Standard Bank

STANDARD BANK PLC

RISK & CAPITAL MANAGEMENT REPORT

for the half year ended 30 June 2025

Malawi
Kenyatta Road & Mzimba Drive Interchange

Table of contents

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

Under Basel III approach for capital measurement, there was a 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;
- Services; and
- Financial.

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 – either for or against the bank 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 risk. 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. In the first quarter of 2025, the bank rolled out a policy to guide it on how strategic risk will be managed.

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 14.88%; Old Mutual Life Assurance Company (Malawi) Limited 6.80%; Press Trust 2.32%; Msonkho Pension Fund 1.38%; Magetsi Pension Fund 1.06%; National Investment Trust Plc 1.02%; and other public investors 12.36%.

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 9.09% 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 half year press release, 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 including share capital, share premium, retained earnings, and less investment in subsidiaries and deferred tax assets.

Tier II (secondary capital) includes eligible subordinated debt, general loan loss reserves, and eligible instruments issued by the bank that meet the criteria for Tier II.

Table 1: Qualifying regulatory capital

	2025 MKm	2024 MKm
Tier I		
Issued primary capital	**217,926**	**169,459**
Ordinary share capital	235	235
Share premium	8,491	8,491
Retained earnings	209,190	160,390
General reserves	10	343
Less: regulatory deductions	**4,663**	**20,700**
Deferred tax assets	3,980	20,516
Investment in subsidiaries	683	184
	213,263	**148,759**
Tier II		
Issued secondary capital and reserves	**-**	**17,539**
Eligible subordinated debt	-	-
General loan loss reserves		
Revaluation reserves less 50% investments in other subsidiaries/associates	-	17,539
	-	**17,539**
Total eligible capital	**213,263**	**166,298**
Total capital requirement	**169,514**	**142,202**
Total risk-weighted assets	**1,130,092**	**949,347**
Tier 1 (%)	**18.87%**	**15.67%**
Capital adequacy ratio (%)	**18.87%**	**17.52%**
Minimum regulatory limits		
Tier 1 (%)	**10.00%**	**10.00%**
Capital adequacy ratio (%)	**15.00%**	**15.00%**

Note: The qualifying capital above compares the requirements under Basel II (2024) and Basel III (2025). The Malawi banking regulatory reporting transitioned to Basel III from Basel II effective 01st January 2025. However, despite some changes in the composition and/or computation of qualifying capital and risk-weighted assets, the minimum regulatory limits for Tier 1 (which is a total of CET1 and Tier 2 under Basel III) and Total Capital Adequacy Ratios remain at 10% and 15%, respectively.

During the period under review, the bank complied with all externally imposed capital requirements applicable to its banking activities. These include, but are not limited to, the relevant requirements of the Banking Act and Financial Services Act as well as other regulations relating to banks, which are consistent with the Basel III guidelines issued by the Bank for International Settlements (BIS) as adopted by the RBM which became effective on 1st January 2025.

Table 2: Risk exposure amounts and risk-weighted assets – 30th June 2025

	2025				2024			
	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	**2,189,814**	**59,492**	**59,470**	**889,983**	**1,604,304**	**32,054**	**3,516**	**689,579**
Sovereign or Central Bank	552,129	29,617	-	-	394,195	7,944	-	-
Public sector entities	15,951	3,518	-	12,434	12,670	156	-	11,747
Exposure to banks and other financial institutions	308,061	61	-	137,920	302,347	26	-	131,874
Corporate	190,187	990	-	188,476	148,845	1,634	-	147,211
Retail other	284,322	23,801	-	222,187	201,102	19,642	-	156,416
Retail mortgages	6,242	738	-	4,346	7,412	759	-	2,639
Other assets	363,937	-	-	133,476	210,346	-	-	106,545
Off balance sheet exposures	468,985	767	59,470	191,144	327,387	1,893	3,516	133,147
Market risk	**13,935**	**-**	**-**	**13,935**	**17,815**	**-**	**-**	**17,815**
Interest rate risk	6,577	-	-	6,577	8,598	-	-	8,598
Equity position risk	-	-	-	-	-	-	-	-
Foreign exchange risk	7,358	-	-	7,358	9,217	-	-	9,217
Commodities risk	-	-	-	-	-	-	-	-
Non-Financial Risk	**226,174**	**-**	**-**	**226,174**	**241,953**	**-**	**-**	**241,953**
Total risk-weighted assets/capital requirement	**2,429,923**	**59,492**	**59,470**	**1,130,092**	**1,864,072**	**32,054**	**3,516**	**949,347**

Note: The accrued interest on the exposure amounts for public sector entities, corporate, retail other and retail mortgages listed in the table above have been included in other assets, except sovereign or central bank exposure, exposure to banks and other financial institutions, as per the guidelines of the Reserve Bank of Malawi.

Table 3: Summary of capital ratios (%) – 30th June 2025

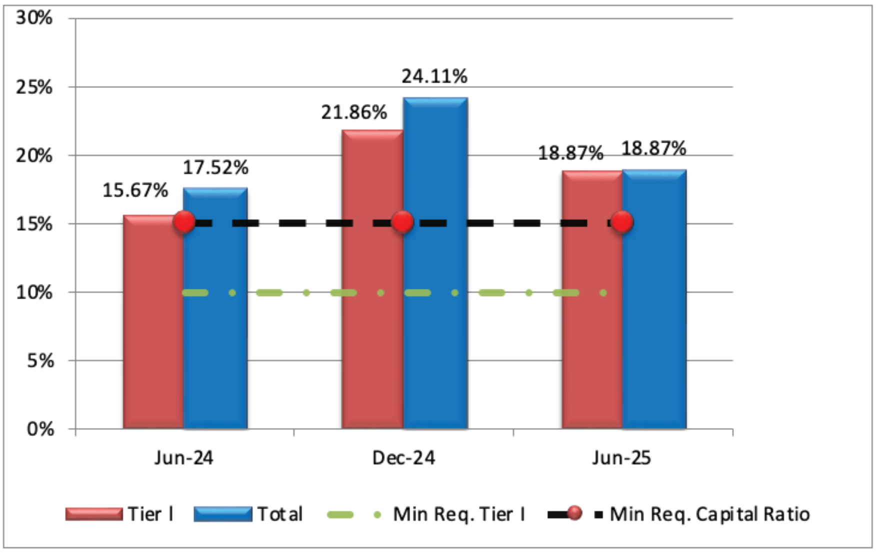
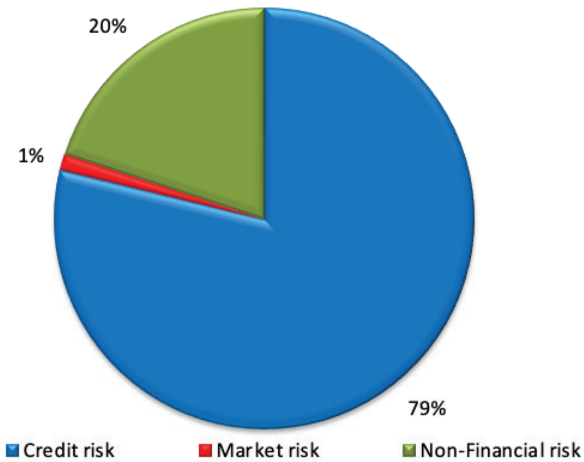


Figure 1: Risk-weighted assets composition – 30th June 2025

The risk-weighted asset composition indicates a significant concentration of credit risk (79% - MK889,983m), followed by non-financial risk (20% - MK226,174m), and a relatively negligible market risk (1%- MK13,935m). 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 – 30th June 2025

	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	**293,796**	**7,274**	**-**	**242,617**	**3,982**	**-**	**22,545**	**17,378**	**-**	**17,378**	**1,103**	**1,703**	**14,640**	**94%**	**6%**
Mortgage loans	16,343	-	-	14,602	-	-	824	917	-	917	188	156	573	79%	6%
Vehicle and asset finance	13,310	-	-	9,622	-	-	3,355	333	-	333	73	54	206	78%	3%
Card debtors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other loans and advances	264,143	7,274	-	218,393	3,982	-	18,366	16,128	-	16,128	842	1,493	13,861	95%	6%
Personal unsecured lending	139,927	-	-	127,153	-	-	7,526	5,248	-	5,248	-1,020	695	5,641	121%	4%
Business lending and other	124,216	7,274	-	91,240	3,982	-	10,840	10,880	-	10,880	1,862	798	8,220	83%	9%
CIB	**517,105**	**47,219**	**-**	**145,557**	**-**	**310,892**	**13,400**	**38**	**-**	**38**	**-**	**-**	**38**	**100%**	**-**
Corporate	208,316	47,219	-	145,557	-	2,103	13,400	38	-	38	-	-	38	100%	-
Sovereign	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank and other financial institutions	308,789	-	-	-	-	308,789	-	-	-	-	-	-	-	-	-
Other instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross carrying amount	**810,901**	**54,493**	**-**	**388,174**	**3,982**	**310,892**	**35,945**	**17,416**	**-**	**17,416**	**1,103**	**1,703**	**14,678**	**94%**	**2%**
Less: Interest in suspense	(1,703)														
Less: Total expected credit losses for loans and advances	(29,202)														
Net carrying amount of loans and advances measured at amortised cost	**779,996**														
Financial investments measured at amortised cost															
Corporate	-	-	-	-	-	-	-	-							
Sovereign	551,649	-	-	-	-	315,879	235,770	-							
Bank	-	-	-	-	-	-	-	-							
Other instruments	-	-	-	-	-	-	-	-							
Gross carrying amount	**551,649**	**-**	**-**	**-**	**-**	**315,879**	**235,770**	**-**							
Less: total expected credit loss for financial investments	(29,523)														
Net carrying amount of financial investments measured at amortised cost	**522,126**														
Financial investments at fair value through OCI	-	-	-	-	-	-	-	-							
Corporate	-	-	-	-	-	-	-	-							
Sovereign	97	-	-	-	-	-	97	-							
Bank	-	-	-	-	-	-	-	-							
Other instruments	-	-	-	-	-	-	-	-							
Gross carrying amount	**97**	**-**	**-**	**-**	**-**	**-**	**97**	**-**							
Add: Fair value reserve relating to fair value adjustments (before the ECL balance)	10														
Total financial investment at fair value through OCI	**107**														
Off-balance sheet exposures															
Letters of credit and banker's acceptances	47,250														
Guarantees	244,522														
Irrevocable unutilised facilities	-														
Total exposure to off-balance sheet credit risk	**291,772**														
Expected credit losses for off-balance sheet exposures	(767)														
Net carrying amount of off-balance sheet exposures	**291,005**														
Total exposure to credit risk on financial assets subject to an expected credit loss	**1,593,234**														
Add the following other banking activities exposures:															
Cash and balances with the central bank	230,201														
Derivative assets	7,766														
Trading assets	56,834														
Other financial assets	19,504														
Total exposure to credit risk	**1,907,539**														

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 – 30th June 2024

		SB 1 - 12		SB 13 - 20		SB 21- 25		Default							
	Gross Carrying amount MKm	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	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	**212,142**	**-**	**-**	**173,021**	**-**	**-**	**27,051**	**12,070**	**-**	**12,070**	**1,259**	**1,358**	**9,567**	**91%**	**6%**
Mortgage loans	7,464	-	-	5,114	-	-	1,322	1,028	-	1,028	38	42	550	58%	14%
Vehicle and asset finance	12,647	-	-	10,338	-	-	1,112	1,197	-	1,197	138	338	816	96%	9%
Card debtors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other loans and advances	192,031	-	-	157,569	-	-	24,617	9,845	-	9,845	1,083	978	8,201	93%	5%
Personal unsecured lending	127,496	-	-	105,338	-	-	17,152	5,006	-	5,006	16	47	4,960	100%	4%
Business lending and other	64,535	-	-	52,231	-	-	7,465	4,839	-	4,839	1,067	931	3,241	86%	7%
CIB	**496,638**	**18,313**	**-**	**126,457**	**11,247**	**340,621**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Corporate	162,005	18,313	-	126,457	11,247	5,988	-	-	-	-	-	-	-	-	-
Sovereign		-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank	334,633	-	-	-	-	334,633	-	-	-	-	-	-	-	-	-
Other service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross carrying amount	**708,780**	**18,313**	**-**	**299,478**	**11,247**	**340,621**	**27,051**	**12,070**	**-**	**12,070**	**1,259**	**1,358**	**9,567**	**91%**	**2%**
Less: Interest in suspense	(1,358)														
Less: Total expected credit losses for loans and advances	(22,263)														
Net carrying amount of loans and advances measured at amortised cost	**685,159**														
Financial investments measured at amortised cost															
Corporate	-	-	-	-	-	-	-	-							
Sovereign	323,951	-	-	-	-	-	283,719	40,232							
Bank	-	-	-	-	-	-	-	-							
Other instruments	-	-	-	-	-	-	-	-							
Gross carrying amount	**323,951**	**-**	**-**	**-**	**-**	**-**	**283,719**	**40,232**							
Less: total expected credit loss for financial investments	(7,898)														
Net carrying amount of financial investments measured at amortised cost	**316,053**														
Financial investments at fair value through OCI	-	-	-	-	-	-	-	-							
Corporate	-	-	-	-	-	-	-	-							
Sovereign	313	-	-	-	-	-	313	-							
Bank	-	-	-	-	-	-	-	-							
Other instruments	-	-	-	-	-	-	-	-							
Gross carrying amount	**313**	**-**	**-**	**-**	**-**	**-**	**313**	**-**							
Add: Fair value reserve relating to fair value adjustments (before the ECL balance)	342														
Total financial investment at fair value through OCI	**655**														
Off-balance sheet exposures															
Letters of credit and banker's acceptances	40,478														
Guarantees	183,098														
Irrevocable unutilised facilities	-														
Total exposure to off-balance sheet credit risk	**223,576**														
Expected credit losses for off-balance sheet exposures	(1,893)														
Net carrying amount of off-balance sheet exposures	**221,683**														
Total exposure to credit risk on financial assets subject to an expected credit loss	**1,223,550**														
Add the following other banking activities exposures:															
Cash and balances with the central bank	103,232														
Derivative assets	5,580														
Trading assets	39,196														
Other financial assets	13,605														
Total exposure to credit risk	**1,385,163**														

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

Region	2025 MKm	2025 Percentage Concentration	2024 MKm	2024 Percentage Concentration
North and Central	297,830	59%	200,715	54%
South	204,282	41%	173,432	46%
	502,112	**100%**	**374,147**	**100%**

Geographically, the North and Central regions accounts for up to 59% of the bank's total loans and advances to customers, an increase from 54% in the prior year.

Table 7: Distribution of exposures to customers by industry

	2025 MKm	2025 Percentage Concentration	2024 MKm	2024 Percentage Concentration
Agriculture, forestry, fishing and hunting	152,466	30%	105,592	28%
Construction	25,181	5%	16,227	4%
Electricity, gas, water and energy	1,808	0%	8,975	2%
Finance and other business services	2,200	0%	2,798	1%
Manufacturing	73,899	15%	27,879	8%
Mining and quarrying	587	0%	377	0%
Transport, storage and communications	36,954	7%	41,322	11%
Wholesale and retail trade	37,076	8%	34,656	9%
Restaurants and Others	7,631	2%	2,442	1%
Community, social and personal services	161,547	32%	131,042	35%
Real Estate	2,763	1%	2,837	1%
	502,112	**100%**	**374,147**	**100%**

Community, social, and personal services accounted for 32% of the bank's total loans and advances to customers in 2025, down from 35% in June 2024. This was followed by the Agriculture, Forestry, and Fishing sector, which increased its share to 30% from 24% in the previous year. The notable growth in the Agriculture sector was driven by new facilities extended to clients within the industry.

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The table below sets out an analysis of credit risk by maturity as of 30th June 2025. Residual maturity of credit exposures is based on contractual dates

Table 8: Residual contractual maturity of credit exposures

Maturity	2025							2024						
	Up to 1month MKm	>1-3months MKm	>3-12 months MKm	Over 1 Year MKm	Undated MKm	Total MKm	RWA MKm	Up to 1month MKm	>1-3months MKm	>3-12 months MKm	Over 1 Year MKm	Undated MKm	Total MKm	RWA MKm
Sovereign or Central Bank	104,351	205,467	239,587	2,724	-	552,129	-	104,581	145,558	140,717	3,339	-	394,195	-
Public sector entities	685	-	535	14,731	-	15,951	12,434	1,338	-	511	10,821	-	12,670	11,747
Exposure to banks and other financial institutions	134,534	80,290	33,173	60,064	-	308,061	137,920	260,170	42,177	-	-	-	302,347	131,874
Corporate	62,638	14,559	77,188	35,802	-	190,187	188,476	45,987	28,957	50,678	23,223	-	148,845	147,211
Retail other	45,375	3,749	72,282	162,916	-	284,322	222,187	34,981	4,905	21,558	139,658	-	201,102	156,416
Retail mortgages	-	-	76	6,166	-	6,242	4,346	-	-	-	7,412	-	7,412	2,639
Other assets	363,937	-	-	-	-	363,937	133,476	210,346	-	-	-	-	210,346	106,545
Off balance sheet exposures	78,538	96,509	165,918	128,020	-	468,985	191,144	101,265	80,249	112,106	33,767	-	327,387	133,147
Total Credit risk exposures	**790,058**	**400,574**	**588,759**	**410,423**	**-**	**2,189,814**	**889,983**	**758,668**	**301,846**	**325,570**	**218,220**	**-**	**1,604,304**	**689,579**

Note: The accrued interest on the exposure amounts for public sector entities, corporate, retail other and retail mortgages listed in the table above have been included in other assets, except sovereign or central bank exposure, exposure to banks and other financial institutions, as per the guidelines of the Reserve Bank of Malawi.

As of 30 June 2025, the bank's lending remained skewed towards short-term lending i.e. 81% maturing within a 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

	2025				2024			
	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	148,917	2,423	382	151,722	102,407	2,260	216	104,883
Mining and quarrying	66	517	-	583	-	366	-	366
Manufacturing	73,080	368	344	73,792	26,777	70	900	27,747
Electricity, gas, water and energy	23	436	1,108	1,567	7,586	1,149	113	8,848
Construction	16,305	443	7,236	23,984	2,997	10,663	1,972	15,632
Wholesale and retail trade	26,856	8,353	1,339	36,548	30,861	1,400	1,919	34,180
Restaurants and Others	3,229	4,245	-	7,474	4,161	67	3	4,231
Transport, storage and communications	21,663	14,050	698	36,411	38,572	1,213	943	40,728
Financial services	785	84	-	869	674	140	2	816
Community, social and personal services	145,951	9,157	6,309	161,417	115,245	8,518	6,002	129,765
Real estate	2,707	-	-	2,707	2,813	20	-	2,833
Other sectors	-	-	-	-	-	-	-	-
Less: Expected credit losses	(4,478)	(9,910)	(14,678)	(29,066)	(4,221)	(8,420)	(9,567)	(22,208)
Total	**435,104**	**30,166**	**2,738**	**468,008**	**327,872**	**17,446**	**2,503**	**347,821**

Note: In accordance with the guidelines of the Reserve Bank of Malawi, the figures presented in the table above exclude accrued. interest of MK5,037m.

As of 30 June 2025, Stage 1 classification accounted for up to 88% of the gross loans and leases to customers, with Stage 2 and 3 accounting for 8% and 4%, respectively.

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

	2025			2024		
	Non Performing Loans MKm	Expected credit losses MKm	Interest in suspense MKm	Non Performing Loans MKm	Expected credit losses MKm	Interest in suspense MKm
Sector						
Agriculture, forestry, fishing and hunting	382	368	22	216	170	12
Mining and quarrying	-	-	-	-	-	-
Manufacturing	344	343	2	900	804	80
Electricity, gas, water and energy	1,108	264	110	113	85	21
Construction	7,236	6,709	524	1,972	1,476	300
Wholesale and retail trade	1,339	1,158	65	1,919	1,567	150
Restaurants and hotels	-	-	-	3	3	-
Transport, storage and communications	698	547	78	943	648	120
Financial services	-	-	-	2	2	-
Community, social and personal services	6,309	5,289	902	6,002	4,812	675
Real estate	-	-		-	-	-
Total	**17,416**	**14,678**	**1,703**	**12,070**	**9,567**	**1,358**

Construction accounted for 42% of the non-performing loans in 2025, having increased from 16% in June 2024. This was followed by community, social and personal services accounting for 36%, down from 50% in June 2024

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

	2025 MKm	2024 MKm
Impaired loans and advances to customers as at 1 January 2025	23,373	9,819
Classified as impaired during the year	2,655	5,267
Transferred to not impaired during the year	(4,852)	(1,595)
Amount written off	(3,760)	(1,421)
Impaired loans and advances to customers as at 30th June 2025	**17,416**	**12,070**

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

	2025 MKm	2024 MKm
Loans and advances to customers expected credit losses (Stage 1 and 2)		
Opening balance at 1 January 2025	12,458	9,539
Total transfers between stages	(300)	(2,268)
ECL on new exposure raised	1,898	4,518
Subsequent changes in ECL	1,944	1,279
Change in ECL due to derecognition	(1,612)	(442)
Other movements	-	15
	14,388	**12,641**
Loans and advances to customers expected credit losses (Stage 3)		
Opening balance at 1 January 2025	14,075	7,505
Total transfers between stages	300	2,268
ECL on new exposure raised	8,915	1,464
Subsequent changes in ECL	(4,852)	(249)
Change in ECL due to derecognition	-	-
Other movements	-	-
Write-offs	(3,760)	(1,421)
	14,678	**9,567**
Financial investments expected credit losses (Stage 1 and 2)		
Opening balance at 1 January 2025	21,834	9,154
Total transfers between stages	-	-
ECL on new exposure raised	29,197	5,397
Subsequent changes in ECL	(17,086)	(1,964)
Change in ECL due to derecognition	(4,422)	(4,689)
Other movements	-	-
	29,523	**7,898**
Loans and advances to banks expected credit losses (Stage 1 and 2)		
Opening balance at 1 January 2025	80	124
Total transfers between stages	-	-
ECL on new exposure raised	4	2
Subsequent changes in ECL	61	(69)
Change in ECL due to derecognition	(10)	(2)
Other movements	1	-
	136	**55**
Off balance sheet credit losses (Stage 1 and Stage 2)		
Opening balance at 1 January 2025	1,299	1,642
Total transfers between stages	-	-
ECL on new exposure raised	44	143
Subsequent changes in ECL	(469)	70
Change in ECL due to derecognition	(129)	(8)
Other movements	22	46
	767	**1,893**
Expected credit losses as at 30th June 2025	**59,492**	**32,054**

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

Table 13: Off-balance sheet items

	2025 MKm	2024 MKm
Guarantees	244,522	183,098
Letters of Credit	47,250	40,478
Foreign exchange and interest related contracts	132,328	79,795
Unutilised commitments	44,885	24,016
Total	**468,985**	**327,387**

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 due to failure by a 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 arises 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	**2025 USD ('000)**				**2024 USD ('000)**			
	High	**Mean**	**Low**	**Actual**	**High**	**Mean**	**Low**	**Actual**
Foreign Exchange Trading	117	72	39	98	107	74	42	81
Money Markets Trading	7	5	2	6	7	3	-	6
Money Markets Banking	-	-	-	-	-	-	-	-
Bankwide	117	72	40	99	112	77	41	84
Stress VaR	**USD ('000)**				**USD ('000)**			
	High	**Mean**	**Low**	**Actual**	**High**	**Mean**	**Low**	**Actual**
Foreign Exchange Trading	142	92	67	79	562	470	218	245
Money Markets Trading	219	142	69	120	712	257	7	676
Money Markets Banking	2	1	1	1	3	3	2	2
Bankwide	221	146	86	115	717	506	294	681

Utilization of value at risk (VaR) numbers, both normal and stress, was within limit and reduced from the prior period mainly on account of foreign exchange liquidity challenges.

Table 15: Trading securities and derivative assets

	2025				**2024**			
	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	61,021	56,834	56,834	-	45,018	39,196	39,196	-
Derivatives assets	-	-	7,766	7,766	-	-	5,580	5,580
Total	**61,021**	**56,834**	**64,600**	**7,766**	**45,018**	**39,196**	**44,776**	**5,580**

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. While strategic, reputational, and business risks are excluded from the definition the reputational effects of Non-Financial risk events are considered for management information. Non-Financial risk is thus categorised as follows:

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

Non-Financial risk arises in all parts of the bank. Therefore, all senior management are responsible for consistently implementing and maintaining policies, processes and systems for managing Non-Financial risk in all of material products, services, activities, processes and systems. 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	2025	2024
Irrecoverable losses (% of gross income), total bank	1%	0.03%	0.02%
Repeat unsatisfactory audit reports, YTD	Nil	-	-
Repeat audit findings, YTD	Nil	-	3
Overdue audit action, total bank >30 days	Nil	5	-
Risk rating		**Amber**	**Amber**

The loss ratio remained within acceptable limit, with a sustained strong performance on *repeat unsatisfactory audit ratings.* There was a significant improvement on *repeat audit findings* because of a robust risk culture which the bank has been embedding, supported by the effective implementation of the Conduct framework. An uptick in the overdue audit actions highlights gaps in the embedment of some key internal controls. The internal control gaps are being remediated by management and overseen by the Board.

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)

2025					2024				
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)	2,511	(183)	(6.82)	(1.00)	(100)	3,638	(18)	(0.48)
-	-	2,695	-	-	-	-	3,656	-	-
1.00	100	2,813	118	4.40	1.00	100	3,480	(176)	(4.83)

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

2025					2024				
Rate Change %	Bps Change	NII MKm	NII Change MKm	NII Change %	Rate Change %	Bps Change	NII USD'000	NII Change USD'000	NII Change %
(3.50)	(350)	246,994	(21,532)	(8.02)	(3.50)	(350)	157,734	(16,961)	(9.71)
-	-	268,527	-	-	-	-	174,695	-	-
5.00	500	292,941	24,414	9.09	3.50	350	197,420	22,725	13.01

As at end June 2025, there were no breaches in the NII sensitivity results for both the local and foreign currency. After applying the respective upward/downward shocks to the prevailing interest rates in the local and foreign currency books, the NII impact expressed as a percentage of the 12-month forecast NII was within the 10% limit.

8 Conclusion

This disclosure document has been prepared in accordance with the regulatory capital framework prescribed in the guidelines on market disclosures. 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 Financial and Value Management Officer at John.Mhone@standardbank.co.mw.

9 List of abbreviations

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

10 List of figures and tables

Figure

Tables

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