Standard Bank

STANDARD BANK PLC

RISK & CAPITAL MANAGEMENT REPORT

for the year ended 31 December 2024

Malawi
Kenyatta Road & Mzimba Drive Interchange

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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 practices 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) 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 ECLs are taken in accordance with regulations and also take into account expected recoveries and the timing of such recoveries.

Market risk

Market risk is the risk of loss on financial investments caused by adverse price movements such as interest and exchange rates. Market risk regulatory capital is calculated using the Standardised Approach (TSA) per the RBM regulations. Additionally, market risk is measured and stress-tested within the bank using several 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 is 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

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.

Non-financial risk types include business resilience risk, compliance risk, conduct risk, cyber risk, financial crime risk, information risk, legal risk, people risk, third party risk, transaction processing risk, technology risk, tax risk, financial/accounting risk, environmental social governance (ESG) risk, model risk, and physical assets, safety, and security risk.

Legal risk

Legal risk is the risk of loss arising from failure to comply with statutory, legal, or contractual obligations. The bank has an in-house legal function whose primary 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 implement and maintain 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 opinions. 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. All statutory/regulatory requirements impacting 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 every level of the bank are aware of their duties 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). Sub risk types of Strategic risk are Strategy position, Strategy execution and Reputational. The bank's management clearly understands the value drivers that impact its clients, operations, financial outcomes and sustainability. The bank does not explicitly 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 mainly on preserving appropriate levels of liquidity and capital and effectively managing the risk portfolios. Responsibility and accountability for risk management reside 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 Stanbic Africa Holdings Limited. Other shareholders are NICO Life Insurance Company Ltd 16.66%; Old Mutual Life Assurance Company (Malawi) Limited 6.80%; Press Trust 2.32%; Magetsi Pension Fund 1.12%; National Investment Trust Plc 1.02%; and other public investors 11.90%.

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 Standard Bank Nominees Limited.

2.1 Media and location

This document should be read in conjunction with the bank's published Annual Report, 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 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

	2024 MKm	2023 MKm
Tier I		
Issued primary capital	**228,684**	**169,627**
Ordinary share capital	234	234
Share premium	8,492	8,492
Retained earnings	219,610	160,556
General reserves	348	345
Less: regulatory deductions	**9,903**	**18,211**
Deferred tax assets	9,677	18,081
50% Investment in subsidiaries/associates	226	130
	218,781	**151,416**
Tier II		
Issued secondary capital and reserves	**22,500**	**17,593**
Reserve: Statutory Credit Risk	-	-
Revaluation reserves less 50% investments in other subsidiaries/associates	22,500	17,593
	22,500	**17,593**
Total eligible capital	**241,281**	**169,009**
Total capital requirement	**150,118**	**107,308**
Total risk-weighted assets	**1,000,788**	**715,389**
Tier 1 (%)	**21.86%**	**21.17%**
Capital adequacy ratio (%)	**24.11%**	**23.62%**
Minimum regulatory limits		
Tier 1 (%)	**10.00%**	**10.00%**
Capital adequacy ratio (%)	**15.00%**	**15.00%**

Note: 50% Investments in subsidiaries includes Natswith MK355m; Standard Bank Bureau De Change MK100m, and Standard Bank Nominees a dormant entity, as per the guidelines of the Reserve Bank of Malawi.

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 2024

	2024				2023			
	Exposure amounts MKm	Loss provisions MKm	Credit risk mitigation MKm	Risk weighted assets MKm	Exposure amounts MKm	Loss provisions MKm	Credit risk mitigation MKm	Risk weighted assets MKm
Credit risk	**1,688,054**	**49,745**	**19,544**	**699,575**	**1,273,246**	**27,963**	**1,675**	**498,690**
Sovereign or Central Bank	453,413	21,892	-	-	337,184	9,284	-	-
Public sector entities	16,999	3,494	-	13,129	8,342	119	-	8,178
Exposure to banks and other financial institutions	226,646	42	-	93,493	238,812	10	-	98,444
Corporate	156,238	1,371	-	154,865	110,261	1,857	-	108,404
Retail other	221,616	20,857	-	176,214	183,252	14,699	-	143,438
Retail mortgages	7,511	790	-	2,580	7,576	352	-	2,561
Other assets	317,280	-	-	120,050	238,434	-	-	82,578
Off balance sheet exposures	288,351	1,299	19,544	139,244	149,385	1,642	1,675	55,087
Market risk	**14,695**	**-**	**-**	**14,695**	**9,773**	**-**	**-**	**9,773**
Interest rate risk	7,402	-	-	7,402	888	-	-	888
Equity position risk	-	-	-	-	-	-	-	-
Foreign exchange risk	7,293	-	-	7,293	8,885	-	-	8,885
Commodities risk	-	-	-	-	-	-	-	-
Non-Financial Risk	**286,518**	**-**	**-**	**286,518**	**206,926**	**-**	**-**	**206,926**
Total risk-weighted assets/capital requirement	**1,989,267**	**49,745**	**19,544**	**1,000,788**	**1,489,945**	**27,963**	**1,675**	**715,389**

Note: The accrued interest on the exposure amounts listed in the table above has been included in other assets, as per the guidelines of the Reserve Bank of Malawi.

Table 3: Summary of capital ratios (%) – 31st December 2024

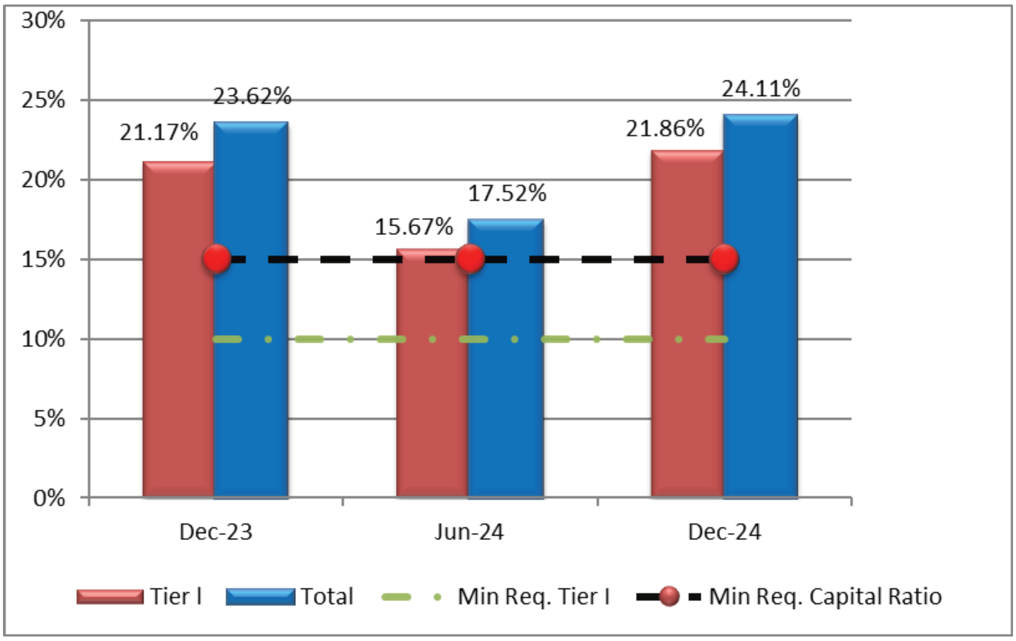
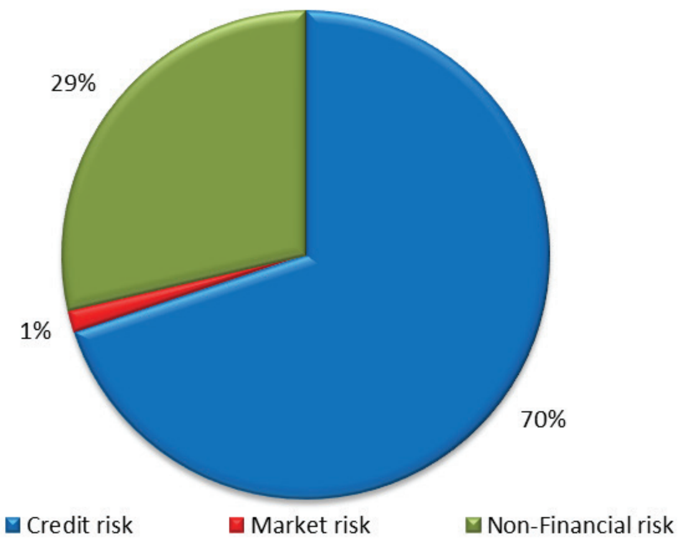


Figure 1: Risk-weighted assets composition – 31st December 2024

The risk-weighted asset composition indicates a significant concentration of credit risk (70% - MK699,575m), followed by non-financial risk (29% - MK286,250m), and a relatively negligible market risk (1%- MK14,695m). This suggests that the bank's asset portfolio is heavily exposed to credit-related risks.



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 Personal and Private Banking (PPB), Business and Commercial Banking (BCB) and Corporate and Investment Banking (CIB) reports 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. The Board approved it 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 RBM regulations require. The bank's Board grants all such approvals.

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

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 following table, is the unbiased and probability-weighted amount 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 2024

	Gross Carrying amount MKm	SB 1 - 12 Stage 1 MKm	SB 1 - 12 Stage 2 MKm	SB 13 - 20 Stage 1 MKm	SB 13 - 20 Stage 2 MKm	SB 21- 25 Stage 1 MKm	SB 21- 25 Stage 2 MKm	Default Stage 3 MKm	Default Purchased /originated credit impaired MKm	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 %
Loans and advances at amortised cost															
BCB & PPB	**232,269**	**6,988**	**-**	**181,935**	**-**	**-**	**20,011**	**23,335**	**-**	**23,335**	**7,216**	**2,082**	**14,037**	**69%**	**10%**
Mortgage loans	7,576	-	-	5,659	-	-	1,019	898	-	898	345	100	453	62%	12%
Vehicle and asset finance	16,293	-	-	14,349	-	-	373	1,571	-	1,571	158	526	887	90%	10%
Card debtors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other loans and advances	208,400	6,988	-	161,927	-	-	18,619	20,866	-	20,866	6,713	1,456	12,697	68%	10%
Personal unsecured lending	135,879	-	-	122,930	-	-	7,751	5,198	-	5,198	93	707	4,398	98%	4%
Business lending and other	72,521	6,988	-	38,997	-	-	10,868	15,668	-	15,668	6,620	749	8,299	58%	22%
CIB	**405,392**	**43,201**	**-**	**103,088**	**9,843**	**236,256**	**12,966**	**38**	**-**	**38**	**-**	**-**	**38**	**100%**	**-**
Corporate	174,689	43,201	-	103,088	9,843	5,553	12,966	38	-	38	-	-	38	100%	-
Sovereign	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank and other financial institutions	230,703	-	-	-	-	230,703	-	-	-	-	-	-	-	-	-
Other instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross carrying amount	**637,661**	**50,189**	**-**	**285,023**	**9,843**	**236,256**	**32,977**	**23,373**	**-**	**23,373**	**7,216**	**2,082**	**14,075**	**69%**	**4%**
Less: Interest in suspense	(2,082)														
Less: Total expected credit losses for loans and advances	(26,613)														
Net carrying amount of loans and advances measured at amortised cost	**608,966**														
Financial investments measured at amortised cost															
Corporate	-	-	-	-	-	-	-	-							
Sovereign	415,716	-	-	-	-	413,027	2,689	-							
Bank	-	-	-	-	-	-	-	-							
Other instruments	-	-	-	-	-	-	-	-							
Gross carrying amount	**415,716**	**-**	**-**	**-**	**-**	**413,027**	**2,689**	**-**							
Less: total expected credit loss for financial investments	(21,834)														
Net carrying amount of financial investments measured at amortised cost	**393,882**														
Financial investments at fair value through OCI	-	-	-	-	-	-	-	-							
Corporate	-	-	-	-	-	-	-	-							
Sovereign	314	-	-	-	-	-	314	-							
Bank	-	-	-	-	-	-	-	-							
Other instruments	-	-	-	-	-	-	-	-							
Gross carrying amount	**314**	**-**	**-**	**-**	**-**	**-**	**314**	**-**							
Add: Fair value reserve relating to fair value adjustments (before the ECL balance)	348														
Total financial investment at fair value through OCI	**662**														
Off-balance sheet exposures															
Letters of credit and banker's acceptances	23,432														
Guarantees	199,488														
Irrevocable unutilised facilities	-														
Total exposure to off-balance sheet credit risk	**222,920**														
Expected credit losses for off-balance sheet exposures	(1,299)														
Net carrying amount of off-balance sheet exposures	**221,621**														
Total exposure to credit risk on financial assets subject to an expected credit loss	**1,225,131**														
Add the following other banking activities exposures:															
Cash and balances with the central bank	196,951														
Derivative assets	2,772														
Trading assets	36,862														
Other financial assets	13,545														
Total exposure to credit risk	**1,475,261**														

Note: The figures presented in the table above are inclusive of accrued interest as per IFRS requirements.

Table 5: 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 figures presented in the table above are inclusive of accrued interest as per IFRS requirements.

Table 6: Geographical distribution of loans and advances to customers

	2024		2023	
Region	**MKm**	**Percentage Concentration**	**MKm**	**Percentage Concentration**
North and Central	227,007	56%	150,480	48%
South	179,951	44%	161,919	52%
	406,958	**100%**	**312,399**	**100%**

Geographically, the North and Central regions accounts for up to 56% of the bank's total loans and advances to customers, an increase from 48% in prior year.

Table 7: Distribution of exposures to customers by industry

	2024		2023	
	MKm	**Percentage Concentration**	**MKm**	**Percentage Concentration**
Agriculture, forestry, fishing and hunting	95,990	24%	86,554	28%
Construction	25,052	6%	8,134	3%
Electricity, gas, water and energy	7,985	2%	7,381	2%
Finance and other business services	717	0%	1,270	0%
Manufacturing	46,407	11%	9,086	3%
Mining and quarrying	1,325	0%	105	0%
Transport, storage and communications	40,217	10%	39,402	13%
Wholesale and retail trade	32,862	8%	33,606	11%
Restaurants and Others	3,415	1%	1,290	0%
Community, social and personal services	150,519	37%	122,319	39%
Real Estate	2,469	1%	3,252	1%
	406,958	**100%**	**312,399**	**100%**

Community, Social and Personal Services accounts for 37% (2023: 39%) of the bank's total loans and advances to customers, followed by Agriculture, Forestry and Fishing which accounts for 24% (2023: 28%). Notable growth was however witnessed in Construction and Manufacturing industries on account of new facilities extended to clients in those sectors.

The table below sets out an analysis of credit risk by maturity as of 31st December 2024. Residual maturity of credit exposures is based on contractual dates.

Table 8: Residual contractual maturity of credit exposures

Maturity	2024 Up to 1month MKm	2024 >1-3months MKm	2024 >3-12 months MKm	2024 Over 1 Year MKm	2024 Undated MKm	2024 Total MKm	2024 RWA MKm	2023 Up to 1month MKm	2023 >1-3months MKm	2023 >3-12 months MKm	2023 Over 1 Year MKm	2023 Undated MKm	2023 Total MKm	2023 RWA MKm
Sovereign or Central Bank	65,560	127,136	257,405	3,312	-	453,413	-	71,427	209,879	41,459	14,419	-	337,184	-
Public sector entities	1,626	-	203	15,170	-	16,999	13,129	181	-	303	7,858	-	8,342	8,178
Exposure to banks and other financial institutions	188,963	37,683	-	-	-	226,646	154,865	212,806	26,006	-	-	-	238,812	98,444
Corporate	25,858	33,880	76,167	20,333	-	156,238	93,493	27,318	27,215	35,062	20,666	-	110,261	108,404
Retail other	31,549	5,357	30,192	154,518	-	221,616	176,214	25,981	4,257	22,924	130,090	-	183,252	143,438
Retail mortgages	-	-	-	7,511	-	7,511	2,580	0			7,576	-	7,576	2,561
Other assets	317,280	-	-	-	-	317,280	120,050	238,434	-	-	-	-	238,434	82,578
Off balance sheet exposures	77,415	43,290	127,026	40,620	-	288,351	139,244	37,220	25,880	49,909	36,376	-	149,385	55,087
Total Credit risk exposures	**708,251**	**247,347**	**490,993**	**241,464**	**-**	**1,688,054**	**699,575**	**613,367**	**293,237**	**149,657**	**216,985**	**-**	**1,273,246**	**498,690**

Note: In the figures presented in the table above, accrued interest on exposure amounts has been included in other assets, in accordance with the guidelines of the Reserve Bank of Malawi.

As of 31st December 2024, the bank's lending remained skewed towards short term lending, i.e. 86% maturing in 1 year. Exposures to Sovereign or Central Bank accounted for majority of the bank's short-term lending.

Table 9: Classification of Loans and Leases to Customers by Sector

	2024				2023			
	Stage 1 MKm	**Stage 2 MKm**	**Stage 3 MKm**	**Total MKm**	**Stage 1 MKm**	**Stage 2 MKm**	**Stage 3 MKm**	**Total MKm**
Sector								
Agriculture, forestry, fishing and hunting	92,523	2,707	130	95,360	75,780	10,257	103	86,140
Mining and quarying	1,320	-	-	1,320	103	2	-	105
Manufacturing	45,018	401	967	46,386	8,640	13	862	9,515
Electricity, gas, water and energy	6,170	376	1,243	7,789	7,233	24	124	7,381
Construction	10,566	1,462	11,957	23,985	6,009	773	1,662	8,444
Wholesale and retail trade	26,467	4,205	1,631	32,303	32,233	1,932	1,593	35,758
Restaurants and Others	2,654	707	2	3,363	1,212	-	4	1,216
Transport, storage and communications	17,689	20,739	1,100	39,528	36,876	1,107	614	38,597
Financial services	590	117	-	707	684	183	53	920
Community, social and personal services	133,294	9,520	6,343	149,157	104,680	8,624	4,805	118,109
Real estate	132	2,333	-	2,465	3,226	21	-	3,247
Other sectors	-	-	-	-	-	-	-	-
Less: Expected credit losses	(3,829)	(8,629)	(14,075)	(26,533)	(3,624)	(5,791)	(7,505)	(16,920)
Total	**332,594**	**33,938**	**9,298**	**375,830**	**273,052**	**17,145**	**2,315**	**292,512**

Note: In accordance with the guidelines of the Reserve Bank of Malawi, the figures presented in the table above exclude accrued interest of MK4,595m.

As of 31st December 2024, Stage1 classification accounted for up to 88% of the total loans and leases to customers, with Stage 2 and 3 accounting for 9% and 3% respectively.

Table 10: Distribution of non-performing loans, stage 3 expected credit losses and interest in suspense

	2024			2023		
	Non Performing Loans	Expected credit losses	Interest in suspense	Non Performing Loans	Expected credit losses	Interest in suspense
	MKm	MKm	MKm	MKm	MKm	MKm
Sector						
Agriculture, forestry, fishing and hunting	130	113	17	103	76	9
Mining and quarying	-	-	-	-	-	-
Manufacturing	967	809	157	862	807	36
Electricity, gas, water and energy	1,243	225	41	124	84	15
Construction	11,957	5,524	767	1,662	940	167
Wholesale and retail trade	1,631	1,410	114	1,593	1,020	113
Restaurants and hotels	2	2	-	3	3	1
Transport, storage and communications	1,100	804	161	614	426	74
Financial services	-	-	-	53	53	-
Community, social and personal services	6,343	5,188	825	4,805	4,096	640
Real estate	-	-		-	-	-
Total	**23,373**	**14,075**	**2,082**	**9,819**	**7,505**	**1,055**

Table 11: Reconciliation of changes for impaired loans and advances to customers and charge-offs during the period

	2024 MKm	2023 MKm
Impaired loans and advances to customers as at 1st January 2024	9,819	6,456
Classified as impaired during the year	21,819	8,929
Transferred to not impaired during the year	(5,358)	(1,168)
Amount written off	(2,907)	(4,398)
Impaired loans and advances to customers as at 31st December 2024	**23,373**	**9,819**

Table 12: Reconciliation of changes in expected credit losses (ECL)

	2024 MKm	2023 MKm
Loans and advances to customers expected credit losses (stage 1 and 2)		
Opening balance at 1 January 2024	9,539	8,012
Total transfers between stages	(8,088)	(5,977)
ECL on new exposure raised	3,056	4,443
Subsequent changes in ECL	8,749	3,572
Change in ECL due to derecognition	(814)	(782)
Other movements	16	271
	12,458	**9,539**
Loans and advances to customers expected credit losses (stage 3)		
Opening balance at 1 January 2024	7,505	5,483
Total transfers between stages	8,088	5,977
ECL on new exposure raised	-	484
Subsequent changes in ECL	176	(22)
Change in ECL due to derecognition	1,213	-
Other movements	-	(19)
Write-offs	(2,907)	(4,398)
	14,075	**7,505**
Financial investments expected credit losses (stage 1 and 2)		
Opening balance at 1 January 2024	9,154	2,097
Total transfers between stages	-	-
ECL on new exposure raised	25,098	7,116
Subsequent changes in ECL	(3,416)	1,492
Change in ECL due to derecognition	(9,001)	(1,552)
Other movements	(1)	1
	21,834	**9,154**
Loans and advances to banks expected credit losses (stage 1 and 2)		
Opening balance at 1 January 2024	124	6
Total transfers between stages	-	-
ECL on new exposure raised	13	8
Subsequent changes in ECL	(54)	111
Change in ECL due to derecognition	(3)	(4)
Other movements	-	3
	80	**124**
Off balance sheet credit losses (stage 1 and stage 2)		
Opening balance at 1 January 2024	1,642	231
Total transfers between stages	-	-
ECL on new exposure raised	90	954
Subsequent changes in ECL	(462)	23
Change in ECL due to derecognition	(13)	(40)
Other movements	42	474
	1,299	**1,642**
Expected credit losses as at 31st December 2024	**49,746**	**27,964**

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

Table 13: Off-balance sheet items

	2024 MKm	2023 MKm
Guarantees	199,488	84,442
Letters of Credit	23,432	21,208
Foreign exchange and interest related contracts	29,975	20,953
Unutilised commitments	35,456	22,782
Total	**288,351**	**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 for monitoring market risk exposures due to trading and banking activities.

The market risk portfolios that the bank manages consist of the trading book as well as the banking book:-

Trading book market risk

Trading book is a collective term describing assets held with the intent to trade in the short term and the asset classes included in this category are instruments with tenors not exceeding one year. Market risk in this book arises due to adverse price changes (exchange rate or interest rate) which would have a translation effect on 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. The exposures are marked to market and changes in their respective fair value are reflected in profit and loss.

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 trading book

For the Money Markets Trading book (MMT), risk emanates from the sensitivity of the book's positions to fluctuations in market interest rates.

Interest rate risk banking book

This risk arise from the structural interest rate risk caused by marking 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 14: Trading portfolio values

Normal VaR	2024 USD ('000)				2023 USD ('000)			
	High	**Mean**	**Low**	**Actual**	**High**	**Mean**	**Low**	**Actual**
Foreign Exchange Trading	107	70	41	50	144	90	60	62
Money Markets Trading	10	5	-	6	20	7	0.2	2
Money Markets Banking	-	-	-	-	-	-	-	-
Bankwide	112	73	41	-	143	91	60	63
Stress VaR	**USD ('000)**				**USD ('000)**			
	High	**Mean**	**Low**	**Actual**	**High**	**Mean**	**Low**	**Actual**
Foreign Exchange Trading	562	292	84	85	876	560	382	469
Money Markets Trading	806	293	7	184	848	281	9	48
Money Markets Banking	3	2	2	2	8	6	3	3
Bankwide	811	425	195	205	879	581	377	467

On the back of foreign exchange liquidity challenges, utilization of value at risk numbers was within limit.

Table 15: Trading securities and derivative assets

	2024				**2023**			
	Nominal value MKm	**Carry value MKm**	**Mark to market MKm**	**Fair value gain/(loss) MKm**	**Nominal value MKm**	**Carry value MKm**	**Mark to market MKm**	**Fair value gain/(loss) MKm**
Trading securities	40,026	36,862	36,862	-	23,189	22,644	22,644	-
Derivatives assets	-	-	2,772	2,772	-	-	798	798
Total	**40,026**	**36,862**	**39,634**	**2,772**	**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; the reputational effects of Non-Financial risk events are however 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. The ultimate responsibility for establishing, approving and periodically reviewing the Non-Financial Risk framework however lies with the Board. The Board oversees senior management to ensure that the 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"; this is meant to ensure 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 frameworks are the business resilience management framework, and information security management.

The practice of Non-Financial risk in the bank is overseen by an independent Non-Financial risk 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 further provided by Group Internal Audit.

Table 16: Non-financial risk profile

KRI	Limit	2024	2023
Irrecoverable losses (% of gross income), total bank	1%	0.34%	0.16%
Repeat unsatisfactory audit reports, YTD	Nil	-	-
Repeat audit findings, YTD	Nil	7	6
Overdue audit action, total bank >30 days	Nil	-	-

Operational losses to gross income ratio was within appetite with a marginal uptick in 2024. This outcome is against an adverse operating environment which subjected controls to a test for effectiveness. An increase in repeat audit findings indicates gaps in the embedment of key internal controls.

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 17: Impact of parallel rate shock on NII (FCY)

2024					2023				
Rate Change %	Bps Change	NII USD'000	NII Change USD'000	NII Change %	Rate Change %	Bps Change	NII USD'000	NII Change USD'000	NII Change %
(1.00)	(100)	2,131	121	6	(1.00)	(100)	3,815	(175)	(4.38)
-	-	2,010	-	-	-	-	3,990	-	-
1.00	100	1,774	(236)	(11.73)	1.00	100	3,662	(328)	(8.23)

Table 18: Impact of parallel rate shock on NII (LCY)

2024					2023				
Rate Change %	Bps Change	NII MKm	NII Change MKm	NII Change %	Rate Change %	Bps Change	NII MKm	NII Change MKm	NII Change %
(3.50)	(350)	181,467	(16,326)	(8.25)	(3.50)	(350)	117,804	(14,011)	(10.63)
-	-	197,793	-	-	-	-	131,815	-	-
5.00	500	217,010	19,216	9.72	5.00	500	148,799	16,984	12.89

As at end December 2024, there was an NII sensitivity breach for foreign currency of -11.73% as the NII impact expressed as a percentage of the 12-month forecast NII was outside the 10% limit. The breach was condoned by ALCO as the likelihood of an upward shock in the US fed rates was remote based on the current interest rate environment. There was no NII sensitivity breach on the local currency as the NII impact expressed as a percentage of the 12-month forecast NII was within the 10% limit.

8 Basel III Reporting Framework Transition

Effective January 2025, regulatory reporting to RBM by commercial banks will transition from Basel II to Basel III. Reporting under the new capital framework was tested during the second half of 2024. The transition aims to enhance the quality of capital held by the bank commensurate with risk. The following are the major changes:

- **Qualifying Capital**
  - Removal of the fixed asset revaluation reserves number under tier 2 capital in Basel II which was at K22.5bn. This number as at December was 9.0% of total qualifying capital
  - Inclusion of other intangible assets (includes systems at residual value after an 8-year amortization period, currently at K11.1bn) to the regulatory adjustments applied to CET1 capital. The bank will effect these adjustments from CET1 capital in September 2025.
- **Operational Risk**
  - Shift from the Basic Indicator Approach to the Business Indicator Component Approach where Bank's income is broken down into three components:
    - Interest, leases and dividend component
    - The services component
    - The financial component
  - Inputs as at end December 2024 show a reduction in the operational risk weighted assets (RWA).
- **Credit Risk**
  - Corporate exposures will be classified per type of lending:
    - General corporates
    - Specialized lending (Object Finance, Project Finance and Commodity Finance)
    - Retail exposure maximum threshold attracting 75% risk weighting has been raised from K30mn to K150mn
  - Real Estate Exposure risk weight determined by Loan To Value (LTV) ratio is categorized into:
    - Residential Real Estate (owner occupied) – lower weights
    - Residential Real Estate (rented/ leased/for sale) – higher weights
    - Commercial Real Estate (repayments not materially dependent on property) – lower weights
    - Commercial Real Estate (repayments not materially dependent on property) – higher weights

- Off-Balance Sheet: Weighting for “Similar Other Commitments which can be unconditionally cancellable at any time by the bank without prior notice” has been increased from 0% to 10%
- The financial position as at end December 2024 show an increase in the credit RWA.

- **Liquidity Risk**
  - Enhancement of the calculation components in calculation of the Basel III Liquidity Coverage Ratio (LCR) to make it more stringent
  - Introduction of the Basel III Net Stable Funding Ratio (NSFR) which is a ratio to confirm liquidity capacity in the longer term.

9 Conclusion

This disclosure document has been prepared in accordance with the requirements prescribed in the guidelines on market disclosures under the Basel II Framework. It is intended to provide background information on the bank’s approach to risk management as related to maintaining and preserving the bank's capital position. It also includes 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 Finance and Value Management Officer at John.Mhone@standardbank.co.mw.

10 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

12 List of figures and tables

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