Standard Bank

STANDARD BANK PLC

RISK & CAPITAL MANAGEMENT REPORT

for the year ended 31 December 2023

Malawi
Monkey Bay, Lake Malawi

Table of contents

1	**Overview**	**3**
2	**Corporate structure**	**6**
2.1	Media and location	6
3	**Regulatory capital structure and capital adequacy**	**7**
4	**Credit risk**	**10**
5	**Market risk**	**20**
6	**Non-Financial risk**	**22**
7	**Interest rate risk in the banking book (IRRBB)**	**24**
8	**Conclusion**	**25**
9	**List of abbreviations**	**26**
10	**List of figures and tables**	**27**

1 Overview

Introduction

Effective risk management is fundamental to the business activities of Standard Bank PLC (Malawi) (SBM or the bank). While the bank remains committed to increasing shareholder value by developing and growing the business within the Board-determined risk appetite, the bank is mindful of achieving this objective in line with the interests of all stakeholders.

Effective risk management should provide complete, timely, accurate and relevant information to enhance senior management decision making ability to:

- calculate risk adjusted performance measures;
- manage volatility in earnings;
- minimise financial distress; and
- help appraise new business initiatives on a comparable basis.

Governance standards have been established as key components of good governance and business practice in the bank. The standards form an integral part of the control infrastructure and represent a high-level description of the expectations and requirements of the Board in respect to risk appetite, risk reporting and key areas of control activity within the bank.

Identification of material risks is a process overseen by the Chief Risk Officer, Head of Compliance, and the Head, Legal and Governance; with involvement from risk type heads, and the heads of the business segments and corporate functions.

Based on the above mentioned criteria, the following primary risk types are considered by the bank to be material:-

Credit risk (including counterparty credit risk)

Credit risk is the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk regulatory capital is calculated using The Standardised Approach (TSA) as per the Reserve Bank of Malawi (RBM) regulations.

For both regulatory and internal credit risk capital measurement, the calculation of the capital requirement is affected by the level of stage 3 expected credit losses (ECL) for credit losses (relating to non-performing loans) that the bank has taken. Stage 3 ECL are taken in accordance with regulations and also take into account expected recoveries and the timing of such recoveries.

Market risk

In simple terms, market risk is the risk of losses on financial investments caused by adverse price movements. Market risk regulatory capital is calculated using TSA as per the RBM regulations. Additionally, market risk is measured and stress-tested within the bank using a number of established risk metrics and techniques, including Value at Risk (VaR).

Interest Rate Risk in the Banking Book (IRRBB)

Interest rate risk is the probability of a decline in the value of an asset resulting from unexpected fluctuations in interest rates. The bank manages its exposure to changes in interest rates on its banking book assets and liabilities (loans and deposits) by ensuring that an interest rate shock for both the local currency and foreign currency books – as prescribed by the Asset and Liability Committee (ALCO) – does not result in excessive (i.e. above appetite) adverse annualised net interest income change.

Liquidity risk

Liquidity risk is the risk of loss resulting from the inability to meet payment obligations in full and on time when they become due. An extensive set of liquidity risk metrics are in place. Due to the robustness of the measurement and monitoring approaches, the high level of unencumbered liquid assets, and the timeous management action required, the bank does not hold capital for liquidity risk.

Non-financial risk

Non-financial (or operational) risk is the risk of loss from ineffective or failed internal processes, people, systems, or external events which can disrupt the flow of business operations. The bank uses the Basic Indicator Approach (BIA) to calculate non-financial risk regulatory capital as per the RBM regulations. For internal measurement purposes, since non-financial risk regulatory capital is less risk sensitive, regulatory capital is further adjusted giving consideration to historical loss experience, the level of management oversight, the status of implementation/use of the Non-Financial Risk management framework and non-financial risk events.

Legal risk

Legal risk is the risk of loss arising from failure to comply with statutory or legal or contractual obligations. The bank has an in-house Legal function whose main role is to provide legal advisory services to all business segments and corporate functions within the bank on all transactions/activities that are carried out in the bank and implementing and maintaining a comprehensive legal risk management system. Furthermore, the in-house Legal function ensures that all legal risks pertaining to new products and services developed and/or implemented by the various units within the bank are identified and adequately mitigated and/or managed. Some legal cases are outsourced – against litigation in courts or to obtain legal opinion. Supported by historical data on legal exposures and litigation outcomes, the bank considers its legal risk management adequate; therefore the existing capital buffers are enough to accommodate the risk.

Compliance risk

Compliance risk is the potential damage businesses face when they fail to comply with industry standards, laws, and regulations. The bank has adopted the Compliance Risk Management Framework based on compliance risk management plans in which all statutory/regulatory requirements that impact the bank's business and the resultant controls are documented. The controls for each segment or function enable the bank to comply with the requirements. Although the Board has the ultimate responsibility for the management of compliance risks, this approach ensures that officers at each and every level of the bank are aware of their responsibilities in

managing compliance risks and take responsibility and accountability for all compliance risks that fall within their functional areas. The bank has adopted zero tolerance for statutory and regulatory breaches and proactively manages compliance.

Strategic risk

Strategic risk is the risk associated with factors (internal or external) which threaten the ability of a business to meet its goals (short- and/or long-term). The bank's management have a clear understanding of the value drivers that impact on its clients, operations, financial outcomes and sustainability. The bank does not specifically provide capital for strategic risk because it is contained within the capital buffer determined by the bank's comprehensive stress testing. It is also minimal as historical loss from this risk type is negligible.

The risk management processes have continued to prove effective throughout the period. The various management risk committees have remained closely involved in important risk management initiatives, which have focused particularly on preserving appropriate levels of liquidity and capital, and effectively managing the risk portfolios. Responsibility and accountability for risk management resides at all levels within the bank.

2 Corporate structure

The bank is a publicly listed universal bank licensed in Malawi. It is majority owned (60.18%) by Standard Bank Group Limited. Other shareholders are: NICO Life Company Ltd 17.10%; Old Mutual Life Assurance Co 6.34%; Press Trust 2.32%; Magetsi Pension Fund 1.09%; National Investment Trust Limited 1.02%; and other public investors 11.95%.

Standard Bank Bureau de Change Limited is a 100% owned subsidiary of the bank whose line of business is retail foreign exchange trading. The bank has a 9.1% investment in the National Switch Company and 100% holding in the Standard Bank Nominees Limited.

2.1 Media and location

This document should be read in conjunction with the published Annual Report for the bank which is available on the bank's website: http://www.standardbank.co.mw

3 Regulatory capital structure and capital adequacy

The internal capital adequacy assessment process (ICAAP) ensures that the bank maintains sufficient capital levels for the purposes of regulatory compliance and adherence to the bank's risk appetite. Regulatory capital adequacy is measured by a Tier I and Tier II Capital Adequacy Ratio (CAR).

Tier 1 (primary capital) represents permanent forms of capital such as share capital, share premium and retained earnings less fifty percent of investment in subsidiary and deferred tax asset.

Tier II (secondary capital) includes revaluation reserves, general debt provisions and less fifty percent of investment in subsidiary.

Table 1: Qualifying regulatory capital – 31st December 2023

	2023 MKm
Tier I	
Issued primary capital	169,627
Ordinary share capital	234
Share premium	8,492
Retained earnings	160,556
General reserves	345
Less: regulatory deductions	18,211
Deferred tax assets	18,081
Investment in subsidiaries	130
Total	**151,416**
Tier II	
Issued secondary capital and reserves	17,593
Reserve: Statutory Credit risk	-
Revaluation reserves less 50% investments in other	17,593
Total eligible capital	169,009
Total capital requirement	107,308
Total risk-weighted assets	**715,389**
Credit risk weighted assets	498,690
Non-Financial risk weighted assets	206,926
Market risk weighted assets	9,773
Tier 1 (%)	21.17%
Capital adequacy ratio (%)	23.62%
Minimum regulatory limits	
Tier 1 (%)	10.00%
Capital adequacy ratio (%)	15.00%

During the period under review, the bank complied with all externally-imposed capital requirements to which its banking activities are subject. These include, but are not limited to, the relevant requirements of the Banking Act and Financial Services Act and other regulations relating to banks; these are consistent with the Basel II guidelines issued by the Bank for International Settlements (BIS) as adopted by the RBM.

Table 2: Risk exposure amounts and risk weighted assets – 31st December 2023

	Exposure amounts MKm	**Loss provisions MKm**	**Credit risk mitigation MKm**	**Risk weighted assets MKm**
Credit risk	**1,273,246**	**27,963**	**1,675**	**498,690**
Sovereign or Central Bank	337,184	9,284	-	-
Public sector entities	8,342	119	-	8,178
Exposure to banks	238,812	10	-	98,444
Corporate	110,261	1,857	-	108,404
Retail other	183,252	14,699	-	143,438
Retail mortgages	7,576	352	-	2,561
Other assets	238,434	-	-	82,578
Off balance sheet exposures	149,385	1,642	1,675	55,087
Market risk	**9,773**	**-**	**-**	**9,773**
Interest rate risk	888	-	-	888
Equity position risk	-	-	-	-
Foreign exchange risk	8,885	-	-	8,885
Commodities risk	-	-	-	-
Non-Financial risk	**206,926**	-	-	**206,926**
Total risk-weighted assets/capital requirement	**1,489,945**	**27,963**	**1,675**	**715,389**

Note: Accrued interest on exposure amounts in the table above has been included in other assets in line with Reserve Bank of Malawi guidelines.

Table 3: Summary of capital ratios (%) – 31st December 2023

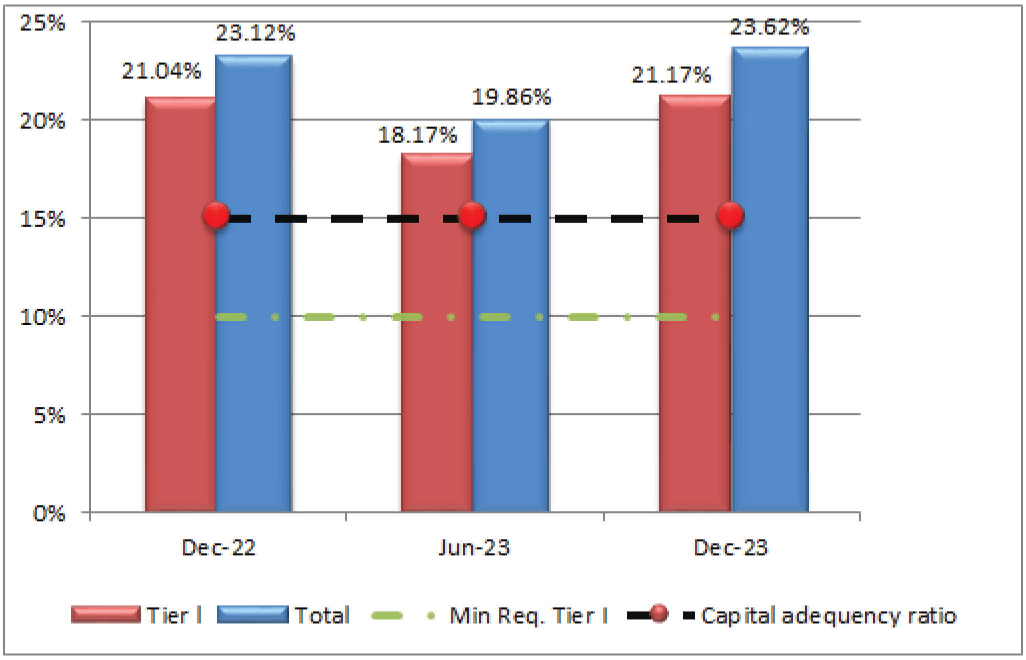
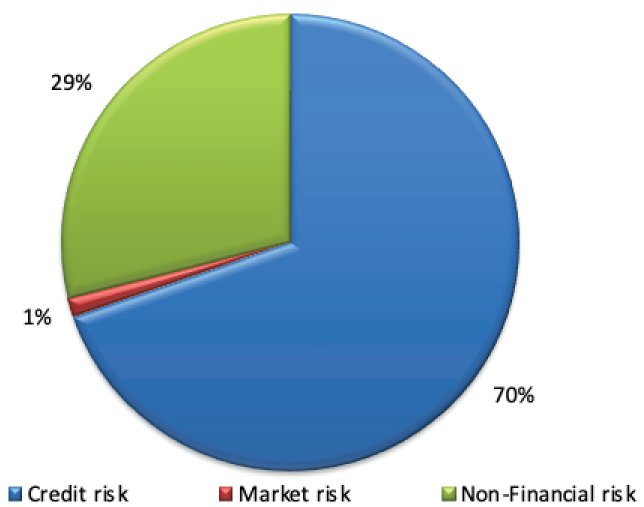


Figure 1: Risk weighted assets composition – 31st December 2023



4 Credit risk

Credit risk is the bank's most material risk, and is managed in accordance with the bank's comprehensive risk management control framework. The Credit Risk Governance Standard sets out the principles under which the bank is prepared to assume credit risk. Responsibility for credit risk resides with the bank's business segments, supported by the bank's Risk/Credit Function and with oversight, as with other risks, by the bank's risk committees and ultimately the Board.

The principal executive management committee responsible for overseeing credit risk is the Credit Risk Management Committee (CRMC). The credit committees for both Business and Commercial Banking (BCB) and Corporate and Investment Banking (CIB) report directly to CRMC and indirectly to the Board Credit Committee (BCC) – the committee delegated by the main Board to oversee credit risk related matters.

CRMC is responsible for making decisions on credit risk. It was approved by the Board as the designated committee for approving key aspects of the credit rating systems for BCB, Personal and Private Banking (PPB) and CIB as required by other regulations relating to banks. The CRMC recommends the approval of all counterparty large exposures and insider lending transactions to the extent required by RBM regulations. All such approvals are granted by the bank's Board.

The BCC is the principal board committee responsible for the oversight of credit risk, with CRMC having oversight responsibility for reviewing credit impairments adequacy.

Impairment policy

Expected credit losses (ECL) are recognised on debt financial assets classified as either amortised cost or fair value through other comprehensive income (OCI), financial guarantee contracts that are not designated at fair value through profit or loss as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a significant increase in credit risk (SICR) at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the ECL, which is set out in the table that follows, is the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.
Stage 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3 (credit impaired assets)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: • default • significant financial difficulty of borrower and/or modification • probability of bankruptcy or financial reorganisation • disappearance of an active market due to financial difficulties.

The key components of the impairment methodology are described as follows:

Significant increase in credit risk	At each reporting date the group assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset. Credit risk of exposures which are overdue for more than 30 days would also be considered to have increased significantly.
Low credit risk	Exposures are generally considered to have a low credit risk where there is a low risk of default, there is strong capacity to meet contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the ability to fulfil contractual obligations.
Default	The group's definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets: • significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower) • a breach of contract, such as default or delinquency in interest and/or principal payments • disappearance of active market due to financial difficulties • it becomes probable that the borrower will enter bankruptcy or other financial reorganisation • where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the group would not otherwise consider. • Exposures which are overdue for more than 90 days are also considered to be in default.

Forward-looking information	Forward-looking information is incorporated into the group's impairment methodology calculations and in the group's assessment of SICR. The group includes all forward-looking information which is reasonable and available without undue cost or effort. The information will typically include expected macro-economic conditions and factors that are expected to impact portfolios or individual counterparty exposures.
Write-off	Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

ECLs are recognised within the statement of financial position as follows:

Financial assets measured at amortised cost (including loan commitments)	Recognised as a deduction from the gross carrying amount of the asset (group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (group of assets), the excess is recognised as a provision within other liabilities.
Off-balance sheet exposures (excluding loan commitments)	Recognised as a provision within other liabilities.
Financial assets measured at fair value through OCI	Recognised in the fair value reserve within equity. The carrying value of the financial asset is recognised in the statement of financial position at fair value.

Table 4: Total credit exposures as per IFRS 7 – 31st December 2023

	Gross Carrying amount MKm	SB 1 - 12		SB 13 - 20		SB 21- 25		Default		Total gross carrying amount of default exposures MKm	Securities and expected recoveries on default exposures MKm	Interest in suspense on default exposures MKm	Balance sheet expected credit loss on default exposures MKm	Gross default coverage %	Non-performing exposures %
		Stage 1 MKm	Stage 2 MKm	Stage 1 MKm	Stage 2 MKm	Stage 1 MKm	Stage 2 MKm	Stage 3 MKm	Purchased /originated credit impaired MKm						
Loans and advances at amortised cost															
BCB & PPB	**192,718**	**-**	**-**	**159,677**	**-**	**-**	**23,222**	**9,819**	**-**	**9,819**	**1,259**	**1,055**	**7,505**	**87%**	**5%**
Mortgage loans	7,630	-	-	5,643	-	-	1,697	290	-	290	38	12	240	87%	4%
Vehicle and asset finance	11,175	-	-	9,223	-	-	887	1,065	-	1,065	138	183	745	87%	10%
Card debtors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other loans and advances	173,913	-	-	144,811	-	-	20,638	8,464	-	8,464	1,083	860	6,520	87%	5%
Personal unsecured lending	105,066	-	-	95,514	-	-	5,155	4,397	-	4,397	16	655	3,725	100%	4%
Business lending and other	68,847	-	-	49,297	-	-	15,483	4,067	-	4,067	1,067	205	2,795	74%	6%
CIB	**359,351**	**7,370**	**-**	**83,071**	**16,515**	**252,233**	**162**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Corporate	119,681	7,370	-	83,071	16,515	12,563	162	-	-	-	-	-	-	-	-
Sovereign		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank	239,670	-	-	-	-	239,670	-	-	-	-	-	-	-	-	-
Other service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross carrying amount	**552,069**	**7,370**	**-**	**242,748**	**16,515**	**252,233**	**28,384**	**9,819**	**-**	**9,819**	**1,259**	**1,055**	**7,505**	**87%**	**2%**
Less: Interest in suspense	(1,055)														
Less: Total expected credit losses for loans and advances	(17,168)														
Net carrying amount of loans and advances measured at amortised cost	**533,846**														
Financial investments measured at amortised cost															
Corporate	-	-	-	-	-	-	-	-							
Sovereign	343,339	-	-	-	-	200,928	142,411	-							
Bank	-	-	-	-	-	-	-	-							
Other instruments	-	-	-	-	-	-	-	-							
Gross carrying amount	**343,339**	**-**	**-**	**-**	**-**	**200,928**	**142,411**	**-**							
Less: total expected credit loss for financial investments	(9,154)														
Net carrying amount of financial investments measured at amortised cost	**334,185**														
Financial investments at fair value through OCI	-	-	-	-	-	-	-	-							
Corporate	-	-	-	-	-	-	-	-							
Sovereign	329	-	-	-	-	-	329	-							
Bank	-	-	-	-	-	-	-	-							
Other instruments	-	-	-	-	-	-	-	-							
Gross carrying amount	**329**	**-**	**-**	**-**	**-**	**-**	**329**	**-**							
Add: Fair value reserve relating to fair value adjustments (before the ECL balance)	345														
Total financial investment at fair value through OCI	**674**														
Off-balance sheet exposures															
Letters of credit and banker's acceptances	21,208														
Guarantees	84,442														
Irrevocable unutilised facilities	-														
Total exposure to off-balance sheet credit risk	**105,650**														
Expected credit losses for off-balance sheet exposures	(1,642)														
Net carrying amount of off-balance sheet exposures	**104,008**														
Total exposure to credit risk on financial assets subject to an expected credit loss	**972,713**														
Add the following other banking activities exposures:															
Cash and balances with the central bank	152,118														
Derivative assets	798														
Trading assets	22,644														
Other financial assets	10,935														
Total exposure to credit risk	**1,159,208**														

Note: The numbers in the table above include accrued interest

Table 5: Geographical distribution of loans and advances to customers – 31st December 2023

	MKm	Percentage Concentration
North and Central	150,480	48.17%
South	161,919	51.83%
	312,399	**100%**

Table 6: Distribution of exposures to customers by industry – 31st December 2023

	MKm	Percentage Concentration
Agriculture, forestry, fishing and hunting	86,554	28%
Construction	8,134	3%
Electricity, gas, water and energy	7,381	2%
Finance and other business services	1,270	0%
Manufacturing	9,086	3%
Mining and quarrying	105	0%
Transport, storage and communications	39,402	13%
Wholesale and retail trade	33,606	11%
Restaurants and Others	1,290	0%
Community, social and personal services	122,319	39%
Real Estate	3,252	1%
	312,399	**100%**

The table below sets out an analysis of credit risk by maturity as at 31st December 2023. Residual maturity of credit exposures is based on contractual dates.

Table 7: Residual contractual maturity of credit exposures – 31st December 2023

Maturity	**Up to 1month MKm**	**>1-3months MKm**	**>3-12 months MKm**	**Over 1 Year MKm**	**Undated MKm**	**Total MKm**	**RWA MK'mn**
Sovereign or Central Bank	71,427	209,879	41,459	14,419	-	337,184	-
Public sector entities	181	-	303	7,858	-	8,342	8,178
Exposure to banks	212,806	26,006	-	-	-	238,812	98,444
Corporate	27,318	27,215	35,062	20,666	-	110,261	108,404
Retail other	25,981	4,257	22,924	130,090	-	183,252	143,438
Retail mortgages	-	-	-	7,576	-	7,576	2,561
Other assets	238,434	-	-	-	-	238,434	82,578
Off balance sheet exposures	37,220	25,880	49,909	36,376	-	149,385	55,087
Total Credit risk exposures	**613,368**	**293,237**	**149,657**	**216,985**	**-**	**1,273,246**	**498,690**

Note: Accrued interest on exposure amounts in the table above has been included in other assets in line with Reserve Bank of Malawi guidelines.

Table 8: Classification of Loans and Leases to customers by Sector – 31st December 2023

	Stage 1 MKm	Stage 2 MKm	Stage 3 MKm	Total MKm
Sector				
Agriculture, forestry, fishing and hunting	75,780	10,257	103	86,140
Mining and quarrying	103	2	-	105
Manufacturing	8,640	13	862	9,515
Electricity, gas, water and energy	7,233	24	124	7,381
Construction	6,009	773	1,662	8,444
Wholesale and retail trade	32,233	1,932	1,593	35,758
Restaurants and hotels	1,212	-	4	1,216
Transport, storage and communications	36,876	1,107	614	38,597
Financial services	684	183	53	920
Community, social and personal services	104,680	8,624	4,805	118,109
Real estate	3,226	21	-	3,247
Other sectors	-	-	-	-
Less: Expected credit losses	(3,738)	(5,801)	(7,505)	(17,044)
Total	**272,938**	**17,135**	**2,315**	**292,388**

Note: The amounts in the table above do not include accrued interest in line with Reserve Bank of Malawi guidelines.

Table 9: Distribution of non-performing loans, expected credit losses and interest in suspense – 31st December 2023

	Non-performing loans MKm	Expected credit losses MKm	Interest in suspense MKm
Sector			
Agriculture, forestry, fishing and hunting	103	76	9
Mining and quarrying	-	-	-
Manufacturing	862	807	36
Electricity, gas, water and energy	124	84	15
Construction	1,662	940	167
Wholesale and retail trade	1,593	1,020	113
Restaurants and hotels	3	3	1
Transport, storage and communications	614	426	74
Financial services	53	53	-
Community, social and personal services	4,805	4,096	640
Total	**9,819**	**7,505**	**1,055**

Table 10: Reconciliation of changes for impaired loans and advances and charge-offs during the period

	MKm
Impaired loans and advances to customers as at 01 January 2023	6,456
Classified as impaired during the year	8,929
Transferred to not impaired during the year	(1,168)
Amount written-off	(4,398)
Impaired loans and advances to customers as at 31st December 2023	**9,819**

Table 11: Reconciliation of changes in expected credit losses – 31st December 2023

	MKm
Loans & advances customers expected credit losses (stage 1 & 2)	
Opening balance as at 01 January 2023	8,012
Total transfers between stages	(5,977)
ECL on new exposure raised	4,443
Subsequent changes in ECL	3,572
Change in ECL due de-recognition	(782)
Other movements	271
	9,539
Loans & advances customers expected credit losses (stage 3)	
Opening balance as at 01 January 2023	5,483
Total transfers between stages	5,977
Subsequent changes in ECL	(22)
ECL on new exposure raised	484
Other movements	-
Write-offs	(4,417)
	7,505
Financial investments expected credit losses (stage 1 & 2)	
Opening balance as at 01 January 2023	2,097
Total transfers between stages	-
ECL on new exposure raised	7,116
Subsequent changes in ECL	1,492
Change in ECL due de-recognition	(1,552)
Other movements	1
	9,154
Loans & advances banks expected credit losses (stage 1 & 2)	
Opening balance as at 01 January 2023	6
Total transfers between stages	-
ECL on new exposure raised	8
Subsequent changes in ECL	111
Change in ECL due de-recognition	(4)
Other movements	3
	124
Off balance sheet expected credit losses (stage 1 & 2)	
Opening balance as at 01 January 2023	231
Total transfers between stages	-
ECL on new exposure raised	954
Subsequent changes in ECL	23
Change in ECL due de-recognition	(40)
Other movements	474
	1,642
Loss provisions as at 31st December 2023	**27,964**

Note: The numbers in the table above does not include interest in suspense

Table 12: Off balance sheet items – 31st December 2023

Off balance sheet items	MKm
Guarantees	84,442
Letters of Credit	21,208
Foreign exchange and interest related contracts	20,953
Unutilised commitments	22,782
Total	**149,385**

Valuation of collateral

The bank uses the following minimum requirements to value collateral:

- All items proposed as collateral are valued using agreed valuation methodologies and/or evaluators with appropriate expertise, prior to accepting items as collateral.
- The assessors/evaluators of collateral must be independent of the business originators and providers of collateral.
- All collateral is marked to market and revalued at a frequency appropriate to that collateral, taking into account the value and nature of collateral, the ease and cost of valuation and the volatility of the collateral's value.

Monitoring of collateral

The bank uses the following minimum requirements on monitoring of collateral;

- Controls are put in place to monitor the collateral and ensure appropriate action is taken whenever there are developments that may impact negatively on the value of collateral.
- Annual reviews of the performance of the collateral are carried out to ensure that collateral types are still relevant and terms for acceptance are still appropriate.
- Updates to changes in market and economic conditions are performed at pre-determined intervals.
- Updates to reflect new legislation and updates to existing legislations are performed on a regular basis.
- Collateral is realised as per the delegated authority after all efforts have been made to rehabilitate the customer.
- Collateral Management Unit maintains a systematically-driven, shared diary to ensure that collateral credit events are timeously actioned.

Financial collateral

Where the collateral is not denominated in the same currency as the exposure, an adequate margin for currency fluctuations is set appropriate to the potential currency volatility. The maturity of any collateral is set equal to or greater than the repayment period of the underlying exposure, unless documentation and operational procedures are such that adequate rights and controls are in place to ensure the value of collateral remains in place throughout the tenure of the approved facility.

Physical collateral

The bank ensures that physical collateral possess the following qualities:

- Must be capable of identification and must be documented.
- The location of any such assets must be known or, for movable assets such as vehicles, traceable within a reasonable period.
- Rights of access must be preserved.
- Any third-party used to control assets must be able to identify assets which provide collateral.
- Insurance must be in place at all times, covering all appropriate risks.

Types of guarantees and indemnities involved in bank's credit risk mitigation

The bank ensures that guarantees and indemnities should have the following qualities:

- Explicit: – must be a documented obligation, explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible.
- Direct: – the obligation must represent a direct claim on the protection provider.
- Irrevocable: – there are no determinants that the protection provider is able to amend.
- Unconditional: – obligation of the protection provider to pay immediately when conditions as set in the commitment regarding the third-party obligation are met.
- Complete: – such commitments must cover the full principal of the guaranteed credit facility plus interest, fees and all other costs and must include all types of payments the underlying obligor is expected to make under the documentation governing the transaction.

Counterparty credit risk

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

- Primary credit risk which is the exposure at default (EAD) arising from lending and related banking product activities, including the underwriting of such products;
- Pre-settlement credit risk which is the EAD arising from unsettled derivative transactions, arising from the default of the counterparty to the transaction and measured as the cost of replacing the transaction at the current market rates; and
- Issuer risk which is the EAD arising from traded credit and equity products, and including the underwriting of such products.

5 Market risk

The bank defines market risk as the risk of a change in market value, actual or effective earnings or future cash flows 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 of these variables.

The market risk management framework applied in the bank is according to the Market Risk Standard and Policy approved by the Board.

The market risk management unit is independent of trading operations and accountable to ALCO to monitor market risk exposures due to trading and banking activities.

The market risk portfolios that the bank manages consist of:-

Trading book market risk

These risks arise in trading activities where the bank acts as a principal for clients in the market. The bank's policy is that all trading activities are contained in the bank's trading operations. Asset classes included in this category are instruments with tenors not exceeding one year for money market trading.

Foreign exchange risk

The bank's primary exposures to foreign currency risk arise as a result of the currency price translation effect on the bank's net open positions held. The bank is mandated to trade thirteen currencies.

Interest rate risk

These risks arise from the structural interest rate risk caused by mark-to-market (MTM) in line with IFRS 9 treatment around revaluation of assets and liabilities on the banking book. The bank constantly remarks the banking book positions to reflect current market prices. Intent in this categorization is holding to maturity though paper can be sold in exceptional circumstances such as liquidity stress and a bearish interest rate environment.

Table 13: Trading portfolio values – 31st December 2023

Normal VaR		**USD**		
	High	**Mean**	**Low**	**Actual**
Foreign exchange trading	144	90	60	62
Money market trading	20	7	0.2	2
Money market banking	-	-	-	-
Treasury Capital Management	-	-	-	-
Bank-wide	143	91	60	63
Stress VaR		**USD**		
	High	**Mean**	**Low**	**Actual**
Foreign exchange trading	876	560	382	469
Money market trading	848	281	9	48
Money market banking	8	6	3	3
Treasury Capital Management	-	-	-	-
Bank-wide	879	581	377	467

Table 14: Trading securities and derivative assets – 31st December 2023

	Nominal value MKm	**Carry value MKm**	**Mark to market MKm**	**Fair value gain/(loss) MKm**
Trading securities	23,189	22,644	22,644	-
Derivative assets	-	-	798	798
Total	**23,189**	**22,644**	**23,442**	**798**

6 Non-financial risk

Non-financial risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes but is not limited to information risk, legal risk, compliance risk, and financial crime risk. Strategic, reputational, and business risks are excluded from the definition while the reputational effects of non-financial risk events are considered for management information. Non-financial risk is thus categorised as follows:

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

Non-financial risk arises in all parts of the bank. Therefore, all senior management are responsible for consistently implementing and maintaining policies, processes and systems for managing non-financial risk in all of material products, services, activities, processes and systems. However, the ultimate responsibility for establishing, approving and periodically reviewing the Non-Financial Risk (NFR) framework lies with the Board. The Board oversees senior management to ensure that the NFR management framework is implemented effectively at all decision levels.

Non-financial risk is managed to acceptable levels by continuously monitoring and enforcing compliance with relevant policies and control procedures. The Board has an approved risk appetite statement for non-financial risk – in qualitative statements and Level III metrics – that provides guidance on acceptable levels of risk and summary reporting and escalation requirements in the event that risk tolerances are breached. The Board has also approved the “Third Party Risk Management policy” which ensures that there is an alignment of the outsourcing arrangements with the bank’s business objectives, potential risks from third parties addressed, costs and benefits evaluated, responsibilities clearly understood, and regulatory requirements complied with. The bank uses the newly adopted Change Risk Management process in order to address the identification and assessment of risks associated with new and/or amended business, products or services. Other major NFR frameworks are for managing business resilience and information security.

The practice of non-financial risk in the bank is overseen by an independent NFR function which performs incident recording, management and analysis; the risk self-assessment process; scenario analysis, *inter alia*. Independent assurance on the management of non-financial risk is provided by Group Internal Audit.

Table 15: Non-financial risk profile – 31st December 2023

KRI	Appetite	December 2023
Irrecoverable losses (% of gross income), total bank	1%	0.16%
Repeat unsatisfactory audit reports, YTD	Nil	-
Repeat audit findings, YTD	Nil	6
Overdue audit action, total bank >30 days	Nil	-

7 Interest rate risk in the banking book (IRRBB)

IRRBB is the exposure of the bank's financial condition to adverse movements in interest rates. This arises mainly due to a maturity mismatch /different repricing characteristics between the bank's assets and liabilities. Accepting this risk is a normal part of banking as it can be an important source of profitability and shareholder value. However, excessive interest rate risk can pose a serious threat to a bank's earnings and capital base. Changes in interest rates affect the bank's earnings by changing its Net Interest Income (NII) and fair value banking book profit.

The most important sources of interest rate risk are re-pricing risk, yield curve risk, basis risk, optionality risk and endowment risk.

Table 16: Impact of parallel rate shock on NII (FCY) – 31st December 2023

Rate Change	BPS Change	NII	NII Change	NII Change
%		USD'000	USD'000	%
(1.00)	(100)	3,815	(175)	(4.38)
-	-	3,990	-	-
1.00	100	3,662	(328)	(8.23)

Table 17: Impact of parallel rate shock on NII (LCY) – 31st December 2023

Rate Change	BPS Change	NII	NII Change	NII Change
%		MKm	MKm	%
(3.50)	(350)	117,804	(14,011)	(10.63)
-	-	131,815	-	-
3.50	350	148,802	16,987	12.89

8 Conclusion

This disclosure document has been prepared in accordance with the requirements prescribed in the guidelines on market disclosures under the Basel II Framework and is intended to provide background information on the bank's approach to risk management as related to maintaining and preserving the capital position of the bank. It also provides detailed information about asset and capital calculations under Pillar 1.

In the event that a user of this disclosure document requires further explanation regarding the disclosures, application should be made in writing to the Chief Risk Officer at Kondwani.Mlilima@standardbank.co.mw or the Chief Financial and Value Management Officer at John.Mhone@standardbank.co.mw.

9 List of abbreviations

ALCO	Asset and liability committee
BCB	Business and Commercial Banking
BCC	Board Credit Committee
BIA	Basic Indicator Approach
BIS	Bank for International Settlements
CAR	Capital adequacy ratio
CIB	Corporate and Investment Banking
ECL	Expected credit losses
ICAAP	Internal Capital Adequacy Assessment Process
IRRBB	Interest rate risk in the banking book
MTM	Mark-to-market
NFR	Non-financial risk
NII	Net interest income
OCI	Other comprehensive income
PPB	Personal and Private Banking
RBM	Reserve Bank of Malawi
SDP	Specific Debt Provisions
SICR	Significant increase in credit risk
TSA	The Standardised Approach
USD	United States dollar
VaR	Value-at-risk

10 List of figures and tables

Figure

Figure 1: Risk weighted assets composition – 31st December 2023

Tables

Table 1: Qualifying regulatory capital – 31st December 2023

Table 2: Risk exposure amounts and risk weighted assets – 31st December 2023

Table 3: Summary of capital ratios (%) – 31st December 2023

Table 4: Total credit exposures as per IFRS 7 – 31st December 2023

Table 5: Geographical distribution of loans and advances to customers – 31st December 2023

Table 6: Distribution of exposures to customers by industry – 31st December 2023

Table 7: Residual contractual maturity of credit exposures – 31st December 2023

Table 8: Classification of Loans and Leases to customers by Sector – 31st December 2023

Table 9: Distribution of non-performing loans, expected credit losses and interest in suspense – 31st December 2023

Table 10: Reconciliation of changes for impaired loans and advances and charge-offs during the period

Table 11: Reconciliation of changes in expected credit losses – 31st December 2023

Table 12: Off balance sheet items – 31st December 2023

Table 13: Trading portfolio values – 31st December 2023

Table 14: Trading securities and derivative assets – 31st December 2023

Table 15: Non-financial risk profile – 31st December 2023

Table 16: Impact of parallel rate shock on NII (FCY) – 31st December 2023

Table 17: Impact of parallel rate shock on NII (LCY) – 31st December 2023

Standard Bank

standardbank.co.mw