



Standard Bank PLC
**Risk and Capital
Management Report**
June 2021

Standard Bank PLC Risk and Capital Management Report



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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 practice in the bank. 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 the bank.

Identification of material risks is a process overseen by the Chief Risk Officer, Head of Compliance and the Legal Counsel, with involvement from the business units and enabling 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 regulatory capital is determined by 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 provisions for credit losses (relating to non-performing loans) that the bank has taken. Stage 3 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 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).

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Interest Rate Risk in the Banking Book (IRRBB)

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 adverse annualised net interest income change.

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, 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.

Legal risk

The bank has an in-house Legal Function whose main role is to provide legal advisory services to all business/enabling 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. 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. Supported by historical data on legal exposures and litigation outcomes, the bank considers its legal risk management risks adequate; therefore the existing capital buffers are enough to accommodate the risk.

Compliance risk

The bank 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 officers 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. The bank has adopted zero tolerance for statutory and regulatory breaches and proactively manages compliance, therefore no capital is held for compliance risk. The history of fines and penalties for the bank lends support to this statement.

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Business risk

The bank's 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 the 2018. 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.

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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 Holdings Ltd 20%; Old Mutual Life Assurance Co 5.38%; Press Trust 2.32%; Magetsi Fund Pension 1.38%; National Investment Trust Limited 1.18%; and other public Investors 9.56%.

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. It also has 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>

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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 Board'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 – 30th June 2021

	2021 MK'mn
Tier I	
Issued primary capital	91,518
Ordinary share capital	234
Share premium	8,492
Retained earnings	82,532
General reserves	260
Less: regulatory deductions	4 222
Deferred tax assets	4 157
Investment in subsidiaries	65
	87,296
Tier II	
Issued secondary capital and reserves	9,529
Reserve: Statutory Credit Risk	
Revaluation reserves less 50% investments in other	9,529
	9,529
Total eligible capital	96,825
Total capital requirement	78,114
Total risk-weighted assets	446,364
Credit risk weighted assets	343,198
Non-financial risk weighted assets	99,157
Market risk weighted assets	4,009
Tier 1 (%)	19.56%
Capital adequacy ratio (%)	21.69%
Minimum regulatory limits	
Tier 1 (%)	10.00%
Capital adequacy ratio (%)	15.00%

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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 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 – 30th June 2021

	Exposure amounts MK'mn	Loss provisions MK'mn	Credit risk mitigation MK'mn	Risk weighted assets MK'mn
Credit risk	775,421	9,277	4,643	343,198
Sovereign or Central Bank	194,830	460	-	-
Public sector entities	182	0	-	180
Exposure to banks	82,322	2	-	38,760
Corporate	78,069	579	-	77,492
Retail other	107,807	7,303	149	83,689
Retail mortgages	6,864	449	-	2,306
Other assets	84,248	-	-	54,799
Off balance sheet exposures	221,099	484	4,494	85,972
Market risk	4,009	-	-	4,009
Interest rate risk	2,192	-	-	2,192
Equity position risk	-	-	-	-
Foreign exchange risk	1,817	-	-	1,817
Commodities risk	-	-	-	-
Non-financial Risk	99,157			99,157
Total risk-weighted assets/capital requirement	878,587			446,364

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

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Table 3: Summary of capital ratios (%) – 30th June 2021

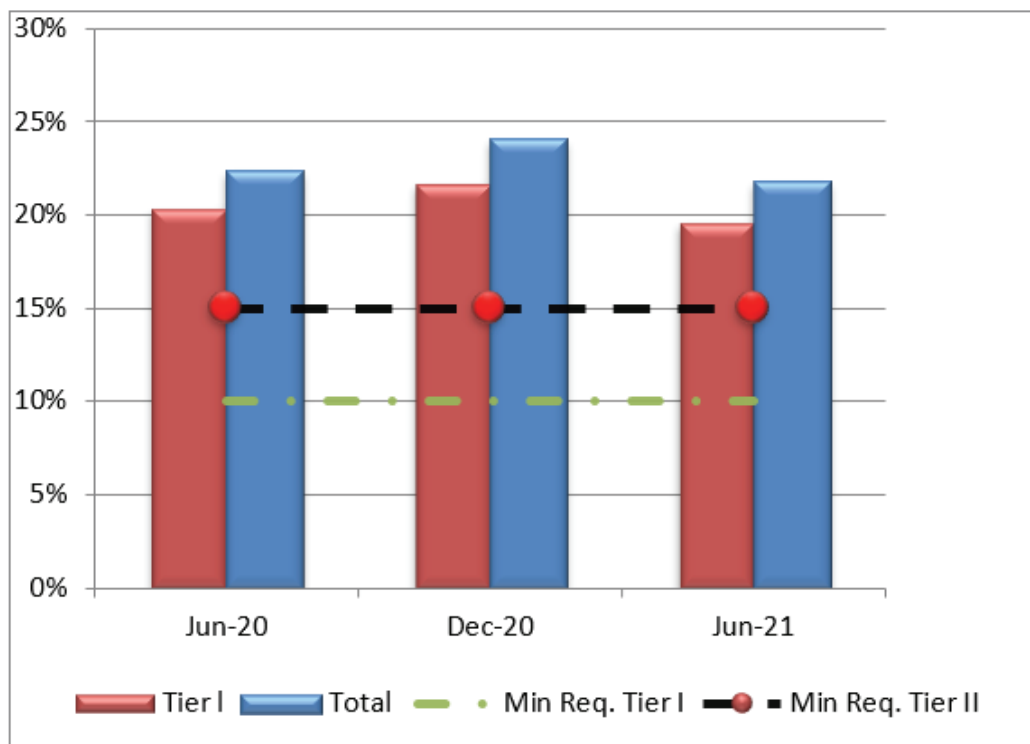
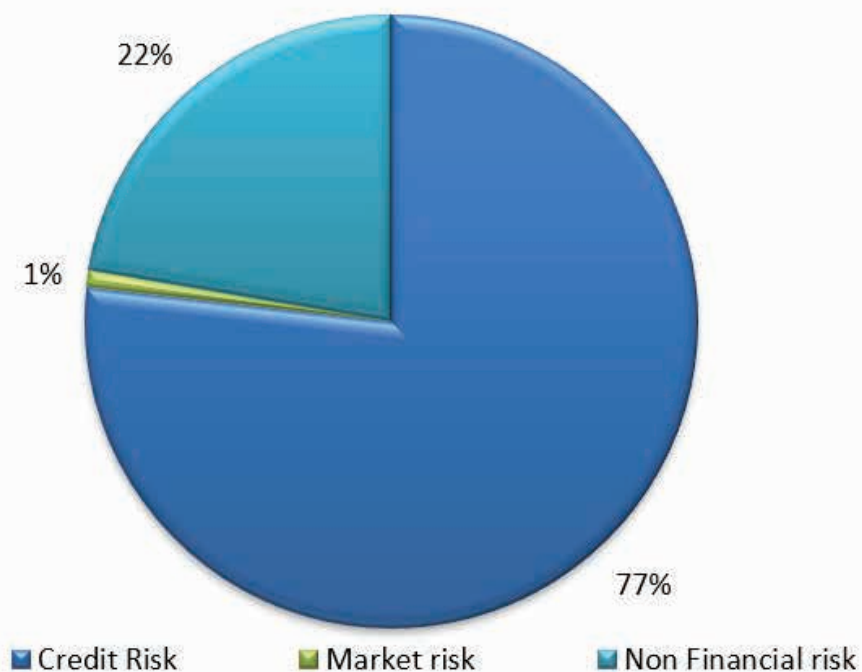


Figure 1: Risk weighted assets composition – 30th June 2021



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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 the Credit Risk Management Committee (CRMC). The credit committees for both Business and Commercial Clients (B&CC) and Wholesale Banking report directly to CRMC and indirectly to the Board Credit Committee (BCC).

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 B&CC and Wholesale Banking 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 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 impairment adequacy.

Impairment policy

Expected credit losses (ECL) is recognised on debt financial assets classified as at 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 measured as 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.

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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: <ul style="list-style-type: none"> • 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 are also 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, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure's ability to fulfil its 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: <ul style="list-style-type: none"> • 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.

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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.

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Table 4: Total credit exposures as per IFRS 7 – 30th June 2021

	Gross Carrying amount MK'mn	SB 1 - 12		SB 13 - 20		SB 21- 25		Default		Total gross carrying amount of default exposures MK'mn	Securities and expected recoveries on default exposures MK'mn	Interest in suspense on default exposures MK'mn	Balance sheet expected credit loss on default exposures MK'mn	Gross default coverage %	Non-performing exposures %	
		Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3	Purchased /originated credit impaired							
		MK'mn	MK'mn	MK'mn	MK'mn	MK'mn	MK'mn	MK'mn	MK'mn							
Loans and advances at amortised cost																
Client Solutions B&CC &CHNW	115,515	-	-	103,064	-	-	8,542	3,909	-	3,909	650	273	3229	83%	3%	
Mortgage loans	6,886	-	-	6,299	-	-	313	274	-	274	100	13	180	66%	4%	
Vehicle and asset finance	11,127	-	-	8,447	-	-	2,432	248	-	248	105	-	182	73%	2%	
Card debtors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other loans and advances	97,502	-	-	88,318	-	-	5,797	3,387	-	3,387	445	260	2,867	93%	4%	
Personal unsecured lending	72,435	-	-	66,383	-	-	3,444	2608	-	2608	0	156	2393	92%	6%	
Business lending and other	25,067	-	-	21,935	-	-	2,353	779	-	779	445	104	474	89%	3%	
Wholesale	185,358	13,811	-	169,138	2,221	188	-	-	-	-	-	-	-	-	-	
Corporate	78,438	13,811	-	62,218	2,221	188	-	-	-	-	-	-	-	-	-	
Sovereign	32,234	-	-	32,234	-	-	-	-	-	-	-	-	-	-	-	
Bank	74,686	-	-	74,686	-	-	-	-	-	-	-	-	-	-	-	
Other service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Gross carrying amount	300,873	13,811	-	272,202	2,221	188	8,542	3,909	-	3,909	650	273	3,229	83%	3%	
Less: Interest in suspense	273															
Less: Total expected credit losses for loans and advances	8,350															
Net carrying amount of loans and advances measured at amortised cost	292,250															
Financial investments measured at amortised cost																
Corporate	-															
Sovereign	142,342			142,342												
Bank	-															
Other instruments	-															
Gross carrying amount	142,342			142,342												
Less: total expected credit loss for financial investments	443															
Net carrying amount of financial investments measured at amortised cost	141,899															
Financial investments at fair value through OCI																
Corporate	-															
Sovereign	4,906			4,906												
Bank	-															
Other instruments	-															
Gross carrying amount	4,906			4,906												
Add: Fair value reserve relating to fair value adjustments (before the ECL balance)	-															
Total financial investment at fair value through OCI	4,906															
Off-balance sheet exposures																
Letters of credit and banker's acceptances	29,169															
Guarantees	126,894															
Irrevocable unutilised facilities	5,469															
Total exposure to off-balance sheet credit risk	161,532															
Expected credit losses for off-balance sheet exposures	484															
Net carrying amount of off-balance sheet exposures	161,048															
Total exposure to credit risk on financial assets subject to an expected credit loss	600,103															
Add the following other banking activities exposures:																
Other loans and advances at fair value through profit or loss	-															
Cash and balances with the central bank	28,419															
Derivative assets	469															
Trading assets	7,892															
Pledged assets	30,330															
Other financial assets	4,507															
Total exposure to credit risk	671,720															

Note: The numbers in the table above include accrued interest and are classified in accordance with IFRS

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Table 5: Geographical distribution of loans and advances to customers – 30th June 2021

	MK'mn	Percentage Concentration
North and Central	100,880	52%
South	93,073	48%
	193,953	100%

Table 6: Distribution of exposures to customers by industry – 30th June 2021

	MK'mn	Percentage Concentration
Agriculture, forestry, fishing and hunting	39,878	21%
Mining and quarrying	-	0%
Manufacturing	20,570	11%
Electricity, gas, water and energy	3,263	2%
Construction	3,559	2%
Wholesale and retail trade	15,557	8%
Restaurants and hotels	834	0%
Transport, storage and communications	19,428	10%
Financial services	381	0%
Community, social and personal services	86,095	44%
Real estate	4,388	2%
	193,953	100%

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The table below sets out an analysis of credit risk by maturity as at 30th June 2021. Residual maturity of credit exposures is based on contractual dates.

Table 7: Residual contractual maturity of credit exposures – 30th June 2021

Maturity	Up to 1month MK'mn	>1- 3months MK'mn	>3-12 months MK'mn	Over 1 Year MK'mn	Undated MK'mn	Total MK'mn	RWA MK'mn
Sovereign or Central Bank	31,699	22,935	89,148	51,048	-	194,830	-
Public sector entities	182	-	-	-	-	182	180
Exposure to banks	82,322	-	-	-	-	82,322	38,760
Corporate	32,229	8,262	15,212	22,366	-	78,069	77,492
Retail other	13,797	2,576	12,022	79,412	-	107,807	83,689
Retail mortgages	-	-	2	6,862	-	6,864	2,306
Other assets	84,248	-	-	-	-	84,248	54,799
Off balance sheet exposures	50,137	13,967	6,782	150,213	-	221,099	85,972
Total Credit risk exposures	294,614	47,740	123,166	309,901		775,421	343,198

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

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Table 8: Classification of Loans and Leases to customers by Sector – 30th June 2021

	Stage 1 MK'mn	Stage 2 MK'mn	Stage 3 MK'mn	Total MK'mn
Sector				
Agriculture, forestry, fishing and hunting	39,245	23	471	39,739
Mining and quarrying	-	-	-	-
Manufacturing	20,139	378	25	20,542
Electricity, gas, water and energy	3,206	56	-	3,262
Construction	2,032	1,419	50	3,501
Wholesale and retail trade	14,526	568	359	15,453
Restaurants and hotels	818	3	-	821
Transport, storage and communications	17,589	1,512	35	19,136
Financial services	295	63	26	384
Community, social and personal services	78,325	4,523	2,932	85,780
Real estate	4,294	-	11	4,305
Total	180,469	8,545	3,909	192,923

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

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Table 9: Distribution of non-performing loans, expected losses and interest in suspense – 30th June 2021

	Non-performing loans MK'mn	Stage 3 expected losses MK'mn	Interest in suspense MK'mn
Sector			
Agriculture, fishing, forestry and hunting	471	214	22
Mining and quarrying	-	-	-
Manufacturing	25	23	1
Electricity, gas, water and energy	-	-	-
Construction	50	44	3
Wholesale and retail trade	359	284	9
Restaurant and hotels	-	-	-
Transport, storage and communication	35	35	1
Financial services	26	17	3
Community, social and personal services	2,932	2,603	234
Real estate	11	9	-
Other sectors	-	-	-
Total	3,909	3,229	273

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

	MK'mn
Impaired loans and advances to customers as at 01 January 2021	2,255
Classified as impaired during the year	2,658
Transferred to not impaired during the year	(290)
Amount written-off	(714)
Impaired loans and advances to customers as at 30th June 2021	3,909

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Table 11: Reconciliation of changes in expected credit losses – 30th June 2021

	MK'mn
Loans & advances customers expected credit losses (stage 1 & 2)	
Opening balance as at 01 January 2021	4,642
Total transfers between stages	(1,156)
ECL on new exposure raised	2,514
Subsequent changes in ECL	(344)
Change in ECL due de-recognition	(536)
Other movements	
	5,120
Loans & advances customers expected credit losses (stage 3)	
Opening balance as at 01 January 2021	2,058
Total transfers between stages	2,101
Subsequent changes in ECL	(20)
ECL on new exposure raised	67
Other movements	(263)
Write-offs	(714)
	3,229
Financial investments expected credit losses (stage 1 & 2)	
Opening balance as at 01 January 2021	372
Total transfers between stages	-
ECL on new exposure raised	265
Subsequent changes in ECL	(60)
Change in ECL due de-recognition	(130)
Other movements	(4)
	443
Loans & advances banks expected credit losses (stage 1 & 2)	
Opening balance as at 01 January 2021	4
Provisions for the year	(3)
	1
Off balance sheet expected credit losses (stage 1 & 2)	
Opening balance as at 01 January 2021	274
Provisions for the year	210
	484
Loss provisions as at 30th June 2021	9,277

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Table 12: Off balance sheet items – 30th June 2021

Off balance sheet items

	MK'mn
Guarantees	126,894
Letters of Credit	29,169
Foreign exchange and interest related contracts	32,329
Unutilised commitments	32,707
Total	221,099

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

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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 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 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.

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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 and those exceeding one year for the fixed income trading whose intent is purely for 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 twelve 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.

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Table 13: Trading portfolio values – 30th June 2021

Normal VaR	USD			
	High	Mean	Low	Actual
Foreign exchange trading	32,638	13,425	1,300	32,638
Money market trading	527	467	407	407
Credit Valuation Adjustment	14,212	14,104	14,009	14,009
Fixed income trading	-	-	-	-
Money market banking	74	66	53	74
Bank-wide	35,076	21,323	13,437	35,076

Stress VaR	USD			
	High	Mean	Low	Actual
Foreign exchange trading	160,308	68,329	5,196	159,435
Money market trading	16,157	11,773	9,788	9,897
Credit Valuation Adjustment	959,339	952,105	945,657	945,657
Fixed income trading	-	-	-	-
Money market banking	13,352	11,678	8,910	13,273
Bank-wide	961,544	953,280	945,997	945,997

Table 14: Trading securities and derivative assets – 30th June 2021

	Nominal value MK'mn	Carry value MK'mn	Mark to market MK'mn	Fair value gain/(loss) MK'mn
Trading securities and derivative assets	8,434	8,549	8,361	(188)
Total	8,434	8,549	8,361	(188)

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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 suffered as a result of 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 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. 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; all senior management are thus 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 “managing outsourcing risk policy”; this is meant to ensure that there is an alignment of the outsourcing arrangements with the bank’s business objectives, potential risks addressed, costs and benefits evaluated, responsibilities clearly understood, and regulatory requirements complied with. The bank 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 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, and scenario analysis. Independent assurance on the management of non-financial risk is further provided by Internal Audit.

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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 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) 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 15: Impact of parallel rate shock on NII (FCY) – 30th June 2021

Rate Change	Bps Change	NII USD'000	NII Change USD'000	Bps Change
(1.00)%	(100)	1,874	70	3.86%
0.00%	0	1,804	-	0.00%
1.00%	100	1,374	(430)	(23.85)%

Table 16: Impact of parallel rate shock on NII (LCY) – 30th June 2021

Rate Change	Bps Change	NII MK'mn	NII Change MK'mn	Bps Change
(3.50)%	(350)	35,949	(6,796)	(15.90)%
0.00%	0	42,745	-	0.00%
5.00%	500	51,007	8,261	19.33%

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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 Temwani.Simwaka@standardbank.co.mw.

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9 List of abbreviations

ALCO	Asset and liability committee
B&CC	Business and Commercial Clients
BCC	Board Credit Committee
BFSA	Banking and Financial Services Act
BIA	Basic Indicator Approach
CAR	Capital adequacy ratio
CHNW	Consumer and High Net worth
CRMC	Credit Risk Management Committee
EAD	Exposure at default
ECL	Expected credit losses
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
IRRBB	Interest rate risk in the banking book
MTM	Mark-to-market
NII	Net interest income
OCI	Other comprehensive income
RBM	Reserve Bank of Malawi
SICR	Significant increase in credit risk
TSA	The Standardised Approach
USD	United States dollar
VaR	Value-at-risk

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