but above the limits of various Business Unit Heads (including the Managing Director).
- b. Review and recommendation for approval to the Board Credit Committee on credit facilities above management limit.
- c. Review and recommendation to the Board Credit Committee of Credit Policies and Standards.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

The role of the Portfolio Planning Committee includes among others:

- Review and recommendation for approval to the Board Audit Risk Management Committee (BARMC), the Group's portfolio limit concentration policy for sector, industry, region, product type, customer type and obligor rating.
- Review and recommendation for approval to the Board Risk Management Committee, any changes in the Group's portfolio limit concentration policy.
- Monitoring of the actual portfolio concentration limits against targeted performance.
- Supervision of stress tests for the Group's Credit Risk portfolio.

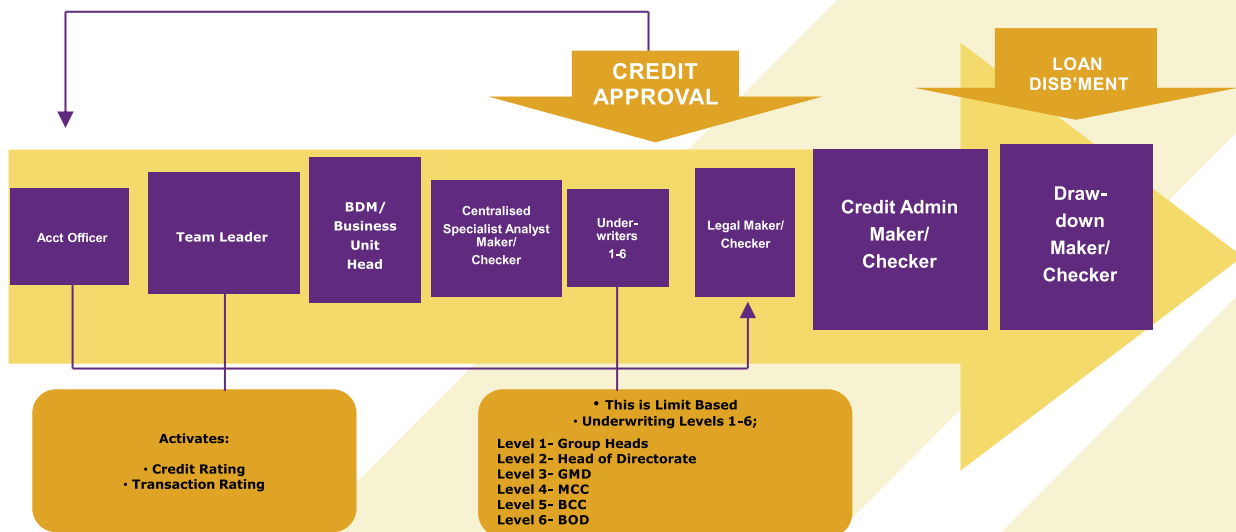
### Credit Origination

The credit risk assessment of loan exposures is centralized in a Credit Analysis team, headed by the Chief Credit Officer, who reports to the CEO and Board of Directors through the Chief Risk Officer.

There are various levels of filtration in the process of creating credit risk asset in the Group including;

- Clearly defined exposure concentration limits
- Originated transactions going through Centralized Sector Analysts for quality assurance
- The extensive use of the rating mechanism to objectively set Risk Acceptance Criteria
- Defined Target Markets indicating preferred sectors and obligors for whom credit assets can be created.

The credit approval process flow is depicted below:



The Centralized Specialist Analyst role is a risk management function, and all credits are reviewed for quality assurance, risk acceptance criteria and conformity with portfolio strategy before being recommended for further processing and approvals along the designated business line. Approval limits are delegated within the various underwriting levels based on loan value and collateral arrangement. This assurance process is well institutionalized.

### Credit Risk Monitoring

Credit risk monitoring is the responsibility of the Loan Review Department which also reports to the Managing Director (MD) and Board through the Chief Risk Officer, the activity is carried out both at the individual obligor level (covering on and off balance sheet exposures) and overall portfolio level.

The overriding objective of credit risk monitoring is to ensure that the quality of the Group's credit portfolio is tracked on a day to day basis so as to take prompt and appropriate remedial measures as soon as any deterioration or potential deterioration is identified.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

### Credit Risk Measurement

The assessment of credit exposure is very critical. The Bank uses models due to variations in the associated risk factors in credit risk.

In line with the Bank's credit policy, the following facility types are accepted:

- Term Loans
- Revolving credits
- Project finance
- Contingents
- Retail lending

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

The Bank has several models for the quantification and measurement of credit risk but key to them all is credit risk rating system. There are credit risk parameters engendered in the rating system for the estimation of entity and transactions risks. These parameters include but is not restricted to probability of default, loss given default and exposure at default which are transparent and may be replicated in order to provide consistency of credit adjudication, as well as minimum lending standards for each of the risk rating categories.

- Probability of Default (PD)

The PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (12 M PD), over the remaining lifetime (Lifetime PD) of the obligation.

- Exposure at Default (EAD)

EAD is the amount the Group is owed at the time of default or at the reporting date. This basically the sum of the facilities principal and interest outstanding at reporting date.

- Loss Given Default (LGD)

The Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparties, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12 month or lifetime basis, where 12-month LGD mirrors the probable loss the Group is likely to incur on its outstanding facilities. This entails measuring the net realisable value of facility collaterals as well as the present value of any future expected cash flow. The essence of this measure is to statistically measure the Group's historical loss experience.

In determining the probability of default the bank has estimated the migration rates of loans from risk group 1 to risk group 2 and quality of the performing book on a quarter by quarter basis. The movement between each risk group is based on the worse of the credit quality and the days past due of the loan. Any facility with days past due above 90 days moves from risk group 1 to risk group 2. Each loan facility are grouped based on its sector/industry and further sub-divided into 2 risk group. See below;

Risk Group	Number of days past due	IFRS 9 Stage
1	0-30	Stage 1
1	31-90	Stage 2
2	Above 90 days	Stage 3

Furthermore, significant increase in credit risk is the main factor that determines movement of a financial asset from Stage 1 to Stage 2, all obligors with days past due obligation or more than 30 days are migrated to stage 2. An obligor is moved into stage 3 if past due obligation is over 90 days unless there is a rebuttable assumption used by Management. A facility in Stage 3 can subsequently be deemed "cured". A facility is deemed to be "cured" when there is a significant reduction in the credit risk of the financial instrument. "Cured" facilities within Stage 2 are monitored for a probationary period of 90 days to confirm if the credit risk has decreased sufficiently before they can be migrated from Stage 2 to Stage 1 while "Cured" facilities within Stage 3 are monitored for a probationary period of 180 days before migration from Stage 3 to Stage 1.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

**Authority limits on credit****Legal Lending Limits**

- Single obligor limit: The total outstanding statutory exposure for any single person or group of connected persons shall not exceed 20% of the shareholders fund unimpaired by losses.
- Public sector limit: The total outstanding exposures (on and off balance sheet) to all tiers of government and their agencies shall not at any point exceed 10% of the banks credit portfolio.
- Large exposure limits: Aggregate large exposures in the Group shall not exceed eight times (8X) the shareholders fund unimpaired by losses. A large exposure is defined as an outstanding exposure to a single obligor that is at least 10% of the Bank shareholders fund unimpaired by losses.
- Specialized loan limits: The total specialized loans in the portfolio of credit exposure (both on and off balance sheet) must not exceed 20% of total outstanding.
- Group approval limits: Group approvals shall be required in respect of credit exposures that are in excess of the approved individual credit approval authority. Group approval authority shall be defined at the following levels:
  - \* The Board of Directors (BOD)
  - \* Board Credit Committee (BCC)
  - \* Management Credit Committee (MCC)

**Credit Approval Limits**

Approval Levels	Obligor limits
Full Board of Directors	Above ₦1.5 billion subject to the Bank's single obligor limit of 20% of shareholders fund unimpaired by losses
Board Credit Committee	Above ₦500 million and up to ₦1.5 billion
Management Credit Committee	Above ₦150 million and up to ₦500 million
Managing Director	Up to ₦150 million
Branch/Group/Divisional Heads/ED	As delegated by the Managing Director/CEO

**Collateral policies**

The Group has a structured Credit Risk Collateral Management system, which continuously ensures the eligibility, adequacy and quality of collaterals used as mitigants for credit exposures. The objective of which, is to ensure that the Group has a fall-back position for all classes of its assets.

Our collateral management system is guided by the collateral policy, which is a part of the credit policy and dictates amongst other things; the continuous review of collateral values to reflect prevailing market conditions and economic realities, the legal perfection of all pledged collateral and insurance coverage of all pledged collateral, with the Group stated as First Loss Payee.

The Group only accepts collaterals that are enforceable and must fall under any of the following categories:

- Cash and Government Securities
- Shares and Stocks of Listed Companies and Financial Guarantees
- Plant and Equipment
- Properties/Real Estates
- General Inventories and Receivables
- Letter of Lien and Documents of title to goods
- Other Assets

While these collaterals are acceptable to the Group, they must provide adequate cover for the proposed facility and must be easy to transfer to the Group, with good legal documentation. They must also be easily realisable, with very stable value outlook.

The approved collateral coverage ratio for the Group's facilities is as stated below:

S/N	Collateral Type	Coverage (%)
1	Cash	110%
2	Shares	150%
3	Property	150%
4	Leases	120%
5	Financial Guarantees	100%
6	Government Securities	110%
7	All assets debentures	250%
8	Insurance	120%
9	Stocks and Goods	8%
10	Invoice Discounting	130%
11	Stocks/Goods (Trade Finance only)	130%
12	Bank Guarantee	100%

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

### Credit collateral

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

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

All collateral offered must have the following attributes:

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

The Group has not included collaterals not easily convertible into cash in calculation of its expected credit loss. All collateral must be protected by insurance. Exceptions include cash collateral, securities in safe keeping, indemnity or guarantees, or where our interest is general (for instance in a negative pledge). The insurance policy has to be issued by an insurer acceptable to the Bank. All cash collateralized facilities shall have a 20% margin to provide cushion for interest and other charges i.e. only 80% of the deposit or cash collateral may be availed to an obligor.

The main collateral types acceptable to the Bank for loans and advances include:

- Mortgages over residential properties
- Charges over business premises, fixed and floating assets as well as inventory.
- Charges over financial instruments such as equities, treasury bills etc.

The fair values of collaterals are based upon last annual valuation undertaken by independent valuers on behalf of the Bank. The valuation techniques adopted for properties are based upon fair values of similar properties in the neighbourhood taking into cognizance the advantages and disadvantages of the comparatives over the subject property and any other factor which can have effect on the valuation e.g. subsequent movements in house prices, after making allowance for dilapidations. The fair values of nonproperty collaterals (such as equities, bond, treasury bills, etc.) are determined with reference to market quoted prices or market values of similar instrument. There were no repossessed collateral during the period.

The same fair value approach is used in determining the collaterals value in the course of sale or realisation.

### Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write off may be earlier. Subsequent recoveries of amounts previously written off are credited to the the statement of comprehensive income.

The Group may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the period ended 31 December 2021 was N7.1 billion. The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of recovery.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

**3. Financial risk management continued****3.1 Credit risk****3.1.1a Maximum exposure to credit risk for financial assets**

The following table shows the maximum exposure to credit risk by class of financial assets. The Group's maximum exposure credit risk is represented by the gross carrying amounts of the financial assets.

**Maximum exposure to credit risk - Financial instruments not subject to impairment**

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment.

**Group and Bank**

	<b>31 December 2021</b>	<b>31 December 2020</b>
Financial assets held at fair value through profit or loss	654	43,087

**Maximum exposure to credit risk - Financial instruments subject to impairment****Group and Bank**

	<b>31 December 2021</b>	<b>31 December 2020</b>
Balances with central bank	1,174	15,371
Due from banks and other financial institutions	52,673	57,812
Other Assets (Cash reserve with CBN)	325,879	204,832
Loans and advances		
- Term loans	261,780	218,281
- Overdraft	64,625	80,719
Amortised Cost Investments		
- Treasury bills	209,498	191,636
- Corporate bonds	3,692	2,285
- State government bonds	9,160	11,261
- Federal government bonds	93,466	69,819
- Eurobonds	2,249	2,116
- Promisory notes	12,689	44
- Commercial papers	2,349	166
Assets pledged as collateral		
- Treasury bills	34,254	26,064
- Federal government bonds	18,432	16,100
Other loans and receivables	173,550	210,677
Other assets (excluding restricted cash)	22,634	16,191
	<b>31 December 2021</b>	<b>31 December 2020</b>
Loans exposure to total credit risk exposure	25%	26%
Debt securities exposure to total credit risk exposure	44%	45%
Other exposures to total credit risk exposure	31%	29%

The table above shows a worst-case scenario of credit risk exposure to the Group as at 31 December 2021 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on amounts reported in the statement of financial position.

**Credit exposures relating to off-balance sheet items**

	<b>Group and Bank 31 December 2021</b>	<b>Group and Bank 31 December 2020</b>
Bonds and guarantees	114,332	55,234
Letters of credit	28,351	12,618
	<b>142,683</b>	<b>67,852</b>

Contingencies are disclosed on Note 37

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

**3.1.1b Summary of collaterals held against loans and advances to customers**

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is assessed by reference to market price or indexes of similar assets.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

<b>2021</b>	<b>Gross exposure</b>	<b>Impairment allowance</b>	<b>Carrying amount</b>	<b>Fair value of collateral held</b>
Term loans	261,780	44,282	217,498	561,947
Overdrafts	64,625	22,051	42,574	101,202
	<b>326,405</b>	<b>66,333</b>	<b>260,072</b>	<b>663,149</b>
<b>Analysis by security</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Secured against real estate	12,080	1,031	20,386	33,497
Secured by shares	394	-	8	402
Cash Collateral	9,815	508	485	10,808
Otherwise secured	225,130	10,014	43,904	279,048
Unsecured	988	1,288	373	2,649
Total Gross Loan	248,407	12,841	65,156	326,405
Fair Value of Collateral	(421,503)	(83,021)	(158,625)	(663,149)
(Over)/Under collateralization	(173,096)	(70,180)	(93,469)	(336,745)
<b>2020</b>	<b>Gross exposure</b>	<b>Impairment allowance</b>	<b>Carrying amount</b>	<b>Fair value of collateral held</b>
Term loans	218,281	56,426	161,855	298,169
Overdrafts	80,719	37,790	42,929	111,001
	<b>299,000</b>	<b>94,216</b>	<b>204,784</b>	<b>409,170</b>
<b>Analysis by security</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Secured against real estate	3,860	2,302	34,090	40,252
Secured by shares	100	2	7	109
Cash Collateral	6,472	2,462	1,679	10,613
Otherwise secured	108,632	4,620	110,492	223,744
Unsecured	14,233	7,084	2,965	24,282
Total Gross Loan	133,297	16,470	149,233	299,000
Fair Value of Collateral	(119,824)	(25,498)	(263,848)	(409,170)
(Over)/Under collateralization	13,473	(9,028)	(114,615)	(110,170)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

**3.1.2 Credit quality of financial assets using external ratings**

The credit quality of financial assets with reference to external ratings has been shown below. This information is provided for balances due from banks and financial institutions and debt investment securities.

**Group & Bank 31 December 2021**

External ratings (S&P)	Balances with central bank	Due from banks and other financial institutions	Financial assets held at fair value through profit or loss	Investment securities	Assets pledged as collateral	Other loans and receivables	Other assets
<b>Stage 1</b>							
AA+	-	-	-	1,880	-	-	-
A	-	-	-	468	-	-	-
A-	-	-	654	-	-	-	-
<b>Stage 2</b>							
BBB+	-	-	-	313,074	-	-	-
BBB	-	-	-	-	52,576	-	-
BB+	19,558	52,673	-	-	-	173,938	-
B+	-	-	-	-	-	-	-
B	-	-	-	2,249	-	-	-
B-	-	-	-	-	-	-	-
Unrated	-	-	-	13,241	-	-	66,973
<b>Total</b>	<b>19,558</b>	<b>52,673</b>	<b>654</b>	<b>330,912</b>	<b>52,576</b>	<b>173,938</b>	<b>66,973</b>

**Group & Bank 31 December 2020**

External ratings (S&P)	Balances with central bank	Due from banks and other financial institutions	Financial assets held at fair value through profit or loss	Investment securities	Assets pledged as collateral	Other loans and receivables	Other assets
<b>Stage 1</b>							
AA	-	3,935	-	-	-	-	-
A+	-	25,511	-	-	-	-	-
A	-	23,525	-	-	-	-	-
A-	-	-	-	-	-	-	-
<b>Stage 2</b>							
BBB+	-	4,376	-	-	-	-	-
BBB	-	5	-	166	-	-	-
BB+	15,371	-	43,087	272,548	42,164	210,677	-
B+	-	300	-	129	-	-	-
B	-	-	-	2,116	-	-	-
Unrated	-	-	-	252	-	-	221,723
<b>Stage 3</b>							
Default	-	160	-	-	-	-	-
<b>Total</b>	<b>15,371</b>	<b>57,812</b>	<b>43,087</b>	<b>275,211</b>	<b>42,164</b>	<b>210,677</b>	<b>221,723</b>

**3.1.3 Credit risk concentration**

Concentration risk refers to the risk arising from an uneven distribution of counterparties within a credit portfolio or from concentration in sectors, geographical locations etc. which poses a potential threat to the solvency of the counterparty.

The Group recognizes that concentration risk may exist among loans, which though may have been prudently underwritten, are collectively sensitive to the same economic and financial or business development events, such that a negative development affecting these factors may cause loans to perform as if it were a single, large exposure.

The Group complies fully with all regulatory portfolio concentration limits as determined by the CBN. The Group sets internal thresholds, which are more conservative than the regulatory limits and this acts as a buffer to ensure compliance. In addition to regulatory limits, the Group uses risk-based measurement systems to define a variety of concentration thresholds for its credit portfolio. These include; sectors, geographical locations, strategic business units etc.

The Group employs its management information system in monitoring these limits and remedial actions are set in motion at determined thresholds other tools employed in measuring risk concentrations include, HHI index and GINI coefficient.

Concentration of credit risk arise from financial instruments that have similar characteristics and are affected similarly by changes in economic or other conditions. This information has been provided along geographical areas and economic sectors.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

### 3. Financial risk management continued

#### 3.1.3i Concentration of risks of financial assets with credit risk exposure

The following table breaks down the Group's credit exposure (without taking into account any collateral held or other credit support), as categorised by geographical region as at the reporting date. For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties.

31 December 2021

	Group			Bank		
	Within Nigeria	Outside Nigeria	Total	Within Nigeria	Outside Nigeria	Total
<b>Credit risk concentration by geography relating to on-balance sheet</b>						
Cash and balances with central banks	1,174	-	1,174	1,174	-	1,174
Due from banks and other financial institutions	19,800	32,968	52,768	19,800	32,968	52,768
Financial assets held at fair value through profit or loss	654	-	654	654	-	654
<i>Loans and advances to customers:</i>						
- Term loans	261,780	-	261,780	261,780	-	261,780
- Overdraft	64,625	-	64,625	64,625	-	64,625
<i>Investment securities</i>						
- Amortized Cost Investments	330,987	2,116	333,103	330,987	2,116	333,103
Asset pledged as collateral - debt securities	52,686	-	52,686	52,686	-	52,686
Other loans and receivables	173,938	-	173,938	173,938	-	173,938
Other assets	348,512	-	348,512	347,955	700	348,655
	1,254,156	35,084	1,289,240	1,253,600	35,784	1,289,384
<b>Credit risk concentration by geography relating to off-balance sheet</b>						
Bonds and guarantees	114,332	-	114,332	114,332	-	114,332
Letters of credit	28,351	-	28,351	28,351	-	28,351
	142,683	-	142,683	142,683	-	142,683

31 December 2020

	Group			Bank		
	Within Nigeria	Outside Nigeria	Total	Within Nigeria	Outside Nigeria	Total
<b>Credit risk concentration by geography relating to on-balance sheet</b>						
Cash and balances with central banks	15,371	-	15,371	15,371	-	15,371
Due from banks and other financial institutions	24,500	33,312	57,812	24,500	33,312	57,812
Financial assets held at fair value through profit or loss	43,087	-	43,087	43,087	-	43,087
<i>Loans and advances to customers:</i>						
- Term loans	218,281	-	218,281	218,281	-	218,281
- Overdraft	80,719	-	80,719	80,719	-	80,719
<i>Investment securities</i>						
- Amortized Cost Investments	275,211	2,116	277,327	275,211	2,116	277,327
Asset pledged as collateral - debt securities	42,164	-	42,164	42,164	-	42,164
Other loans and receivables	210,677	-	210,677	210,677	-	210,677
Other assets	221,023	-	221,023	221,023	700	221,723
	1,131,033	35,428	1,166,461	1,131,033	36,128	1,167,161
<b>Credit risk concentration by geography relating to off-balance sheet</b>						
Bonds and guarantees	50,427	-	50,427	50,427	-	50,427
Letters of credit	4,418	-	4,418	4,418	-	4,418
	54,845	-	54,845	54,845	-	54,845

#### 3.1.3ii. Industry sectors

The following table breaks down the Group's credit exposure (without taking into account any collateral held or other credit support), as categorised by the Bank's defined industry sector.

#### Credit risk concentrations by industry relating to on-balance sheet items

Group and Bank	Balances held with Central Bank	Due from banks and other financial institutions	Financial assets measured through FVTPL	Loans and advances to customers	Financial assets measured at amortized cost	Asset pledged as collateral - debt securities	Other loans and receivables	Other assets	Total
<b>31 December 2021</b>									
<b>Sector</b>									
General Commerce	-	-	-	19,655	547	-	-	-	20,202
Manufacturing	-	-	-	16,187	-	-	-	-	16,187
Oil & Gas	-	-	-	90,248	-	-	-	-	90,248
Retail	-	-	-	29,292	-	-	-	-	29,292
Services	-	52,673	-	29,423	-	-	-	19,982	102,079
Public Sector	1,175	-	654	75,267	329,977	52,686	173,938	328,673	962,369
<b>Total</b>	1,175	52,673	654	260,072	330,524	52,686	173,938	348,655	1,220,377

#### Credit risk concentrations by industry relating to off-balance sheet items

Group and Bank

31 December 2021

	Group			Bank		
	Bonds and guarantees	Letters of credit	Total	Bonds and guarantees	Letters of credit	Total
General Commerce	5,164	1,735	6,899	5,164	1,735	6,899
Manufacturing	89,401	26,861	116,262	89,401	26,861	116,262
Oil & Gas	2,936	114	3,050	2,936	114	3,050
Retail	100	-	100	100	-	100
Services	12,847	3,522	16,369	12,847	3,522	16,369
<b>Total</b>	110,448	32,232	142,680	110,448	32,232	142,680

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

**3.1.3.ii. Industry sectors continued****Credit risk concentrations by industry relating to on-balance sheet items**

Group and Bank	Balances held with Central Bank	Due from banks and other financial institutions	Financial assets measured through FVTPL	Loans and advances to customers	Financial assets measured at amortized cost	Asset pledged as collateral - debt securities	Other loans and receivables	Other assets	Total
<b>31 December 2020</b>									
<b>Sector</b>									
General Commerce	-	-	-	22,056	547	-	-	-	22,603
Manufacturing	-	-	-	16,387	-	-	-	-	16,387
Oil & Gas	-	-	-	40,973	-	-	-	-	40,973
Retail	-	-	-	18,932	-	-	-	-	18,932
Services	-	57,812	-	14,478	-	-	-	15,523	87,813
Public Sector	15,371	-	43,087	91,958	274,664	42,164	210,677	206,200	884,121
<b>Total</b>	<b>15,371</b>	<b>57,812</b>	<b>43,087</b>	<b>204,784</b>	<b>275,211</b>	<b>42,164</b>	<b>210,677</b>	<b>221,723</b>	<b>1,070,829</b>

**Credit risk concentrations by industry relating to off-balance sheet items****Group and Bank****31 December 2020**

	Group			Bank		
	Bonds and guarantees	Letters of credit	Total	Bonds and guarantees	Letters of credit	Total
General Commerce	14,965	2,359	17,324	14,965	2,359	17,324
Manufacturing	4,848	8,507	13,355	4,848	8,507	13,355
Oil & Gas	170	-	170	170	-	170
Retail	-	4	4	-	4	4
Services	35,251	1,748	36,999	35,251	1,748	36,999
<b>Total</b>	<b>55,234</b>	<b>12,618</b>	<b>67,852</b>	<b>55,234</b>	<b>12,618</b>	<b>67,852</b>

**3.1.3.iii Credit risk concentration by geography of loans and advances to customers by products****31 December 2021**

	Group			Bank		
	Within Nigeria	Outside Nigeria	Total	Within Nigeria	Outside Nigeria	Total
Term loans	261,780	-	261,780	261,780	-	261,780
Overdrafts	64,625	-	64,625	64,625	-	64,625
<b>Total</b>	<b>326,405</b>	<b>-</b>	<b>326,405</b>	<b>326,405</b>	<b>-</b>	<b>326,405</b>

**Categorization of Loans and advances**

The table below analyses the Group's Loans and advances based on the categorization by Performance of the Loans and the allowances taken on them

**31 December 2021**

		Group		Bank	
		EXPOSURE	ECL	EXPOSURE	ECL
Term loan	Stage 1	216,686	36,344	216,686	36,344
	Stage 2	10,238	943	10,238	943
	Stage 3	34,856	6,996	34,856	6,996
		<b>261,780</b>	<b>44,282</b>	<b>261,780</b>	<b>44,282</b>
Overdraft	Stage 1	31,722	2,701	31,722	2,701
	Stage 2	2,603	76	2,603	76
	Stage 3	30,300	19,273	30,300	19,273
		<b>64,625</b>	<b>22,050</b>	<b>64,625</b>	<b>22,050</b>
		<b>326,405</b>	<b>66,332</b>	<b>326,405</b>	<b>66,332</b>

**31 December 2020**

		Group			Bank		
		Within Nigeria	Outside Nigeria	Total	Within Nigeria	Outside Nigeria	Total
Term loans		218,281	-	218,281	218,281	-	218,281
Overdrafts		80,719	-	80,719	80,719	-	80,719
		<b>299,000</b>	<b>-</b>	<b>299,000</b>	<b>299,000</b>	<b>-</b>	<b>299,000</b>

**Categorization of Loans and advances**

The table below analyses the Group's Loans and advances based on the categorization by Performance of the Loans and the allowances taken on them

**31 December 2020**

		Group		Bank	
		EXPOSURE	ECL	EXPOSURE	ECL
Term loan	Stage 1	123,517	1,040	123,517	1,040
	Stage 2	9,331	249	9,331	249
	Stage 3	85,433	55,138	85,433	55,138
		<b>218,281</b>	<b>56,427</b>	<b>218,281</b>	<b>56,427</b>
Overdraft	Stage 1	9,780	172	9,780	172
	Stage 2	7,139	182	7,139	182
	Stage 3	63,800	37,435	63,800	37,435
		<b>80,719</b>	<b>37,789</b>	<b>80,719</b>	<b>37,789</b>
		<b>299,000</b>	<b>94,216</b>	<b>299,000</b>	<b>94,216</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

**3.1.3iv. Disclosures of various factors that impact the ECL as at 31 December 2021**

These factors revolves around:

- i Discounting of the expected future cashflows from individual obligors with respective effective interest rate (EIR) on the set future dates to present value.
- ii Application of varying haircut to underlying collateral and further discounting with their respective EIR
- iii Application of varying forward looking information in relation to underlying macroeconomic assumptions and the degree of responsiveness of the obligors to the assumptions at different degree of normal, downturn and upturn scenarios.

The key drivers for credit risk for the bank is the GDP growth rate, crude oil prices and exchange rate

The various assumptions under the different scenarios are as presented below

	Scenario	Q 1	Q 2	Q 3	Q 4
GDP growth rate (%)	Upturn	2.4%	3.02%	3.98%	4.05%
	Base	2.3%	2.55%	3.30%	3.20%
	Downturn	1.1%	2.10%	2.60%	2.35%
Bent Crude Oil price (per barrel)	Upturn	69.24	69.24	69.24	69.24
	Base	67.00	67.00	67.00	67.00
	Downturn	64.76	64.76	64.76	64.76
Exchange rate (per dollar)	Upturn	392.14	402.09	404.32	407.87
	Base	415.51	425.46	427.69	431.24
	Downturn	438.88	448.83	451.05	454.60

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over 2 years.

The weightings assigned to each economic scenario during the period were as follows;

Base	Upside	Downside
42%	27.0%	31.0%

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

**3.1.4****Loans and advances to customers****a Reconciliation of loans and advances**

	Group & Bank			Total
	Stage 1	Stage 2	Stage 3	
Gross carrying amount as at 1 January 2021	132,610	16,243	150,149	299,002
New financial assets originated or purchased	60,251	6,389	8,083	74,723
Transfer from Stage 1	(3,985)	3,818	168	-
Transfer from Stage 2	7,770	(8,610)	840	-
Transfer from Stage 3	2,357	23,007	(25,364)	-
Write-offs	-	-	(7,186)	(7,186)
Financial assets repaid or derecognised during the period	(87,871)	(6,573)	(99,109)	(193,554)
Movement due to loan modification	77,452	75	76,778	154,306
FX and other movements	(393)	(48)	(445)	(886)
<b>Total Gross</b>	<b>188,190</b>	<b>34,301</b>	<b>103,913</b>	<b>326,405</b>
<b>Loss Allowance</b>				
Loss Allowance as at 1 January 2021	1,212	433	92,571	94,216
Transfer from 12 month ECL	(423)	370	53	-
Transfer from Lifetime ECL not credit impaired	453	(658)	204	-
Transfer from Lifetime ECL credit impaired	109	5,496	(5,606)	-
Write-offs	-	-	(7,186)	(7,186)
Net movement	(266)	(95)	(20,336)	(20,697)
<b>Total Allowance</b>	<b>1,086</b>	<b>5,546</b>	<b>59,701</b>	<b>66,333</b>

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2020	140,913	369	120,126	261,408
Transfer from Stage 1 to Stage 2	(14,974)	14,974	-	-
Transfer from Stage 1 to Stage 3	(4,148)	-	4,148	-
Write-offs	-	-	(51)	(51)
FX and other movements	11,506	1,127	25,010	37,643
<b>Total Gross</b>	<b>133,297</b>	<b>16,470</b>	<b>149,233</b>	<b>299,000</b>
Loss Allowance as at 1 January 2020	3,172	41	69,457	72,670
Write-offs	-	-	(51)	(51)
Net movement	(1,960)	390	23,167	21,597
<b>Total Allowance</b>	<b>1,212</b>	<b>431</b>	<b>92,573</b>	<b>94,216</b>

**b Investment Securities****Reconciliation of Investment securities- Amortised Costs & Assets pledged as collaterals**

	Group & Bank			Total
	Impairment on stage 1- 12 months ECL	Impairment on stage 2- Lifetime ECL Not Credit Impaired	Impairment on stage 3 - Lifetime ECL Credit Impaired	
Gross carrying amount as at 1 January 2021	275,423	-	-	275,423
Additions during the year	330,656	-	-	330,656
Financial assets that have been derecognised	(272,976)	-	-	(272,976)
<b>Total Gross Amortised cost Investments</b>	<b>333,103</b>	<b>-</b>	<b>-</b>	<b>333,103</b>
Loss Allowance as at 1 January 2021	2,116	-	-	2,116
Charge for the year	75	-	-	75
<b>Total Allowance</b>	<b>2,191</b>	<b>-</b>	<b>-</b>	<b>2,191</b>

*Assets pledged as collaterals*

Gross carrying amount as at 1 January 2021	42,164	-	-	42,164
Additions during the year	40,312	-	-	40,312
Financial assets that have been derecognised	(29,900)	-	-	(29,900)
<b>Total Gross</b>	<b>52,576</b>	<b>-</b>	<b>-</b>	<b>52,576</b>
Loss Allowance as at 1 January 2021	-	-	-	-
Impairment write-back	110	-	-	110
<b>Total Allowance</b>	<b>110</b>	<b>-</b>	<b>-</b>	<b>110</b>

**Reconciliation of Investment securities- Amortised Costs & Assets pledged as collaterals**

	Impairment on stage 1- 12 months ECL	Impairment on stage 2- Lifetime ECL Not Credit Impaired	Impairment on stage 3 - Lifetime ECL Credit Impaired	Total
Gross carrying amount as at 1 January 2020	519,062	-	-	519,062
Additions during the year	242,399	-	-	242,399
Financial assets that have been derecognised	(486,038)	-	-	(486,038)
<b>Total Gross Amortised cost Investments</b>	<b>275,423</b>	<b>-</b>	<b>-</b>	<b>275,423</b>
Loss Allowance as at 1 January 2020	1,990	-	-	1,990
Reclassification	(1,904)	-	-	(1,904)
Charge for the year	126	-	-	126
<b>Total Allowance</b>	<b>212</b>	<b>-</b>	<b>-</b>	<b>212</b>

*Assets pledged as collaterals*

Gross carrying amount as at 1 January 2020	42,084	-	-	42,084
Additions during the year	80	-	-	80
<b>Total Gross</b>	<b>42,164</b>	<b>-</b>	<b>-</b>	<b>42,164</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent 'step up' between 12-month and Lifetime ECL;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

**3.1.5 Sensitivity analysis**

The most significant assumptions affecting the ECL allowance are the following; probability of default, loss given default and macro-economic variables. Therefore changes to these key variables would directly impact the exposure at default as at reporting date.

**a Sensitivity of expected credit loss - probability at default (PD)**

The Group carried out the following activities in assessing the sensitivity of the Group's profit to fluctuations in the probability of default.

The determination of the group's probability of default (PD) is explained in the financial risk management - credit risk measurement section.

As at 31 December 2021, if the probability of default increased or decreased by 0.5%, with all other variables (exposure at default and loss given default) held constant, the impact on impairment charge, which ultimately affects loss before tax and exposure at default, would have been as set out in the tables below:

	<b>Group &amp; Bank</b>	
	<b>31 December 2021</b>	<b>31 December 2020</b>
	Pre tax	Pre tax
Increase	2,003	2,391
Decrease	(2,003)	(2,355)
	-	36

**b Sensitivity of expected credit loss - loss given default (LGD)**

The Group in assessing the sensitivity of the Group's profit to fluctuations in the loss given default, assumed a 0.5% change in the loss given default. The chosen change in the loss given default was then applied to the bank's loan portfolio as at end of the year. The determination of the group's loss given default (LGD) is explained in the financial risk management - credit risk measurement section.

As at 31 December 2021, if the loss given default increased or decreased by five percent, with all other variables (exposure at default, probability of default) held constant, the impact on impairment charge, which ultimately affects loss before tax and exposure at default, would have been as set out in the tables below:

	<b>Group &amp; Bank</b>	
	<b>31 December 2021</b>	<b>31 December 2020</b>
	Pre tax	Pre tax
Increase	2,514	471
Decrease	(2,514)	(471)
	-	-

**c Sensitivity of expected credit loss- GDP Growth rate**

The Group in assessing the sensitivity of the Group's profit to fluctuation in GDP growth rate, assumed a 0.5% change in the GDP growth rate. The chosen change in this macro-economic variable was then applied to the bank's loan portfolio as at the end of year.

The determination of the group's macro-economic variable is explained in the financial risk management- credit risk measurement section.

	<b>Group &amp; Bank</b>	
	<b>31 December 2021</b>	<b>31 December 2020</b>
	Pre tax	Pre tax
Increase	56	52
Decrease	(57)	(96)
	(1)	(44)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

**3. Financial risk management continued****3.1.6 Debt securities**

The table below shows analysis of the Gross debt securities into the different classifications:

31 December 2021	Group				Bank			
	Financial assets held at fair value through profit or loss	Financial assets held at Amortised cost	Assets pledged as collateral	Total	Financial assets held at fair value through profit or loss	Financial assets held at Amortised cost	Assets pledged as collateral	Total
Federal government bonds	-	93,466	34,254	127,720	-	93,466	34,254	127,720
State government bonds	-	9,160	-	9,160	-	9,160	-	9,160
Corporate bonds	-	3,692	-	3,692	-	3,692	-	3,692
Treasury bills	654	209,498	18,432	228,584	654	209,498	18,432	228,584
Promisory notes	-	12,689	-	12,689	-	12,689	-	12,689
Commercial papers	-	2,349	-	2,349	-	2,349	-	2,349
Eurobond	-	2,249	-	2,249	-	2,249	-	2,249
	<b>654</b>	<b>333,103</b>	<b>52,686</b>	<b>386,443</b>	<b>654</b>	<b>333,103</b>	<b>52,686</b>	<b>386,443</b>

The Group and Bank's investment in risk-free Government securities constitutes 99% of debt instruments portfolio. Investment in corporate and eurobonds accounts for the outstanding 1%.

31 December 2020	Group				Bank			
	Financial assets held at fair value through profit or loss	Financial assets held at Amortised cost	Assets pledged as collateral	Total	Financial assets held at fair value through profit or loss	Financial assets held at Amortised cost	Assets pledged as collateral	Total
Federal government bonds	-	69,819	26,064	95,883	-	69,819	26,064	95,883
State government bonds	-	11,261	-	11,261	-	11,261	-	11,261
Corporate bonds	-	2,285	-	2,285	-	2,285	-	2,285
Treasury bills	41,159	191,636	16,100	248,895	41,159	191,636	16,100	248,895
Promisory notes	1,928	44	-	44	1,928	44	-	44
Commercial papers	-	166	-	166	-	166	-	166
Eurobond	-	2,116	-	2,116	-	2,116	-	2,116
	<b>43,087</b>	<b>277,327</b>	<b>42,164</b>	<b>360,650</b>	<b>43,087</b>	<b>277,327</b>	<b>42,164</b>	<b>360,650</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

**3.2 Liquidity risk**

Liquidity risk is the risk that the Group does not have sufficient resources to meet its obligations when they fall due or will have to meet such obligations at an excessive cost. This may be as a result of high cash outflows such as huge customer withdrawals, cash requirements from contractual commitments, debt maturities that would deplete available cash resources for client lending, trading activities and investments. Liquidity risks are categorized into funding liquidity risk – inability to meet financial obligation as they fall due and market liquidity risk – inability to liquidate financial asset at a fair market price.

**Liquidity risk management process**

The measure of the Group's liquidity is the ratio of its liquid assets to total customer deposits. Liquidity management is operated in a centralized governance control process that covers the entire Group's liquidity risk management activities. This is an oversight responsibility of the Asset and Liability Committee (ALCO), discharged through the Market and Liquidity Risk management function. The Market and Liquidity Risk team monitors the inherent risk and threats to the Bank's immediate and future liquidity conditions, engaging stress testing under normal and severe market scenario as a tool. On the other hand, Treasury Group ensure adequate funding over with sizeable buffer over regulatory minimum on a continuous and sustainable basis. The market risk team, which ensures compliance to the Board-approved liquidity management policy, is independent of the funding function.

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

	<b>31 December 2021</b>	<b>31 December 2020</b>
	%	%
At 31 December		
Average for the year	38	65
Maximum for the year	46	82
Minimum for the year	29	43

In ensuring adequate liquidity at all times, the Group maintains sizeable portfolio of highly marketable securities (mostly government papers) that can be easily liquidated as protection against any unforeseen interruption to cash flow and funding obligations. The liquid assets held for managing liquidity risk comprise of:

- Cash and balances with the Central Bank;
- Government Bonds and Treasury Bills
- Highly liquid instruments in the Group's trading portfolio.

The Group's liquidity related behaviour is strictly guided by the Board approved liquidity management policy. The policy defines specific limit that will ensure adequate liquidity position at all times. Maturity re-pricing schedules, projected liquidity position as well as stress tested liquidity outlook are generated weekly by the Liquidity Risk team for ALCO's decision making.

Funding sources are reviewed regularly by the Liquidity Risk Management team to ensure adequate funding diversification by currency, geography, provider, product and term to maturity. Contingency funding arrangements are also in place as way-out strategies in the unlikely condition of Bank specific liquidity stress / local or global systemic liquidity shocks.

**Polaris bank contingency funding plan**

Polaris Bank Contingency Funding Plan (CFP) serves as a way-out strategy under stress liquidity situations. The plan consists of a set of policies and procedures that shall serve as blue print for the Bank to meet its funding needs in a timely manner under adverse stress conditions. For effectiveness, this plan shall represent estimate of balance sheet changes that may result from a liquidity, credit and/or market events.

The MD/CEO or the ALCO Chairman are the only persons authorized to activate the CFP. Execution of the plan involves funding and non-funding activities.

In the event of a liquidity squeeze, the Bank possesses a Crisis Management Committee that is comprised of heads of departments of critical departments and is headed by the MD/CEO.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

**3.2 Liquidity Risk (Continued)****3.2.1 Liquidity Risk Measurement**

The measure of the Group's liquidity is the ratio of its liquid assets to total customer deposits.

The liquid assets held for managing liquidity risk comprise:

- Cash and balances with the Central Bank;
- Government Bonds and Treasury Bills
- Highly liquid instruments in the Group's trading portfolio
- Short term liabilities include local currency deposits from customers.

<b>Assets &amp; Liability Mix</b>	<b>31 December 2021</b>		<b>31 December 2020</b>	
<b>Asset components</b>	<b>% Proportion</b>		<b>% Proportion</b>	
Cash	3%	19,558	10%	52,995
Cash reserve	49%	325,879	38%	204,832
Treasury bills	31%	210,152	35%	193,564
FGN bonds & other certificates	14%	93,466	13%	69,819
Placements	3%	19,800	4%	24,500
<b>Total</b>	<b>100</b>	<b>668,855</b>	<b>100</b>	<b>545,710</b>
<b>Liability components</b>	<b>% Proportion</b>		<b>% Proportion</b>	
Current deposits	31%	317,694	33%	301,662
Savings deposits	28%	288,454	27%	245,574
Term deposits	32%	327,757	28%	259,712
Domiciliary deposits	9%	87,609	12%	107,375
<b>Total</b>	<b>100</b>	<b>1,021,514</b>	<b>100</b>	<b>914,323</b>

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

**3. Liquidity Risk Measurement (Continued)****3.2.2 Contractual maturity of financial assets and liabilities**

The following tables show the undiscounted cashflows on the Group's financial assets and liabilities and on the basis of their earliest possible contractual maturity. The gross nominal inflow/(outflow) disclosed in the table is the contractual, undiscounted cash flow on the financial assets and liabilities:

**Gross nominal (undiscounted) maturities of financial assets and liabilities****Group and Bank****31 December 2021**

	Carrying amount	Gross nominal inflow/(outflow)	Less than 90 days	91 - 180 days	181 - 365 days	Over 1 year but less than 5 years	Over 5 years
<b>Financial assets</b>							
Cash and balances with central banks	19,558	19,558	19,558	-	-	-	-
Due from banks and other financial institutions	52,673	52,673	52,673	-	-	-	-
Financial assets held at fair value through profit or loss	654	654	290	80	284	-	-
Loans and advances to customers	260,072	326,405	43,779	18,309	20,955	72,981	170,381
Fair value through OCI	18,650	18,650	-	-	-	-	18,650
Amortised cost financial assets	330,912	330,524	70,312	80,200	68,237	68,935	42,840
Assets pledged as collateral	52,686	52,686	-	-	18,432	8,190	26,064
Other loans and receivables	173,938	173,938	173,938	-	-	-	-
Other assets	343,127	343,127	343,127	-	-	-	-
	<b>1,252,270</b>	<b>1,318,215</b>	<b>703,677</b>	<b>98,589</b>	<b>107,908</b>	<b>150,106</b>	<b>257,935</b>
<b>Financial liabilities</b>							
Deposits from customers	1,021,514	1,021,514	847,433	146,987	27,092	-	-
Borrowings	84,102	85,103	-	1,099	7,305	-	76,699
Lease liability	1,798	4,635	394	394,000	770	1,961	1,116
Other financial liabilities	71,090	71,090	69,885	-	-	-	-
	<b>1,178,504</b>	<b>1,182,343</b>	<b>917,712</b>	<b>148,480</b>	<b>35,167</b>	<b>1,961</b>	<b>77,815</b>
<b>Gap (asset - liabilities)</b>	<b>73,766</b>	<b>135,873</b>	<b>(214,035)</b>	<b>(49,891)</b>	<b>72,740</b>	<b>148,145</b>	<b>180,120</b>
<b>Cumulative liquidity gap</b>	-	-	<b>(214,035)</b>	<b>(263,925)</b>	<b>(191,185)</b>	<b>(43,039)</b>	<b>137,081</b>

**Group and Bank****31 December 2020**

	Carrying amount	Gross nominal inflow/(outflow)	Less than 90 days	91 - 180 days	181 - 365 days	Over 1 year but less than 5 years	Over 5 years
<b>Financial assets</b>							
Cash and balances with central bank	52,995	52,995	52,995	0	0	0	0
Due from banks and other financial institutions	57,812	57,812	57,812	0	0	0	0
Financial assets held at fair value through profit or loss	43,087	43,520	5,372	30	36,160	1,958	0
Loans and advances to customers	204,784	299,000	85,779	5,434	5,709	51,697	150,381
Fair value through OCI	17,821	17,821	0	0	0	0	17,821
Amortised Cost financial assets	275,211	328,753	99,102	38,123	68,237	52,934	70,357
Assets pledged as collateral	42,164	78,984	1,268	245	17,613	12,106	47,752
Other loans and receivables	210,677	210,676	210,676	0	0	0	0
Other assets	217,193	223,627	223,627	0	0	0	0
	<b>1,121,744</b>	<b>1,313,188</b>	<b>736,631</b>	<b>43,832</b>	<b>127,719</b>	<b>118,695</b>	<b>286,311</b>
<b>Financial liabilities</b>							
Deposits from customers	914,323	914,323	630,807	283,516	-	-	-
Borrowings	89,398	89,771	590	3,405	3,842	22,119	59,815
Lease liabilities	1,335	2,668	267	-	267	1,848	286
Other financial liabilities	59,957	59,957	59,957	-	-	-	-
	<b>1,065,013</b>	<b>1,066,719</b>	<b>691,621</b>	<b>286,921</b>	<b>4,109</b>	<b>23,967</b>	<b>60,101</b>
<b>Gap (asset - liabilities)</b>	<b>56,731</b>	<b>246,469</b>	<b>45,010</b>	<b>(243,089)</b>	<b>123,610</b>	<b>94,728</b>	<b>226,210</b>
<b>Cumulative liquidity gap</b>	-	-	<b>45,010</b>	<b>(198,078)</b>	<b>(74,468)</b>	<b>20,260</b>	<b>246,470</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

(All amounts in millions of Naira unless otherwise stated)

### 3.3 Market risk

Market risk is the risk of loss in on or off balance sheet positions, as a result of adverse movement in foreign exchange rate, interest rate, equity or commodity prices. Polaris Bank's market risk exposures are largely interest and exchange rate induced, while equity and commodity prices exposures are non-proprietary. Its Market Risk management is a centralized, independent middle office function responsible for the day to day management which entails risk identification, measurement, monitoring controlling and reporting.

The Bank has developed encompassing processes for effective identification, assessment, monitoring and control of market risks inherent in the Bank's business operations. Its risk management framework is supported by enabling policies/methodologies and tools to facilitate linkages and to achieve its risk management objectives including market risk related ones.

The market risk management strategy clearly articulates underlining principles that drives the design and implementation of its exposure management processes, which seek to contain such exposures within a set Board appetite, guided by operational policies. The independent Market and Liquidity risk function reports daily to the Chief Risk Officer, weekly to Asset-Liability Committee and quarterly to both the Management and the Board Audit Risk Management Committee.

#### Market Risk Measurement:

Adequate risk assessment is critical for effective management. The Bank applies the Value at Risk (VaR) model to measure trading market risk exposure of the entire trading portfolio. The VaR model runs largely on the variance co-variance method of computation but is also complemented by historical simulation as well as Expected Shortfall methodologies where key assumption of the former method prove unsatisfactory. The model (variance co-variance), stated at 99% confidence level over a day horizon, applies the Exponential Weighted Moving Average (EWMA) model for volatility assessment thereby enhancing the speed of response to changes in market factors.

Value at risk assessment is undertaken at the portfolio level, which takes cognizance of the risk-reduction benefit of asset returns correlation. All the model outputs are back tested for accuracy, reliability and predictive power assessment. In addition, periodic stress tests are also conducted to estimate potential losses in severe market conditions by stressing risk drivers within and sometimes beyond historically observed levels.

The integrity of the VAR model is validated via back-testing model over a reasonable period (minimum of 250 days). Although a valuable guide to risk, VAR is always viewed in the context of its limitations i.e.

- The use of historical data as a proxy for estimating future events may not be reflective of the growing complexities and changes in the interactions of market drivers.
  - The holding period assumption may also be flawed particularly in times of market illiquidity when it takes much longer to liquidate positions
  - The likely size of losses under the permissible 1% violation is not stated, which might exceed the Bank's loss threshold
- In adjusting for these limitations, the Bank has, in addition to stress testing, adopted the expected shortfall model, to gain a statistical sense of the likely size of the extreme loss events. VaR is also assessed at 99% confidence interval and a 10-day holding period as additional stress factor.

#### Market Risk Management Framework Overview

The Group's market risk management framework clearly articulates underlining principles that drives the design and implementation of its market risk exposure management process, which seeks to contain such exposures within its market risk appetite.

The Bank has developed encompassing processes for effective identification, assessment, monitoring and control of market risks inherent in its business which is supported by enabling technology, policies/methodologies and tools. Market risk exposure assessment is a periodic activity guided by Board approved policies and risk limits within which all exposures are contained. The guiding policies and limits are reviewed periodically to ensure continuous relevance to the fast changing conditions of the increasingly dynamic market place.