

## **Risk and Capital Management Report**

### **STANDARD BANK LIMITED**

#### **June 2015**

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# STANDARD BANK LIMITED

## RISK AND CAPITAL MANAGEMENT REPORT 30 JUNE 2015

### 1 Overview

#### Introduction

Effective risk management is fundamental to the business activities of Standard Bank Limited (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 SBM. The standards form an integral part of the control infrastructure and represents 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 SBM.

Identification of material risks is a process overseen by the Chief Risk Officer and Head of Compliance/Legal Counsel, with involvement from the business units.

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

#### Credit risk (including counterparty credit risk)

Credit risk regulatory capital is determined by The Standardised Approach 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 specific provisions for credit losses (relating to non-performing loans) that the bank has taken. Specific provisions are taken in accordance with regulations and also take into account expected recoveries and the timing of such recoveries.

#### Market risk

Market risk regulatory capital is determined by the standardised approach per RBM regulations. Additionally, market risk is measured and stress tested within the bank using a number of established risk metrics and techniques, including VaR.

#### Interest Rate Risk in the Banking Book (IRRBB)

IRRBB is addressed to some extent by RBM regulations. SBM does not specifically provide capital for IRRBB but any additional capital needed is contained within the capital buffer determined by the bank's comprehensive stress testing.

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## Liquidity risk

An extensive set of liquidity risk metrics are in place. Due to the robustness of the measurement and monitoring approaches, the level of unencumbered liquid assets, and the necessarily timeous management action required, SBM does not hold capital for liquidity risk.

## Operational risk

SBM uses the Basic Indicator Approach per RBM regulations to calculate operational risk regulatory capital. For internal measurement purposes, since operational 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 operational risk management framework and operational risk events.

## Legal risk

SBM has in-house legal function whose main role is to provide legal advisory services to all business units within the bank on all transactions/activities that are carried out in the bank and implementing and maintaining a comprehensive legal risk management system. The in-house legal function furthermore 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.

## Compliance risk

SBM has adopted the Compliance Risk Management Framework based on compliance risk management plans in which all statutory and regulatory requirements that impact on the bank's business; the existing control mechanisms that exists to ensure that the bank complies with the requirements, the responsible department and personnel responsible for ensuring that the bank complies with each specific statutory or regulatory requirement and the compliance targets and deadlines are identified and documented. Although the board has the ultimate responsibility for the management of compliance risks, this approach ensures that personnel at each and every level of the bank are aware of their responsibilities in managing compliance risks and take responsibility and accountability of all compliance risks that fall within their functional areas.

## Business risk

SBM management have a clear understanding of the value drivers that impact on profitability. The bank does not specifically provide capital for business risk because it is contained within the capital buffer determined by the bank's comprehensive stress testing. It is also minimal as loss history is negligible.

The risk management processes have continued to prove effective throughout 2015. The Executive Committee (EXCO) has 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

SBM is a company domiciled in Malawi. The bank is primarily involved in investment, corporate and retail banking, and in providing asset management services.

SBM's ultimate parent company is Standard Bank Group (SBG) Limited, which owns the majority shareholding of 60.18%. Other shareholders include; NICO Holdings 20%, Old Mutual Life Assurance Co 4.81%, Press Trust 2.3%, Stanbic bank Pension Fund 2.05% and Public Investors 10.66%.

Standard Bank Bureau de Change Limited is a 100% owned subsidiary of SBM whose line of business is retail foreign exchange trading.

Standard Bank also holds a 9% investment in the National Switch Company.

### 2.1 Media and location

This document should be read in conjunction with the published half year results for SBM which are available on the bank's website: <http://www.standardbank.co.mw>

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### 3 Regulatory capital structure and capital adequacy

The requirement to maintain adequate financial resources is assessed by SBM in relation to its activities and the risks to which they give rise. The capital adequacy ratio, which reflects the capital strength of an entity compared to the minimum regulatory requirement, is calculated by dividing the capital held by that entity by its risk-weighted assets.

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

Tier II (secondary capital) includes revaluation reserves and general debt provisions.

Table 1: Qualifying regulatory capital – 30 June 2015

	Jun 2015 MKm	Jun 2014 MKm
<b>Tier I</b>		
<b>Issued primary capital</b>	34 331	24 732
Ordinary share capital	234	234
Share premium	8 492	8 492
Retained earnings	25 590	15 974
General reserves	15	33
Less: regulatory deductions	1 609	871
Deferred tax assets	1 552	771
Investment in subsidiaries	58	100
	32 721	23 861
<b>Tier II</b>		
<b>Issued secondary capital and reserves</b>	5 049	3 116
General allowance for credit impairments	895	734
Revaluation reserves	4 154	2 381
	5 049	3 116
<b>Total eligible capital</b>	37 771	26 977
<b>Total capital requirement</b>		
<b>Total risk-weighted assets</b>	183 931	140 686
<b>Tier 1 (%)</b>	17.79%	16.96%
<b>Capital adequacy ratio (%)</b>	20.54%	19.17%
<b>Minimum regulatory limits</b>		
Tier 1 (%)	10.00%	10.00%
Capital adequacy ratio (%)	15.00%	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,

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the relevant requirements of the Banking and Financial Services Act (BFSA) and regulations relating to banks; these are consistent with the Basel II guidelines issued by the Bank for International Settlements as adopted by RBM.

Table 2: Risk exposure amounts and risk weighted assets

	June 2015			Risk weighted assets MKm
	Exposure amounts MKm	Specific provisions MKm	Credit risk mitigation MKm	
<b>Credit risk</b>	<b>219 115</b>	<b>2 113</b>	<b>3 775</b>	<b>130 704</b>
Corporate	40 970	185	5	40 780
Sovereign	23 090			
Exposure to banks	24 777			12 134
Public sector entities				
Retail mortgages	1 473	112		510
Retail other	31 615	1 816	93	29 330
Other assets	48 624			22 714
Off balance sheet exposures	48 566		3 677	25 236
<b>Market risk</b>	<b>4 116</b>			<b>4 116</b>
<b>Interest rate risk</b>	<b>2 400</b>			<b>2 400</b>
<b>Equity position risk</b>				
<b>Foreign exchange risk</b>	<b>1 716</b>			<b>1 716</b>
<b>Commodities risk</b>				
<b>Operational Risk</b>	<b>49 111</b>			<b>49 111</b>
<b>Total risk-weighted assets/capital requirement</b>	<b>272 342</b>		<b>3 775</b>	<b>183 931</b>

Table 3: Summary of capital ratios

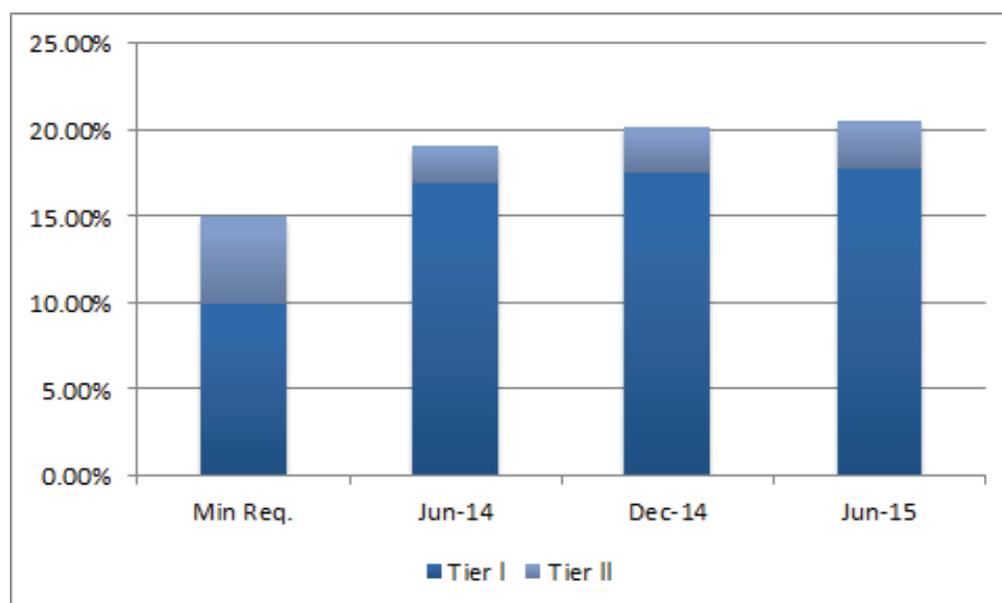
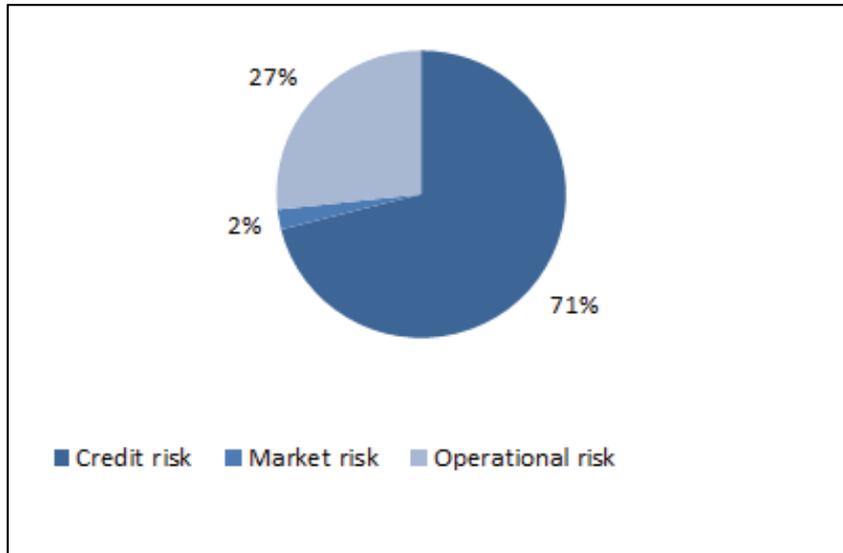


Figure 1: Risk weighted assets composition



### 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 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 units, supported by the bank's risk 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 Credit Risk Management Committee (CRMC). The credit committees for both Personal & Business Banking (PBB) and Corporate & Investment Banking (CIB) report directly to CRMC and indirectly to the Board Credit Committee (BCC).

CRMC is responsible for making decisions on credit risk. It has been approved by the Board as the designated committee for approving key aspects of the credit rating systems for PBB and CIB as required by the BFSa, and 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 approved by the SBM Board.

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

#### Impairment policy

The bank writes off a loan/security balance when the credit department determines that the loans/securities are uncollectable. This is determined after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on product specific past due status.

#### Impaired loans and securities

Impaired loans and securities are loans and securities for which the bank determines that it is probable that it will not be able to collect all principle and interest due according to the contractual terms of the loan agreement.

#### Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the bank.

#### Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category regardless of satisfactory performance after restructuring.

### Allowances for impairment

The bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for banks of homogenous assets in respect to losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

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Table 4: Total credit exposures – 30 June 2015

Sub-Classification of Performing and Non-Performing Loans and Advances	Performing loans			Non-performing loans						Total non-performing loans	Non-performing loans %			
	Neither past due nor specifically impaired			Specifically impaired loans										
	Normal monitoring	Close monitoring	Early arrears	Non-performing	Sub-standard	Doubtful	Loss	Total	Securities and recoveries on specifically impaired loans			Net after securities and expected recoveries on performing specifically impaired loans	Gross specific impairment coverage	
<b>Personal and Business Banking</b>														
Mortgage Loans	1 473				64	-	100	164	52	112	112	164	68%	11%
Instalment Sales and Finance Leases	4 213		1 374	-	-	203	399	602	9	594	594	602	99%	14%
Card Debtors	-												0%	0%
Other Loans and Advances	27 402		2 065	-	315	22	3 081	1 872	650	1 222	1 222	1 872	65%	7%
Personal Unsecured Lending	12 227		655	-	-	-	1 720	173	1	172	172	173	99%	1%
<b>Corporate and Investment Banking</b>														
Personal overdrafts	670		200	-	-	-	31	31	1	30	30	31	97%	5%
Personal term loans	11 557		455	-	-	-	142	142	0	142	142	142	100%	1%
Revolving credit plan	-												0%	0%
Business lending and other	15 175		1 411	-	315	22	1 361	1 699	648	1 050	1 050	1 699	62%	11%
<b>Corporate and Investment Banking</b>														
Corporate Loans	40 970			-	-	-	185	185	-	185	185	185	100%	0%
Commercial Property Finance	-			-	-	-	-	-	-	-	-	-	0%	0%

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Table 5: Ageing of loans and advances past due but not impaired – 30 June 2015

	Total	Less than 31 days	31 to 60 days	61 to 90 days	91 to 180 days	More than 180 days
<b>Personal and Business Banking</b>	<b>3 528</b>					
Mortgage Loans	89	-	81	8		
Instalment Sales and Finance Leases	1 374	413	737	223		
Card Debtors	-	-	-	-	-	-
Other Loans and Advances	2 065	174	1 784	107	-	-
Personal Unsecured Lending	655	149	442	63	-	-
Business lending and other	1 411	25	1 342	43		
<b>Corporate and Investment Banking</b>	<b>-</b>					
Corporate Loans	-	-	-	-	-	-
Commercial Property Finance	-	-	-	-	-	-

Table 6: Risk exposure and risk weighted assets by class

	June 2015		
	Exposure amounts MKm	Credit risk mitigation MKm	Risk weighted assets MKm
<b>Credit risk</b>	<b>219 115</b>	<b>5 887</b>	<b>130 704</b>
Corporate	40 970	190	40 780
Sovereign	23 090		
Public sector entities			
Exposure to Banks	24 777		12 134
Retail mortgages	1 473	112	510
Retail other	31 615	1 908	29 330
Other assets	48 624		22 714
Off balance sheet exposures	48 566	3 677	25 236
	219 115	5 887	130 704
<b>Market risk</b>	<b>4 116</b>		<b>4 116</b>
Interest rate risk	2 400		2 400
Equity position risk			
Foreign exchange risk	1 716		1 716
Commodities risk			
<b>Operational Risk</b>	<b>49 111</b>		<b>49 111</b>
<b>Total risk-weighted assets/capital requirement</b>	<b>272 342</b>	<b>5 887</b>	<b>183 931</b>

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Table 7: Sector analysis

	June 2015		June 2014	
	MKm	Percentage Concentration	MKm	Percentage Concentration
<b>Agriculture, forestry, fishing and hunting</b>	22,937	31%	15,327	24%
<b>Construction</b>	466	1%	1,139	2%
<b>Electricity, gas, water and energy</b>	1,514	2%	2,003	3%
<b>Finance, real estate and other business services</b>	1,071	1%	736	1%
<b>Individuals</b>	29,843	40%	15,981	25%
<b>Manufacturing</b>	8,337	11%	13,432	21%
<b>Mining and quarrying</b>	2,300	3%	1,445	2%
<b>Transport, storage and communications</b>	6,350	9%	9,557	15%
<b>Wholesale and retail trade</b>	1,445	2%	3,689	6%
	<b>74,263</b>	<b>100%</b>	<b>63,309</b>	<b>100%</b>

Table 8: Geographic distribution of gross loans and advances

	June 2015		June 2014	
	MKm	Concentration	MKm	Concentration
<b>North and Central</b>	35 255	47%	26 480	42%
<b>South</b>	39 008	53%	36 829	58%
	<b>74 263</b>	<b>100%</b>	<b>63 309</b>	<b>100%</b>

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Table 9: Distribution of non-performing loans, provisions and interest in suspense

Sector	June 2015		
	Non performing Loans MKm	Specific Provisions MKm	Interest in suspense MKm
1. Agriculture, forestry, fishing and hunting	1 246	838	389
2. Mining and quarrying	29	29	7
3. Manufacturing			
4. Electricity, gas, water and energy			
5. Construction	56	55	35
6. Wholesale and retail trade	687	471	224
7. Restaurants and hotels			
8. Transport, storage and communications	382	383	0
9. Financial services			
10. Community, social and personal services	423	337	141
11. Real estate			
12. Other sectors			
<b>Total</b>	<b>2 823</b>	<b>2 113</b>	<b>796</b>

Table 10: Reconciliation of changes in provisions for loan impairment

	June 2015 MKm	June 2014 MKm
<b>Specific provisions</b>		
Opening balance	2 680	2 920
Provisions during the year	1 184	2 224
Write offs	(494)	(161)
Recoveries	(1 257)	(559)
	2 113	4 425
<b>General Provisions</b>		
Opening balance	651	672
Provisions during the year	244	62
	895	734
<b>Total</b>	<b>3 008</b>	<b>5 159</b>

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Table 11: Off balance sheet items

	June 2015 MKm	June 2014 MKm
<b>Gurantees</b>	10 840	6 046
<b>Letters of Credit</b>	6 024	9 825
<b>Foreign exchange and interest related contracts</b>	26 111	28 029
<b>Unused commitments</b>	12 957	7 220
<b>Total</b>	<b>55 932</b>	<b>51 120</b>

### 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 updated 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 banks 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 SBM as a result of failure by the counterparty to meet its financial and/or contractual obligations to SBM. It has three components:

- Primary credit risk which is the exposure at default (EAD) arising from lending and relating 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 SBM is according to the Market Risk Standard and Policy approved by the SBM Board.

The Market Risk Management unit is independent of trading operations and accountable to the Asset and Liability Committee (ALCO) to monitor market risk exposures due to trading and banking activities.

The market risk portfolios that the bank manages consists 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 1 year for money market trading and those exceeding 1 year for the fixed income trading whose intent is for purely 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 22 currencies.

#### Interest rate risk

These risks arise from the structural interest rate risk caused by Mark to Market – MTM in line with IAS-39 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.

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Table 12: Trading portfolio limits – 30 June 2015

	VaR Limit in USD					
	Basic limit		Headroom		Basic + Headroom	
	Normal	Stress	Normal	Stress	Normal	Stress
Foreign Exchange	145 000	4 170 000			145 000	4 170 000
Interest Rate Trading	360 000	1 880 000	230 000	1 210 000.00	590 000	3 090 000
Money Markets trading	293 000	1 539 000	186 000	990 000.00	479 000	2 529 000
Fixed Income trading	66 000	342 000	41 000	219 000.00	107 000	561 000
<b>Bankwide</b>	<b>388 000</b>	<b>4 580 000</b>	<b>222 000</b>	<b>620 000.00</b>	<b>610 000</b>	<b>5 200 000</b>

\*Trading limits are based in US dollars. \*\*Limits are expressed as VaR

Table 13: PV01 Limits – 30 June 2015

	Limits in USD		
	Basic limit	Headroom	Basic + Headroom
Money Markets Banking LCY	5 400		5 400
Interest Rate Trading FCY	500		500
Money Markets trading LCY	1 700	1 100	2 800
Fixed Income trading LCY	310	190	500

Table 14: Financial instruments – 30 June 2015

	Nominal value MKm	Carry value MKm	Mark to market MKm	Fair value gain/(loss) MKm
Available for sale financial instruments	26 129	25 271	25 167	(103)
Trading securities	23 982	23 114	22 983	(130)
<b>Total</b>	<b>50 111</b>	<b>48 384</b>	<b>48 151</b>	<b>(233)</b>

### 6 Operational risk

The bank defines operational risk as 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; the reputational effects of operational risk events are, however, considered for management information. Operational risk is thus categorised as follows:

- Process risk; the risk of loss suffered as a result of failed or inadequate processes:
- People risk; the risk of loss arising from issues related to the personnel within the bank
- Systems risk; the risk of loss suffered as a result of failed or inadequate systems, security breaches, inadequate systems investment, development, implementation, support and capacity
- External event risk; the risk of loss suffered as a result of external events.

Operational risk arises in all parts of SBM; all senior management are thus responsible for consistently implementing and maintaining policies, processes and systems for managing operational risk in all of material products, services, activities, processes and systems. The ultimate responsibility for establishing, approving and periodically reviewing the operational risk framework lies with the Board. The Board oversees senior management to ensure that the framework is implemented effectively at all decision levels.

Operational risk is managed to acceptable levels by continuously monitoring and enforcing compliance with relevant policies and control procedures. The bank also uses the new and amended business, products or services process in order to address the identification and assessment of risks associated with new and/or amended products or services. Other major frameworks that have been introduced are business continuity management framework, information security management, and a risk assurance function.

The practice of operational risk in the bank is overseen by an independent operational risk function. Importantly, the operational risk function performs incident recording, management and analysis, the risk self-assessment process, the key risk indicators process and scenario analysis. Independent assurance on the management of operational risk is further provided by Internal Audit.

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## 7 Interest rate risk in the Banking book

IRRBB is the exposure of the bank's financial condition to adverse movements in interest rates. This arises mainly due to a maturity mismatch between the bank's assets and liabilities. Accepting this risk (maturity transformation) is a normal part of banking and it can be an important source of profitability and shareholder value for the bank. 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), fair value banking book profit or loss and the level of other sensitive income and operating expenses.

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

The benchmark for the banking book interest rate sensitivity is the cumulative 12 month NII impact of a parallel rate shock. The limit imposed by group ALCO is a maximum 10% adverse change in forecast annual NII when the balance sheet is subjected to a specific standardized rate shock. The respective rate shocks are 750bps downward shock and 650bps upward shock for local currency and 100 bps up and downward for foreign currency.

The cumulative 12 month NII impact on the various currencies, for SBM, for a selection of bps shocks is expected to be as shown in the table below.

Table 15: Impact of parallel rate shock on NII (LCY) – 30 June 2015

Rate Change	Bps Change	NII MK'mn	NII Change MK'mn	Bps Change
-7.50%	-750	18 758	(4 443)	-19%
0.00%	0	23 201	-	0%
6.50%	650	26 533	3 331	14%

Table 16: Impact of parallel rate shock on NII (FCY) – 30 June 2015

Rate Change	Bps Change	NII USD'000	NII Change USD'000	Bps Change
-1.00%	-100	3 989	119	3.07%
0.00%	0	3 871	-	0.00%
1.00%	100	3 827	44	-1.12%

### 8 Equity risk

The bank did not hold any equity position as at 30 June 2015.

### 9 Conclusion

The global economy continues to be volatile and under stress, SBM's continued commitment to sound risk management has proved to be effective as reflected in the strong capital and liquidity position. SBM recognises that maintaining and continually enhancing risk management capabilities will be critical in the months ahead to ensure that the bank's financial and strategic objectives are achieved within approved levels of risk appetite.

### 10 List of abbreviations

ALCO	Asset and Liability Committee
BCC	Board Credit Committee
BFSA	Banking and Financial Services Act
CIB	Corporate and Investment Banking
CRMC	Credit Risk Management Committee
EAD	Exposure at default
EXCO	Executive Committee
IRRBB	Interest rate risk in the banking book
MTM	Mark to Market
NII	Net interest income
PBB	Personal and Business Banking
RBM	Reserve Bank of Malawi
SBG	Standard Bank Group Limited
SBM	Standard Bank Limited (Malawi)
VaR	Value at Risk

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