Standard Bank Plc

Risk and Capital Management Report December 2021

Standard Bank IT CAN BE

Table of contents

Standard Bank Plc

Risk and Capital Management Report

1 Overview

Introduction

Effective risk management is fundamental to the business activities of Standard Bank PLC (Malawi) (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).

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 operational risk regulatory capital as per the RBM regulations. For internal measurement purposes, since operational risk regulatory capital is less risk sensitive, regulatory capital is further adjusted giving consideration to historical loss experience, the level of management oversight, the status of implementation/use of the operational risk management framework and operational risk events.

Legal risk

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.

Strategic 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 strategic 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 2021. The various risk management committees have remained closely involved in important risk management initiatives, which have focused particularly on preserving appropriate levels of liquidity and capital, and effectively managing the risk portfolios. Responsibility and accountability for risk management resides at all levels within the bank.

2 Corporate structure

The bank is a publicly listed universal bank licensed in Malawi. It is majority owned (60.18%) by Standard Bank Group Limited. Other shareholders are: NICO Holdings Ltd 19.29%; Old Mutual Life Assurance Co. 5.72%; Press Trust 2.32%; Fund Magetsi Pension 1.38%; and Public Investors 11.11%.

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

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 – 31st December 2021

	2 021 MKm
Tier I	
Issued primary capital	102,176
Ordinary share capital	234
Share premium	8,492
Retained earnings	93,136
General reserves	314
Less: regulatory deductions	4 839
Deferred tax assets	4 774
Investment in subsidiaries	65
	97 337
Tier II	
Issued secondary capital and reserves	10 654
Reserve: Statutory Credit Risk	
Revaluation reserves less 50% investments in other	10 654
	10 654
Total eligible capital	**107 991**
Total capital requirement	**84 523**
Total risk-weighted assets	**482 986**
Tier 1 (%)	20.15%
Capital adequacy ratio (%)	22.36%
Minimum regulatory limits	
Tier 1 (%)	10.00%
Capital adequacy ratio (%)	15.00%

During the period under review, the bank complied with all externally-imposed capital requirements to which its banking activities are subject. These include, but are not limited to, the relevant requirements of the Banking Act and Financial Services Act and 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 – 31st December 2021

	Exposure amounts MKm	Loss provisions MKm	Credit risk mitigation MKm	Risk weighted assets MKm
Credit risk	**781,855**	**10,554**	**1,836**	**364 152**
Sovereign or Central Bank	209,642	647	-	-
Public sector entities	140	-	-	135
Exposure to banks	94,164	3	-	44,319
Corporate	89,754	726	-	89,029
Retail other	117 318	8,378	-	90,998
Retail mortgages	8 071	472	-	2,700
Other assets	105 583	-	-	63,202
Off balance sheet exposures	157 183	328	1 836	73,769
Market risk	**9,511**	**-**	**-**	**9,511**
Interest rate risk	3,526	-	-	3,526
Equity position risk	-	-	-	-
Foreign exchange risk	5,985	-	-	5,985
Commodities risk	-	-	-	-
Operational Risk	**109 323**			**109,323**
Total risk-weighted assets/capital requirement	**900 689**			**482 986**

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

Table 3: Summary of capital ratios (%) – 31st December 2021

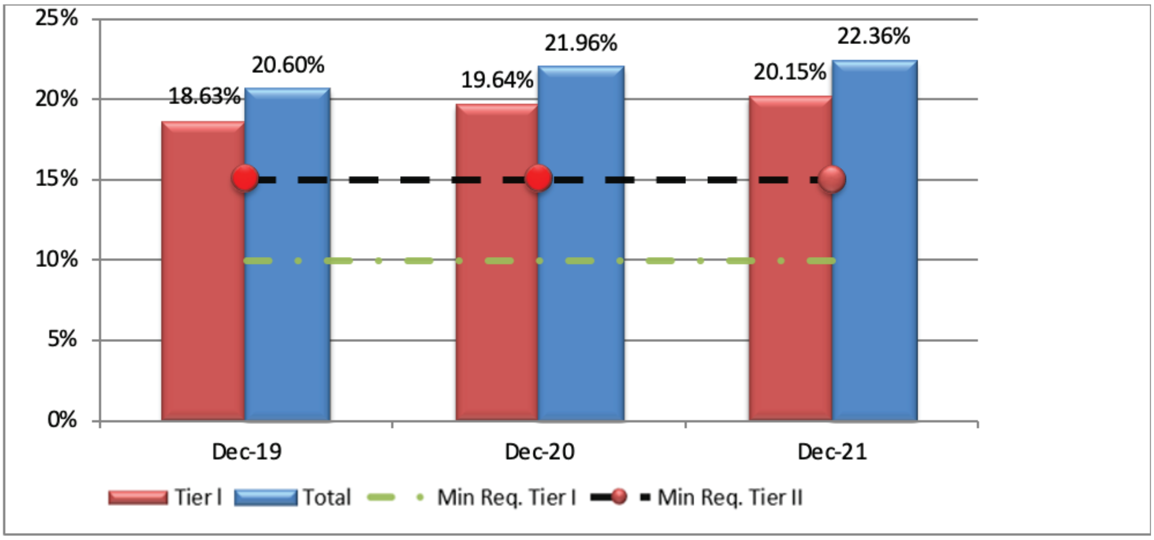
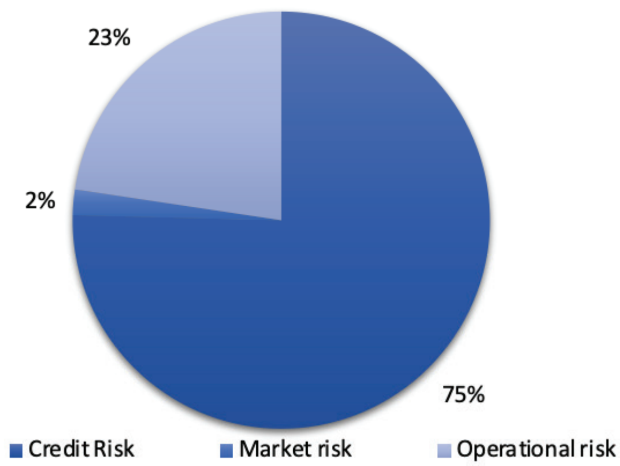


Figure 1: Risk weighted assets composition – 31st December 2021



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 Corporate and Investment Banking (CIB) report directly to CRMC and indirectly to the Board Credit Committee (BCC).

CRMC is responsible for making decisions on credit risk. It was approved by the Board as the designated committee for approving key aspects of the credit rating systems for B&CC and CIB as required by 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.

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 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 borrower has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the borrower'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: • 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 2021

At 31 December 2021	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	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														
CHNW AND BCC														
Mortgage loans	8,095	-	-	6,739	-	-	1,159	197	197	48	24	125	76%	2%
Vehicle and asset finance	10,755	-	-	8,245	2,275	-	-	235	235	-	21	214	100%	2%
Overdrafts	11,732	-	-	6,701		4,126	690	215	215		25	190	100%	2%
Term Loans	95,776	-	-	59,257		26,828	6,124	3,567	3,567	61	369	3,137	98%	4%
CIB														
Corporates	90,258	16,715	-	55,031	18,275	165	72	-	-	-	-	-	-	-
Sovereign	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Banks	96,467	96,467	-	-	-	-	-	-	-	-	-	-	-	-
Gross carrying amount	313,083	113,182	-	135,973	20,550	31,119	8,045	4,214	4,214	109	439	3,666	97%	1%
Less: Interest in suspense	(439)													
Less: Total expected credit losses for loans and advances	(9,656)													
Net carrying amount of loans and advances measured at amortised cost	302,988													
Financial investments measured at amortised cost														
Sovereign	161,513	-	-	161,513	-	-	-	-						
Gross carrying amount	161,513	-	-	161,513	-	-	-	-						
Less: Total expected credit loss for financial investments	(570)													
Net carrying amount of financial investments measured at amortised cost	160,943													
Financial investments at fair value through OCI														
Sovereign	16,326	-	-	16,326	-	-	-	-						
Gross carrying amount	16,326	-	-	16,326	-	-	-	-						
Add: Fair value reserve relating to fair value adjustments (before the ECL balance)	314													
Total financial investment at fair value through OCI	16,640													

Total credit exposures as per IFRS 7 – 31st December 2021 (Continued)

	Gross Carrying amount MKm
Off-balance sheet exposures	
Letters of credit and banker's	15,585
Guarantees	87,987
Irrevocable unutilised facilities	13,967
Total exposure to off-balance sheet credit risk	117,539
Expected credit losses for off-balance sheet exposures	(328)
Net carrying amount of off-balance sheet exposures	117,211
Total exposure to credit risk on financial assets subject to an expected credit loss	597,782
Add the following other banking activities not subject to ECL:	
Cash and balances with the Central Bank	41,342
Derivative assets	232
Trading assets	18,376
Pledged assets	40,599
Other financial assets	4,323
Total exposure to credit risk	702,654

Table 5: Geographical distribution of loans and advances to customers – 31st December 2021

	MKm	**Percentage Concentration**
North and Central	111,092	51%
South	105,524	49%
	216,616	**100%**

Table 6: Distribution of exposures to customers by industry – 31st December 2021

	MKm	Percentage Concentration
Agriculture	40,765	19%
Construction	7,713	3%
Energy	3,440	2%
Finance, real estate and other business services	5,562	3%
Individuals, community, social and personal services	94,286	43%
Manufacturing	21,035	10%
Mining	0	0%
Transport, storage and communication	21,743	10%
Wholesale	22,072	10%
	216,616	**100%**

The table below sets out an analysis of credit risk by maturity as at 31st December 2021. Residual maturity of credit exposures is based on contractual dates.

Table 7: Residual contractual maturity of credit exposures – 31st December 2021

Maturity	Up to 1month MKm	>1-3months MKm	>3-12 months MKm	Over 1 Year MKm	Total MKm
Sovereign or Central Bank	25,352	39,656	38,562	106,072	209,642
Public sector entities	140	-	-	-	140
Exposure to banks	94,164	-	-	-	94,164
Corporate	26,162	31,822	13,461	18,309	89,754
Retail other	3,187	3,289	23,188	87,654	117,318
Retail mortgages	-		13	8,058	8,071
Other assets	105,583	-	-	-	105,583
Off balance sheet exposures	43,618	14,936	67,476	31,153	157,183
Total Credit risk exposures	**298,206**	**89,703**	**142,700**	**251,246**	**781,855**

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

Table 8: Classification of Loans and Leases to customers by Sector – 31 December 2021

	Stage 1 MKm	Stage 2 MKm	Stage 3 MKm	Total MKm
Sector				
Agriculture, forestry, fishing and hunting	40,427	24	156	40,607
Mining and quarrying	-	-	-	-
Manufacturing	20,948	49	24	21,021
Electricity, gas, water and energy	3,343	90	-	3,433
Construction	6,383	1,143	98	7,624
Wholesale and retail trade	20,171	1,417	355	21,943
Restaurants and hotels	1,030	-	7	1,037
Transport, storage and communications	19,895	1,479	23	21,397
Financial services	354	112	-	466
Community, social and personal services	82,601	7,561	3,551	93,713
Real estate	4,043	-	-	4,043
Other sectors	-	-	-	-
Less: Loss Provisions				
Total	**199,195**	**11,875**	**4,215**	**215,284**

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

Table 9: Distribution of non-performing loans, expected losses and interest in suspense – 31st December 2021

	Non-performing loans MKm	Stage 3 expected credit loss MKm	Interest in suspense MKm
Sector			
Agriculture, forestry, fishing and hunting	156	146	7
Mining and quarrying	-	-	-
Manufacturing	24	23	1
Electricity, gas, water and energy	-	-	1
Construction	98	74	3
Wholesale and retail trade	355	266	34
Restaurants and hotels	7	7	-
Transport, storage and communications	23	21	2
Financial services	-	-	
Individuals, Community, social and personal services	3,551	3,129	391
Real estate	-	-	-
Other sectors	-	-	-
Total	**4,214**	**3,666**	**439**

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	4,021
Transferred to not impaired during the year	(730)
Amount written-off	(1,332)
Impaired loans and advances to customers as at 31st December 2021	**4,214**

Table 11: Reconciliation of changes in expected credit losses – 31st December 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	(1,901)
ECL on new exposure raised	3,971
Subsequent changes in ECL	(173)
Change in ECL due de-recognition	(551)
Other movements	(1)
	5,987
Loans & advances customers expected credit losses (stage 3)	
Opening balance as at 01 January 2021	2 058
Total transfers between stages	1 901
Subsequent changes in ECL	(11)
ECL on new exposure raised	1,003
Other movements	-
Write-offs	(1,285)
	3,666
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	405
Subsequent changes in ECL	(23)
Change in ECL due de-recognition	(181)
Other movements	(3)
	570
Loans & advances to banks expected credit losses (stage 1 & 2)	
Opening balance as at 01 January 2021	4
Net ECL raised/(released)	(1)
	3
Off balance sheet expected credit losses (stage 1 & 2)	
Opening balance as at 01 January 2021	274
Net ECL raised/(released)	54
	328
Expected credit losses as at 31st December 2021	**10,554**

Table 12: Off balance sheet items – 31st December 2021

Off balance sheet items	**MKm**
Guarantees	87,987
Letters of Credit	15,585
Foreign exchange and interest related contracts	7,406
Unutilised commitments	46,204
Total	**157,182**

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

5 Market risk

The bank defines market risk as the risk of a change in market value, actual or effective earnings or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse moves in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.

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

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

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

Trading book market risk

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

Table 13: Trading portfolio values – 31st December 2021

Diversified normal VaR exposures (USD'000)

Desk name	High	Min	Average	31-Dec-21	Limit
Bank wide*	153	59	64	153	323
Forex trading	153	59	53	153	201
Money markets trading	63	1	12	2	166

Diversified Stress VaR exposures (USD'000)

Desk name	High	Min	Average	31-Dec-21	Limit
Bank wide*	1,835	28	908	856	3,747
Forex trading	661	4	243	661	3,040
Money markets trading	1,831	7	400	848	870

Table 14: Trading securities and derivative assets – 31st December 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	19,992	18,525	18,608	(83)
Total	**19,992**	**18,525**	**18,608**	**(83)**

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 operational 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 policy for managing third-party risk; 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 (NFR) function which performs incident recording, management and analysis, the risk self-assessment process, and scenario analysis. Independent assurance on the management of operational risk is further provided by Internal Audit.

7 Interest rate risk in the banking book (IRRBB)

IRRBB is the exposure of the bank's financial position to adverse movements in interest rates. This arises mainly due to a maturity mismatch /different repricing characteristic between the bank's assets and liabilities in the banking book. 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 of the 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) – 31st December 2021

Rate Change %	BPS Change	NII USD'000	NII Change USD'000	NII Change %
-1.00	-100	1,573	(43)	-2.64%
0.00	0	1,615	0	0.00%
1.00	100	1,738	122	7.57%

Table 16: Impact of parallel rate shock on NII (LCY) – 31st December 2021

Rate Change %	BPS Change	NII MK'mn	NII Change MK'mn	NII Change %
-3.50	-350	48,152	(4,862)	-9.17%
0.00	0	53,014	0	0.00%
5.00	500	60,593	7,579	14.30%

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 Acting Chief Financial and Value Management Officer at John.Mhone@standardbank.co.mw .

9 List of abbreviations

ALCO	Asset and liability committee
B&CC	Business and Commercial
BCC	Board Credit Committee
BFSA	Banking and Financial Services Act
BIA	Basic Indicator Approach
CAR	Capital adequacy ratio
CHNW	Consumer and High Net worth Clients
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

10 List of figures and tables

Figure

Tables