Stanbic Bank

Stanbic Bank Uganda
Pillar 3 report

for the period ended
31 December 2023

This Report

This report sets out the Stanbic Bank Uganda Limited disclosures in accordance with the Bank of Uganda **Pillar 3 Market Discipline: Guidelines on Disclosure Requirements**.

The Pillar 3 Disclosure Requirements are designed to promote market discipline by providing market participants with key information on a firm's risk exposure and risk management processes. Pillar 3 also aims to complement the minimum capital requirements described under Pillar 1, as well as the supervisory processes of Pillar 2.

Shareholders are advised that the information in this report has not been reviewed nor reported on by our external auditors.

All amounts are in shilling thousands unless otherwise stated.

Key Prudential Regulatory Metrics

DIS01: KEY PRUDENTIAL METRICS

The following tables provide an overview of the SBU prudential regulatory metrics.

	Amounts UShs' 000	Dec-23	Sep-23	Jun-23	Mar-23	Dec-22
	Available capital					
1	Core capital	1 526 970 338	1 454 751 708	1 532 548 176	1 462 895 600	1 368 081 471
2	Supplementary capital	142 079 111	139 247 528	135 517 149	139 236 990	137 882 136
3	Total capital	1 669 049 449	1 593 999 236	1 668 065 325	1 602 132 590	1 505 963 607
	Risk-weighted assets					
4	Total risk-weighted assets (RWA)	6 766 433 326	6 445 015 153	6 408 654 209	6 281 040 947	6 425 003 825
	Risk-based capital ratios as a percentage of RWA[1]					
5	Core capital ratio (%)	22.6	22.6	23.9	23.3	21.3
6	Total capital ratio (%)	24.7	24.7	26.0	25.5	23.4
	Capital buffer requirements as a percentage of RWA					
7	Capital conservation buffer requirement (2.5%)	2.5	2.5	2.5	2.5	2.5
8	Countercyclical buffer requirement (%)	0.0	0.0	0.0	0.0	0.0
9	Systemic buffer (for DSIBs) (%)	1.0	1.0	1.0	1.0	1.0
10	Total of capital buffer requirements (%) (row 7 + row 8 + row 9)	3.5	3.5	3.5	3.5	3.5
11	Core capital available after meeting the bank's minimum capital requirements (%)	9.1	9.1	10.4	9.8	7.8
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	13 222 960 857	13 060 842 383	12 953 101 538	12 742 383 387	12 562 496 302
14	Basel III leverage ratio (%) (row 1 / row 13)	11.5	11.1	11.8	11.5	10.9
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA)	1 953 671 608	1 679 715 046	1 824 644 392	1 950 219 476	2 129 426 303
16	Total net cash outflow	1 569 170 766	1 051 616 602	1 274 373 755	1 306 248 317	1 405 400 899
17	LCR (%)	124.5	159.7	143.2	149.3	151.5

1 Excludes unappropriated profits except December

Bank Risk Management Approach

DIS02: RISK MANAGEMENT APPROACH

Risk Management Review

1.1 Overview

Effective management of risk and conduct is one of Stanbic Bank Uganda Limited's strategic value drivers and as such it is a priority in all 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, offers corresponding risk premium and return.

The Board sets the tone for a responsive and accountable organisational risk culture, which cascades through the organisation. 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.

1.2 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 provided by Risk Management.

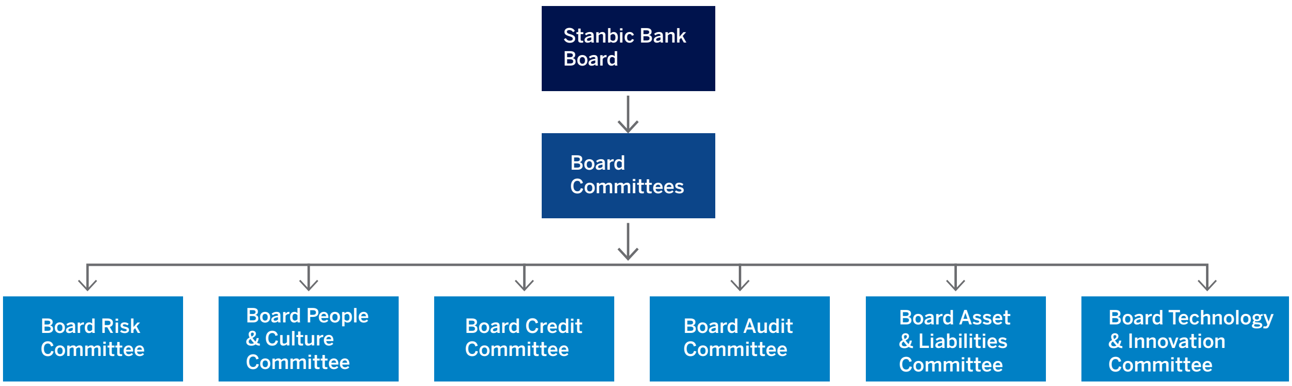
This approach balances corporate oversight at senior management level with independent risk management structures in the business. Business unit heads, as part of the first line of defence, are specifically responsible for the management of risk within their businesses using appropriate risk management 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 assess key elevated and emerging risks which the bank is exposed to and assess the effectiveness of risk responses. The board and executive management ensure that the risk management processes, and framework are appropriate for the bank risk profile and business plan.

Risk management issues that arise are escalated through the bank's governance structure to ensure that they are resolved by the appropriate functional group or attain sufficient visibility at the level of the executive and Board committees.

Figure 1: Stanbic Risk Management and compliance structure



Risk governance standards, policies, and procedures

The bank has developed a set of governance documents; (risk policies, governance standards and frameworks) for each risk across the three broad categories of Strategic, Financial and Non-Financial risks. The governance documents define the acceptable conditions for the assumption of the risks and ensure alignment and consistency in the identification, measurement and reporting on these risks across the bank.

All standards, policies and frameworks 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.

Stanbic sets its risk appetite to ensure that it achieves its strategic objectives while taking on appropriate levels of risk in considering all its stakeholders' interests. It reflects the capacity to sustain losses and continue to meet its obligations as they fall due, under both normal and a range of stress conditions. The bank's risk appetite statement is made up of qualitative and quantitative statements.

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.

1.2.1 Escalation and Resolution of Risk Appetite breaches

Breaches of risk appetite triggers (if risk tolerance is not breached, rated amber) may be allowed to persist for short periods of time while management implements appropriate remedial action to reduce the risk position to within risk appetite. The desired state is for risk to be within the risk appetite trigger (rated green).

A breach of a risk tolerance limit (rated red) requires immediate remedial action to reduce the risk position to within tolerance levels unless condoned by a mandated governance committee.

Stress Testing

Stanbic Bank Uganda conducts stress testing 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.
- Provide the bank with 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.

1.3 Risk Categories

The Bank's Enterprise Risk Management Framework (ERMF) 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 risk appetite breaches including financial loss data as well as potential future losses.
- Performance metrics that reveal a change in the competitive landscape.
- Risks with significant amounts of regulatory and economic capital are allocated.
- The definition of materiality thresholds which are advised by regulations.

Stanbic Bank, as a member of the Standard Bank Group, also utilizes the Enterprise Risks report which details the group's top enterprise risks and threats as identified by management for prioritised focus. Enterprise risks are defined in our Risk Management Framework as risks from all categories that have a material impact on the bank, based on estimated severity and likelihood. They can be prevalent or emerging risks. They are also classified into risk types using the Group Risk Type library (taxonomy).

The top enterprise risk process is run biennially to actively manage the identified risks. The risks detailed in the enterprise risk report form a significant part of risk management activities for the year of review and beyond including advanced root cause and impact analysis, risk exposure quantification, stress testing, frequent monitoring of action plans, recovery and resolution planning, and financial forecasting activities.

Based on the above elements of risk identification and broad categories, the following risk types are considered by Stanbic to be material:

- credit risk
- market risk
- liquidity risk including liquidity concentration risk.
- operational risk (Non-Financial risk) and
- strategic/business risk and reputational risk

1.3.1 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, settlement risk, country/ sovereign risk and concentration risk.

- **Counterparty risk**: The risk of loss to Stanbic because of failure by the counterparty to meet its financial and/or contractual obligations to the bank.
- **Settlement risk**: The risk of loss to Stanbic from a transaction settlement, where value is exchanged, failing such that the counter value is not received in whole or part.
- **Country/Sovereign 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 country to fulfil their obligations to the bank.
- **Concentration risk**: The risk that any large single exposure or group of exposures will cause credit losses which materially affect Stanbic's capital adequacy and ability to maintain its core operations.

1.3.2 Market Risk

The bank defines market risk as the risk of a change in market value, actual or effective earnings or future cashflows of a portfolio of financial instruments, including commodities, caused by adverse moves in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations, and implied volatilities in all these 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.

1.3.3 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 result of funding liquidity risk), or can only do so on 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.

1.3.4 Non-Financial Risk

Non-Financial Risk is the risk of loss arising from the inadequacy of, or failure in, internal processes, people and/or systems or from external events. This includes but is not limited to Information Technology and Cyber risk, Transaction Processing risk, Legal risk, Financial crime risk, Compliance risk, Model risk, Third-party risk, Tax risk and Environmental, Social & Governance risk. In addition, Physical Assets Risk, People Risk, Conduct Risk, Financial Accounting Risk also form the part of the Non-Financial sub risk taxonomy.

This definition excludes strategic/business risk and reputational risk; the reputational effects of operational risk events are however considered for management information.

1.3.5 Strategic/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.

Capital Management

DIS03: OVERVIEW OF RWA

The table below is an overview of RWA and associated capital requirements

		RWA		Minimum capital requirements[2]
		Dec-23	Sep-23	Dec-23
1	Credit risk (excluding counterparty credit risk)	6 514 184 872	6 278 005 122	781 702 185
2	Counterparty credit risk (CCR)	25 960 521	15 969 062	3 115 263
3	Market risk	226 287 933	151 040 969	27 165 418
5	**Total (1 + 2 + 3 + 4)**	**6 766 433 326**	**6 445 015 153**	**811 982 865**

DIS04: COMPOSITION OF REGULATORY CAPITAL

This section provides a breakdown of the constituent elements of a Bank's capital.

The bank has not disclosed this information on account of unpublished information, until the o cial release of the audited financial results.

Credit Risk

DIS05: ASSET QUALITY

The credit quality of the Bank's on- and off-balance sheet assets is reflected below through the disclosure of the gross carrying values of both defaulted and non-defaulted exposures as well as provisions and interest in suspense.

		a	b	d	e	f	g
		Gross carrying values of		Provisions as per FIA2004/MDIA2003		Interest in suspense	Net values (FIA/MDIA)
		Defaulted exposures	Non-defaulted exposures	Specific	General		(a+b-d-e)
1	Loans and advances	118 853 136	4 305 081 813	73 161 140	43 430 411	7 732 704	**4 307 343 397**
2	Debt Securities		119 8130 064				**1 198 130 064**
3	Off-balance sheet exposures		3 964 162 201				**3 964 162 201**
4	**Total**	**118 853 136**	**9 467 374 078**	**73 161 140**	**43 430 411**	**7 732 704**	**9 469 635 662**

2 Measured at 12%

DIS06: CHANGES IN STOCK OF DEFAULTED LOANS AND DEBT SECURITIES

The table below presents the movement in the balance of defaulted exposures for the reporting period, including loans and debt securities that have defaulted since the last reporting period, those that have returned to default status and the amounts that have bene written off

		a
1	**Defaulted loans & advances, debt securities and off balance sheet exposures at end of the previous reporting period**	**162 891 659**
2	Loans and debt securities that have defaulted since the last reporting period	81 397 267
3	Returned to non-defaulted status	24 031 874
4	Amounts written off	46 170 041
5	Other changes	(55 233 875)
6	**Defaulted loans & advances, debt securities and off balance sheet exposures at end of the reporting period** (1+2-3-4+5)	**118 853 136**

DIS07: QUALITATIVE DISCLOSURE ON THE BANKS' USE OF EXTERNAL CREDIT RATINGS UNDER THE STANDARDISED APPROACH FOR CREDIT RISK

The bank uses internally generated credit ratings, which rely on both quantitative and qualitative data, to inform the lending decisions.

In the case of corporate, bank and sovereign exposures, external agency, Standards and Poor's (S&P), credit rating of the counterparty is referenced if a rating is available. In the case of obligors for which there are no credit ratings available, exposures are classified as unrated.

We use a 25-point master rating scale to quantify the credit risk for each borrower. This master credit rating scale is indicatively aligned to S&P as demonstrated below.

Stanbic Bank Scale	GRADING	STANDARD & POOR'S
1 – 4	Investment grade	AAA, AA+, AA, AA-
5 – 7		A+, A, A-
8 – 12		BBB+, BBB, BBB-
13 – 20	Sub-investment grade	BB+, BB, BB-,B+, B, B-
21 – 25		CCC+, CCC, CCC-
Default	Default	D