National Bank of Malawi plc

BASEL II PILLAR III
(MARKET DISCLOSURE)

Report

December 2023

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1. OVERVIEW

1.1. Report Scope

National Bank of Malawi is mandated by the Reserve Bank of Malawi to issue a Market Disclosures report under Basel II Pillar III. The Disclosures under Basel II complement the minimum capital requirements and the Supervisory Review Process. It discloses the scope of application of Basel II, capital, particular risk exposures and risk assessment processes, and hence the capital adequacy of National Bank of Malawi. The Disclosures consist of both quantitative and qualitative information and are provided at the consolidated level. National Bank of Malawi plc hereby presents the National Bank of Malawi plc Market Disclosure report on 31st December 2023 in line with Guidelines on Market Disclosures under Basel II Pillar III issued by the Reserve Bank of Malawi.

1.2. Risk Governance

In line with the corporate governance structure adopted by National Bank of Malawi plc, the Board has the ultimate responsibility of ensuring that risks are adequately identified, measured, monitored, and managed.

The Board is committed to good corporate governance, which it achieves by following principles of openness, integrity, and accountability. The Board monitors compliance with policies and achievement of objectives by holding management accountable for its activities through quarterly Board meetings at which performance is reported.

1.3. Risk Management Oversight

The Bank's approach to risk management is based on a well-established governance process and relies both on individual responsibility and collective oversight, supported by comprehensive reporting. This approach balances stringent corporate oversight with independent risk management structures within the business units. Below is the governance structure of the bank.

The Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board develops the risk appetite and risk tolerance limits appropriate to the Bank's strategy and requires that management maintains an appropriate system of internal controls to ensure that these risks are managed within the agreed parameters. The Board delegates risk related responsibilities to seven Board committees namely, the Risk Committee, the Credit Committee, the Investment Committee, the Audit Committee, the Appointments, Remuneration and Governance Committee, Related Parties Committee, and the Board IT Projects Oversight Committee. The Board Committees comprise of a non-executive membership only and they report regularly to the Board on their activities.

The mandate of the Board subcommittees is as follows:

i. **The Board Risk Committee** has responsibility for the risk management in the Bank as delegated by the Board. Its main responsibility is to have the overall oversight in the credit, market, liquidity, and operational risks management as well as any other risks that the Bank may be exposed to in its course of business. It is also responsible for reviewing management performance in implementing the Bank's strategic plan and ensures that the Bank's activities are consistent with the policies agreed by the Bank's Board and Directives of the RBM and other regulatory requirements.

ii. **The Board Audit Committee** is responsible for conducting an independent check to ensure compliance with the Bank's risk management policies, procedures, and controls, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

iii. **The Board Credit Committee** is responsible for oversight of the Bank's overall credit risk management issues. The committee is responsible for reviewing and approving the Bank's credit policies including provisioning, large loan exposures, counter-party lending and dealing lines.

iv. **The Appointments, Remuneration and Governance Committee** is responsible for nominations and

vetting of director appointments, good governance practices, ensuring that the Bank has a robust succession plan, that the Bank's human resources are best utilized, and that members of staff are remunerated commensurately with their responsibilities and effectiveness.

v. **The Related Party Committee** is responsible for overseeing the implementation of the transactions with related parties by all entities falling under the control of the Bank's Board.

vi. **The Board Investment Committee** is responsible for evaluating and overseeing investment-related decisions and strategies.

vii. **The Board IT Projects Oversight Committee** is responsible for overseeing the implementation of all Information Technology projects.

At a management level, the Bank has the Enterprise Risk Committee (ERCO) which provides a holistic oversight of the risks affecting the Bank and the control measures that should be put in place to mitigate the risks and thereby reduce the potential losses. The Capital Management report is discussed at both ERCO and the Asset and Liability Committee (ALCO). Other management committees include the Credit Committee and IT Policy Committee which are all responsible for developing and monitoring the Bank's risk management policies in their specified areas.

2. BACKGROUND

2.1. Shareholding structure

The authorized share capital of the Bank is K500m divided into 500,000,000 Ordinary Shares of K1 each. The issued capital is K467m divided into 466,931,738 fully paid Ordinary Shares of K1 each.

The shareholding structure as of 31st December 2023 was as follows:

2023	
Press Corporation Limited	51.54%
Old Mutual Group	22.04%
Members of the public	26.42%
Total	100%

2.2. Subsidiaries, Associates and Service Centres

National Bank of Malawi Group provides retail, corporate and investment banking as well as stock broking, insurance, and pension administration services in Malawi. It has a network of 32 Service Centres in Malawi.

The subsidiaries and associate companies of the Group are shown below:

Subsidiaries	Percentage of control	Nature of operations
NBM Capital Markets Limited	100%	Investments and fund management
NBM Securities Limited	100%	Dormant
NBM Nominees Limited	100%	Holding of investments as nominee
Stockbrokers Malawi Limited	75%	Registered stockbroker
NBM Bureau de Change Limited	100%	Dormant
NBM Pension Administration Limited	100%	Pension administration
NBM Development Bank Limited	100%	SME and long-term financing
Akiba Commercial Bank	60%	Banking services

2.3. Financial Performance

In the 2023 fiscal year, the Group recorded a profit after tax of K71.96 billion, marking a notable 56.62% increase from the K45.9 billion reported in 2022. This growth was primarily propelled by the expansion in customer deposits, leading to increases in the loan portfolio and fixed income of 22 securities. As a result, net interest and investment income surged by 33%. Additionally, Other Income experienced a substantial 86% increase, primarily driven by the remarkable growth in foreign exchange commissions, soaring from K12.8 billion to K25.5 billion. Overall net revenue witnessed a robust 50% growth. Operating expenses rose by 25%, which was well under the average inflation rate for the year of 30.3%. However, net impairment losses continued to climb, reflecting the challenges faced by the Bank's major borrowing customers. Customer deposits grew by 20% year on year, while the Bank's loan portfolio expanded by 31%. Investment in Fixed Income securities saw a 10% increase. With regards to the subsidiaries, all entities except for Akiba Commercial Bank (ACB) in Tanzania and United General Insurance (UGI) contributed positively to the Group's performance. Nonetheless, both ACB and UGI showcased improved results compared to the previous period. Consequently, the losses incurred by Akiba Commercial Bank amounted to K0.98 billion, and those of UGI amounted to K0.05 billion - marking a significant reduction from the prior period's losses of K4.07 billion and K1.36 billion, respectively.

2.4. Financial Position

The Bank's assets increased to K1.27 trillion, up from K1.10 trillion in the corresponding period of 2022, marking a 19% growth. The Bank's loan book, customer deposits, and government securities experienced growth rates of 31%, 20%, and 10%, respectively. Other assets, placements with other banks, and other money market investments grew by 97%, 63%, and decreased by 11%, respectively. Equity attributable to the equity holders of the parent company grew by 20%. Overall, the Bank's financial position remains robust and healthy.

3. CAPITAL MANAGEMENT

The Bank's capital management strategy is designed to ensure that regulatory capital requirements are always met, and that the Bank and its principal subsidiaries are capitalized in line with the group's risk appetite and target ratios, both of which are approved by the board.

3.1. Approach to Capital Management

The Bank deploys a capital management strategy aimed at ensuring capital adequacy by considering the resources necessary to cover unexpected losses arising from discretionary risks, being those which it chooses to accept (such as credit risk and market risk), and from non-discretionary and inherent risks, being those which arise by virtue of its operations (such as operational risk and business risk). The Bank's capital management and allocation policy is underpinned in the Capital Management Policy. The Board and Senior Management examine the risk profile of the Bank from both regulatory and economic capital viewpoints to ensure that the Bank's level of capital achieves the following:

- Remain sufficient to support its risk profile and outstanding commitments.
- Is adequate to implement its growth plans embedded in the Strategic plan.
- Exceeds the formal minimum regulatory capital required.
- Is capable of withstanding severe economic shocks; and
- Remains consistent with the group's strategic and operational goals, and shareholder expectations.

3.2. Regulatory capital

The main regulatory requirements to be complied with are those specified in the Financial Services Act 26 of 2010, The Reserve Bank of Malawi Directive on Capital Adequacy and related regulations, which are aligned with Basel II. Regulatory capital adequacy is measured through the following two risk-based ratios:

- **Tier 1 (core capital) ratio**: the sum of share capital, paid-up, share premium, retained profits (prior years), 60% of after-tax profit (current year-to-date) and in case of a loss, 100% and Other eligible core capital (Tier 1) capital elements as prescribed by the Registrar, less: investment in unconsolidated financial institutions.
- **Tier II (supplementary capital) ratio**: the sum of revaluation reserves, subordinated debt; and the general provisions, which have received prior approval of the Registrar.

The table below shows the capital position of the Bank as of **31st December 2023** compared to a similar period last year.

Capital Adequacy	Dec-2023 K'm	Dec-2022 K'm	Change (%)
Core Capital	96,007	132,422	-27.50%
Total Capital	150,860	143,063	5.45%
Credit Risk Weighted Assets	465,933	350,611	32.89%
Operational Risk Weighted Assets	237,545	169,951	39.77%
Market Risk Weighted Assets	29,223	12,167	140.18%
Total Risk Weighted Assets	732,701	532,728	37.54%
Risk Based capital ratio I (Basel II approach)	17.54%	17.88%	-1.90%
Total risk-weighted capital ratio (including additional capital specified)	20.29%	22.83%	-11.13%

Total Risk Weighted Assets (RWA) increased by **37.54%** from K732.70bn to K532.73bn. This change was largely attributed to an increase in the risk components especially Market Risk which increased by **140.18%.**

4. RISK APPETITE

Risk appetite is the amount and type of risk that the Bank is able and willing to accept in pursuit of its business objectives. It reflects the tolerance and willingness to accept risk. The Bank's risk appetite includes qualitative statements as well as quantitative measures expressed relative to earnings, capital, risk measures, liquidity, and other relevant measures. Qualitatively, the Bank expresses risk appetite in terms of policies, processes, procedures, statements, and controls meant to limit risks that may or may not be quantified.

4.1. Approach to setting Risk Appetite

Risk appetite across all risk types for the Bank is determined by the risk appetite statement and is apportioned to the various business units. Each business unit sub allocates its apportionment to various risk types in accordance with its business strategy. In developing the Risk Appetite Statement, the Bank's strategy and the desired balance between risk and return is taken into consideration.

4.2. Monitoring Risk Appetite

The overall responsibility for the establishment and oversight of the Bank's risk appetite rests with the Board. Senior Management maintains an appropriate system of internal controls to ensure that these risks are managed within the agreed parameters. The Board Risk Committee reviews the group's risk profile in relation to the approved risk appetite on a quarterly basis.

4.3. Bank's Performance against Risk Appetite

During the review period, the Bank was generally within the approved risk appetite limits. Some exceptions were that the Bank's Non-Performing Loans ratio went up to **11.92%** as compared to **13.75%** in December 2022. The NPL ratio was outside the risk appetite range of 3-5%. This was exacerbated by the impact of cyclone Freddy, aftermath impact of Covid-19 on hospitality industry, and rising inflation due to global supply disruptions on account of Russia/Ukraine conflict which has slowed down businesses.

5. STRESS TESTING

The Bank has a comprehensive Stress and Scenario Testing Framework which is used to assess the Bank's vulnerability to shocks of the different financial parameters. The aim of the stress test is to prepare the Bank for the worst-case scenario in the financial system as it provides the Bank with a forward-looking assessment of risks and facilitates development of mitigation or contingency plans.

5.1. Approach to Stress Testing

The Bank conducts stress tests on a quarterly basis and the results of the stress tests are submitted to the ALCO, ERCO and BRC to ensure that appropriate strategies are formulated to address the needs revealed by the stress testing.

5.2. Results of Recent Stress Testing

The Stress testing for National Bank of Malawi Plc was conducted using data for the period ending 31st December 2023 and was forward-looking. The Stress Test was aimed at assessing vulnerabilities and resilience to potential sources of shocks emanating from the following risks: Credit Risk, Market risks, Liquidity risk, Operational risks, and a combination of shocks on Tier I capital ratio (Tier I) of the Bank.

The results showed that Bank is resilient to the credit risk especially on default of large borrowers, decrease or increase in interest rate risk, devaluation of Malawi Kwacha. The Bank is resilient to most of the shocks except for NPLs and combined shocks under extreme shocks where Tier I falls below the minimum requirement. The resilience of the Bank's balance sheet emanates from a strong capital base as well as a balanced asset-liability structure and stable deposits from savings, corporate and SME deposits.

5.3. Mitigation Strategy for Exceptions

The Bank was assessed to be adequately capitalized during the period under review. On liquidity, the Bank continues to monitor the structure of the Assets and Liabilities to ensure minimal mismatch to improve the liquidity base and the number of days in which the Bank would be liquid in the event of a run-on deposits.

6. CREDIT RISK

Credit risk means the likelihood that a debtor or financial instrument issuer is unwilling or unable to pay interest and/or repay the principal according to the terms specified in a credit agreement resulting in economic loss to the Bank. The risk arises from direct lending, trade finance and leasing business, but also from off-balance sheet activities such as guarantees, letters of credit and from holding debt securities.

6.1. Approach to Managing Credit Risk

The Bank's credit risk arises mainly from wholesale and retail loans and advances. The Board of Directors has the responsibility for approving and periodically reviewing the credit risk strategy and significant credit risk policies or departures there from of the Bank as well as sanctioning facilities beyond Management's delegated limits. The Board of Directors delegates this responsibility to its Board Credit Committee.

Additionally, there is a management Credit Committee which is comprised of some members of senior management. The Credit Committee has the responsibility of implementing the credit risk strategy approved by the Board and for formulating and developing policies and procedures for identifying, measuring, monitoring, and controlling credit risk in existing as well as new products, activities, and procedures to ascertain quality of the Bank's credit portfolio.

The Committee oversees development, maintenance and review of the Group's risk grades to categorize exposures according to the degree of risk of potential financial loss and focuses management on the attendant risk. The risk grading system helps in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. Risk grades are subject to regular reviews.

The committee reviews credit concentrations vis-à-vis the Bank's capital in the form of single borrowers or counter parties, group of connected counter parties, sectors, and products to ensure aggregate credit commitments to arrest widespread losses that can arise out of close linkages and correlated factors.

A separate Credit Management Division reporting to the Chief Executive and the Board Credit Committee is responsible for oversight of the Group's overall credit risk management issues.

Each Business Unit (BU) is required to implement the Bank's credit policies and procedures, within delegated credit approval authorities. Each business unit has a Head or Manager who is accountable for all credit-related matters and reports as appropriate to the Credit Management Division or the Credit Committee through Credit Management Division. Regular audits of business units and Credit processes are undertaken by the Internal Audit Division.

6.2. Credit Risk Measurement

The Bank measures the credit risk capital requirements by applying appropriate risk weights to both on-balance sheet and off-balance sheet exposures in line with Basel II and the Guidelines on Standardized Approach to Credit Risk issued by the Reserve Bank of Malawi (RBM). The capital adequacy and return on capital levels for the individual risk categories of the Bank's portfolio are regularly monitored against the overall risk-bearing capacity of the Bank, to ensure that the Bank is, always, maintaining adequate capital to provide for its growth and to support a reasonable measure of unexpected losses.

The Bank follows IFRS 9 Expected Credit Loss (ECL) Model for all financial instruments that are subject to impairment accounting. It recognizes a loss allowance for expected credit losses on a financial asset measured at amortized cost or at fair value through other comprehensive income, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements of the Standard apply. Expected credit losses shall be an estimate of losses that the Bank expects to result from a credit event, such as a payment default. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country, and sector risk). In adopting IFRS 9 the Bank re-aligned all definitions of default and cure given by IFRS 9 to those of Basel II.

6.3. Expected Credit Loss Model and Provisioning Categories

The adoption of IFRS 9 has necessitated implementation of its classification standards which maps the credit book into three stages to reflect the general pattern of the deterioration of a financial instrument that ultimately defaults as follows:

Stage 1: This is where a 12-month expected credit loss is recognized in profit or loss and a loss allowance shall be established as soon as a financial instrument has been originated or purchased. For financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date, the loss allowance for 12month expected credit losses is maintained but updated for changes in amount. For financial assets, interest revenue is calculated on the gross carrying amount of the asset (i.e., without reduction for expected credit losses).

Stage 2: If the credit risk increases significantly and the resulting credit quality is not considered to be low credit risk, full lifetime expected losses are recognized. Lifetime expected credit losses are only recognized if the credit risk increases significantly from when the entity originates or purchases the financial instruments but does not have objective evidence of a credit loss event. Expected credit losses may be individually and/or collectively assessed. For a financial asset, interest revenue is still calculated on the gross carrying amount of the asset (same as for Stage 1).

Stage 3: If the credit risk of a financial asset increases to the point that it is considered credit impaired (that have objective evidence of impairment at the reporting date), lifetime expected credit losses continue to be recognized. For financial assets in this stage, lifetime expected credit losses will generally be individually assessed. However, interest revenue shall be calculated on the amortized cost net carrying amount (i.e., reduced for expected credit losses).

6.4. Credit Risk Monitoring

The Bank's Credit Division in collaboration with the Business Units regularly analyses default trends. These enable identification of the underlying root causes and subsequently channels recommendations to Senior Management allowing the fine-tuning of the appropriate credit scoring parameters. Similarly, risk grades of major corporate customers are used to set tolerance limits to enhance the management of excesses.

6.5. Credit Risk Mitigation

As a fundamental credit principle, the Group generally does not grant credit facilities solely based on the collateral provided. All credit facilities are granted based on the credit standing, source of repayment and debt servicing ability of the borrower. Collateral is taken whenever possible to mitigate the credit risk assumed. The value of the collateral is monitored periodically, with the frequency of valuation depending on the type, liquidity, and volatility of the collateral value. Overall, the main credit risk mitigation techniques applied by the Bank include security/collateral, netting and guarantees, all of which contribute to a reduction in the Bank's credit risk exposures.

6.6. Credit Risk Exposures

Overall credit risk was rated moderate.

Indicators	Dec-23	Dec-22	Change (%)
	K'm	K'm	
Loans and Advances	**405,860**	**310,440**	**30.74%**
Non-Performing loans	**49,858**	**43,207**	**15.39%**

As of December 31, 2023, loans and advances increased by 30.74%, rising from K310.44bn to K405.86bn. This growth was driven by higher loan uptake in sectors such as Individual/Households, Manufacturing, Energy/Electricity, Gas, Air Conditioning, Water Supply, and Transport and Storage. Total non-performing loans (NPLs) rose by 15.39%, from K43.21bn to K49.86bn. Meanwhile, the Bank's Expected Credit Losses (ECL) decreased to K8.10bn, down from K9.20bn in the corresponding period of 2022.

The Bank classifies its loans and advances according to IFRS 9 guidelines, with additional considerations for the impact of Covid-19 at various stages. The following table presents the results, factoring in the effects of Covid-19.

NBM Portfolio Provisions			Total Portfolio as at 31/12/2023 (K'm)			Total Portfolio (Covid-19) (K'm)
			Stage1	Stage2	Stage3	
Account	Current Overdraft	Exposure	58,854,008	933,344	886,887	60,674,238
		IFRS9 Provision	1,595,071	33,449	345,541	1,974,061
		Coverage Ratio (%)	0.03	0.04	0.39	0.03
	Current Non-Overdraft	Exposure	1,908,853	438,735	4,000,466	6,348,054
		IFRS9 Provision	29,794	3,894	461,304	494,992
		Coverage Ratio (%)	0.02	0.01	0.12	0.08
	Total For Accounts	Exposure	60,762,861	1,372,079	4,887,353	67,022,292
		IFRS9 Provision	1,624,865	37,343	806,845	2,469,052
		Coverage Ratio (%)	0.03	0.03	0.17	0.04
Credit Card		Exposure	763,824	7,762	0	771,586
		IFRS9 Provision	54,401	834	0	55,236
		Coverage Ratio (%)	0.07	0.11	0.00	0.07
Leases		Exposure	19,471,773	1,005,759	4,954,213	25,431,745
		IFRS9 Provision	14,332	12,274	888,979	915,586
		Coverage Ratio (%)	0.00	0.01	0.18	0.04
Loan		Exposure	196,132,603	4,222,151	33,544,085	233,898,839
		IFRS9 Provision	1,725,909	200,452	4,338,408	6,264,769
		Coverage Ratio (%)	0.01	0.05	0.13	0.03
Staff		Exposure	7,606,022	91,982	14,483	7,712,488
		IFRS9 Provision	14,462	6,430	43	20,935

	Coverage Ratio (%)	0.00	0.07	0.00	0.00
Total Portfolio	Exposure	284,737,083	6,699,733	43,400,134	334,836,950
	IFRS9 Provision	3,433,970	257,333	6,034,275	9,725,578
	Coverage Ratio (%)	0.01	0.04	0.14	0.03

7. LIQUIDITY RISK

The Bank defines Liquidity Risk as the potential for loss to the Bank arising from either its inability to meet obligations as they fall due or to fund increases in assets without incurring unacceptable costs or losses (funding or market liquidity risk).

7.1. Approach to Managing Liquidity Risk

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group has a Liquidity and Funds Management Policy that provides guidance in the management of liquidity.

The daily management of liquidity is entrusted to the Treasury and Investment Banking Division (TIBD) at Head Office. The TIBD receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The TIBD then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units are funded through deposits from customers. Any short-term fluctuations are funded through treasury activities such as inter-bank facilities, repurchase agreements and others. The TIBD monitors the compliance of all operating units of the Group with local regulatory limits daily.

The daily liquidity position is monitored, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Group and operating units. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

7.2. Regulatory Liquidity Limits

The Bank's liquidity ratio was well above both the RBM and NBM limits as of 31st December 2023. During the year, the Bank experienced an overall increase in liquidity ratio 1 to 51.05% from 47.57% as of 31st December 2022.

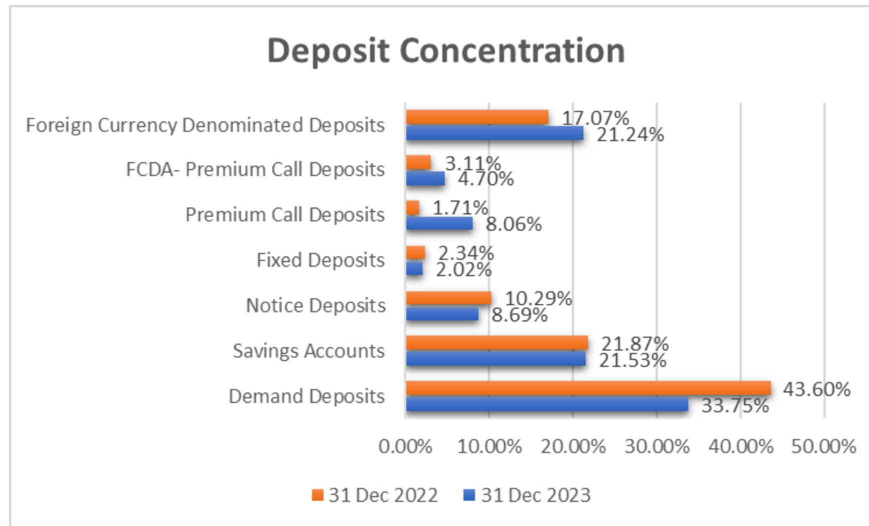
The Table below shows that the Liquidity ratios were within regulatory limit and risk appetite.

	Dec-23	Dec-22	Change (%)
Liquidity Ratio I	**51.05%**	**47.57%**	**7.32%**
RBM Limit	**25.00%**	**25.00%**	
NBM Limit	45.00%	45.00%	

7.3. Deposit Concentration

In normal times, the deposit concentration may not pose a problem and instead prove to be profitable, but in unforeseen circumstances, sudden withdrawal of funds by the category of deposits can pose a serious challenge and therefore expose the Bank to un-quantified risk.

The total deposits increased by **20%** from **K809.56bn** to **K969.41bn** as of 31st December 2023. The deposits were largely made up of Demand Deposits (33.75%), Savings Accounts (21.53%), Foreign Currency Denominated Deposits (21.24%) and the rest of the deposits accounted for 18% as depicted in the graph below.



The total Top 10 Deposits were at K149.73**bn**. The ratio of Top 10 Depositors to total deposits stood at 19.92%, which is within the set 25% threshold limit.

8. MARKET RISK

The Bank defines Market Risk as Market risk is the risk of a change in the market value, actual earnings, or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse movements in market variables such as equity, bond and commodity prices, currency exchange and interest rates and implied volatilities in all these variables.

8.1. Approach to Managing Market Risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Basel II's market risk standardized approach has pre-specified and standardized methods for all the four types of risks covered: Interest rate risk, equity risk, exchange rate risk and commodity risk. The Group's trading portfolios mainly are held by the Treasury and Investment Banking Division and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis. Overall authority for market risk is vested in ALCO. TIBD is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to day review of their implementation. The total capital set aside for market risk under the Standardized Approach was as follows.

Capital Charge	Dec-23	Dec-22	Change (%)
Foreign Exchange Risk	1,353,878	113,975	1087.87%
Equity Risk	1,568,415	1,102,750	42.23%
Market Risk	2,922,294	1,216,725	140.18%

The Bank has a comprehensive framework of limits that is used to control market risk exposures for different levels of reporting. The limits are reviewed at least annually or more frequently and adjusted when conditions of risk tolerances change. A summary of all breaches is reported to ALCO, ERCO and BRC.

9. OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology, and infrastructure, and from external factors other than credit, market, and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all the Group's operations and are faced by all business entities. The Group has an Operational Risk Management Framework that guides the management of operational risk.

9.1. Approach to Managing Operational Risk

The Group's objectives are to manage operational risk to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and avoid control procedures that restrict initiative and creativity.

The Bank measures operational risk using the Basic Indicator Approach. In using this approach, the Bank determines the gross income for 3 years and then multiplies it by a capital charge factor of 15% to determine the total operational risk capital charge.

The total capital set aside for operational risk under the Basic Indicator Approach was as follows.

Capital Charge	Dec-23 (000)	Dec-22 (000)	Change (%)
Operational Risk	237,562	169,951	39.78%

10. CONCLUSION

The Bank continues to closely monitor its core risks and ensure that they are properly mitigated. Supported by the sustained growth in retained earnings, exposures across risk types are generally assigned comfortable capital levels. Looking ahead, some fundamental changes that could potentially occur on the regulatory front over the course of the next few years would heighten prudential standards for capital requirements, leverage, liquidity, and contingent capital applicable for the banking industry. Besides, the ramifications of the weakened economic and financial environments both domestically and internationally would invariably impact the market potential of banks over the foreseeable future.