Nedbank Eswatini Limited

PILLAR III DISCLOSURES

For the year ended
31 December 2022

see money differently

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LETTER FROM CHAIRMAN OF THE BOARD

Nedbank Eswatini continued to strengthen its risk management and risk culture during the financial year 2022. The bank's Pillar 3 Disclosure Report demonstrates to regulators, investors, analysts, financial customers and the general public the robust risk management practices within the institution.

This Report is prepared to comply with the Central Bank of Eswatini's Disclosure Requirements Guideline (CBE Guideline) and to adhere to the bank's own Disclosure Policy. The bank is committed to disclose material information to all relevant stakeholders. Where compliance with the minimum required public disclosure information specified in paragraph 10 of the CBE Guideline is not sufficient to provide a true and fair presentation of the bank's financial condition, including its capital adequacy position, financial performance, business activities, risk profile, and risk and capital management practices, the bank has disclosed relevant additional information.

The quality of the information presented in this Report has been assessed and verified in accordance with internal control processes and procedures. This Report has been subjected to same level of internal review and internal control processes as are applicable for the bank's financial reporting. The quantitative and qualitative information presented herein is a true reflection of the bank's business and risk profile during the financial year ended 31 December 2022.

Nkonzo Hlatshwayo
Chairman of the Board
Nedbank Eswatini Limited

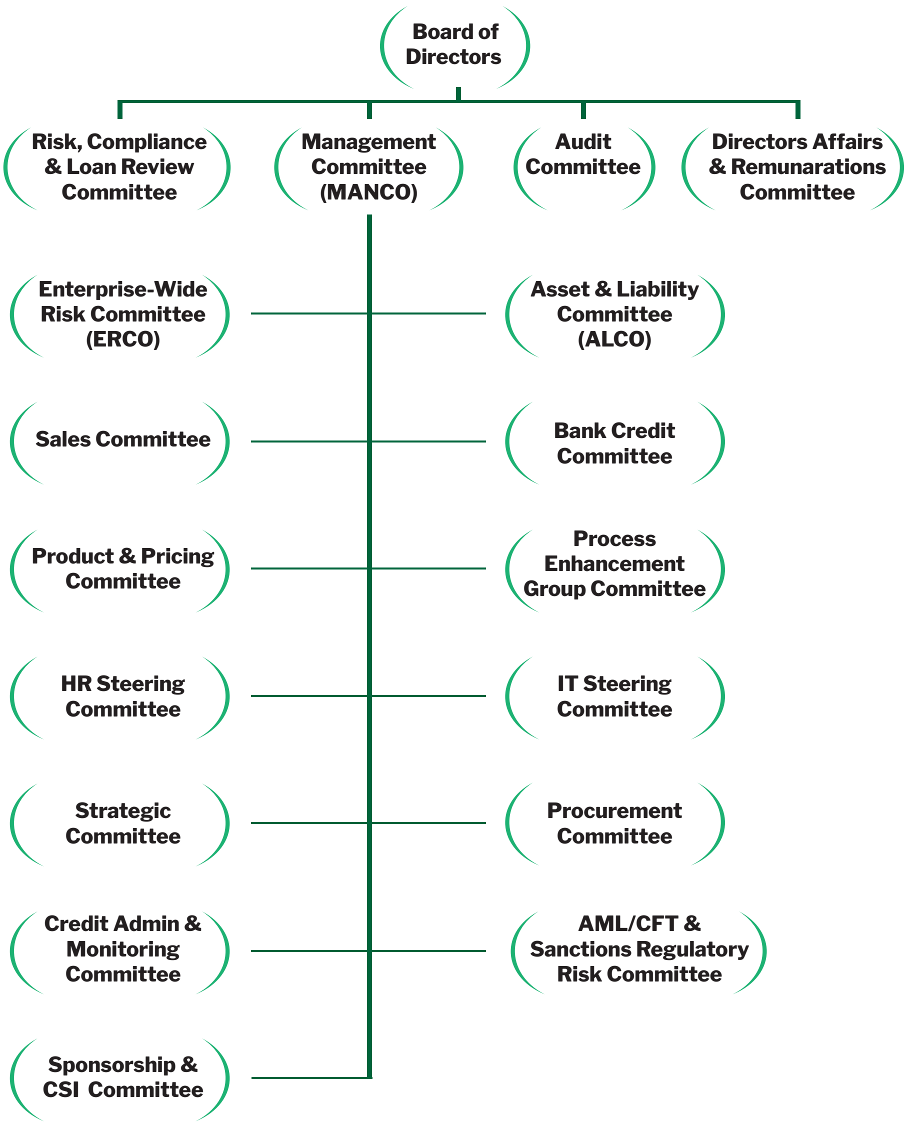
1. BASIS OF PILLAR III DISCLOSURE

Nedbank Eswatini Limited's Pillar III and public disclosure complies with the Central Bank of Eswatini's Disclosure Requirement Guideline No.2/2020 issued in terms of the Financial Institutions Act and the Basel Committee on Banking Supervision Pillar 3 disclosure requirements.

2. GOVERNANCE STRUCTURE

2.1 High-level Organogram

Nedbank has established a clearly defined risk governance process in order to embed a solid foundation for successful risk management within the Bank. The established committees are depicted in the diagram



2.2 Board of Directors

The Board is responsible for the total process of risk management in the bank including disclosures on risk management in the annual reports and financial statements. The Board sets risk appetite and ensures that appropriate frameworks, policies and systems exist to achieve the target risk profile of the bank.

Risk assessments are conducted on an on-going basis throughout the financial year. Where significant exposures that threaten the bank's objectives are identified, the Board gives due consideration and guides the bank towards remedial risk management action that will preserve the business as a going concern. The Board oversees the implementation of the Internal Capital Adequacy Assessment Process (ICAAP) to ensure that the bank's capital is sufficient to support all its risk-taking activities and to manage the bank's risk profile within the target risk profile.

2.3 Board Committees

The Board discharges its functions through three Committees, namely:

2.3.1 Audit Committee – responsible for the accounting and audit practices of the bank as well as internal control and information systems. The Audit Committee further facilitates the bank's engagements with external auditors and ensures that financial statements with respect to the affairs of the bank are of the highest integrity in line with regulatory requirements and the International Financial Reporting Standards (IFRS).

2.3.2 Risk, Compliance and Loan Review Committee – responsible for the independent risk management function within the bank. The Committee oversees the bank's Enterprise-wide Risk Committee (ERCO) and the Assets and Liabilities Committee (ALCO) whose respective responsibilities are discussed in the subsequent section. The bank's capital adequacy is the purview of this Committee.

2.3.3 Directors Affairs & Remuneration Committee – responsible for the bank's human capital related risks and the bank's overall governance practices in line with the King Code of Governance.

3. MANAGEMENT COMMITTEES

The bank's MANCO committees are depicted in the Enterprise-wide Risk Management Framework under section 4.2

4. BANK RISK MANAGEMENT APPROACH

4.1 Risk Culture

Risk culture refers to the thinking, norms of behaviour and actions around risk and risk management. Risk culture is not separate from organisational culture but reflects the influence of organisational culture on how risks are managed. Nedbank Eswatini Limited has a strong risk culture. Staff recognize the value of sound risk management practices and incorporate it as part of daily business activities. The Board of Directors and executive management set the right tone at the top. These behaviours are cascaded throughout the organisation to ensure alignment and consistency.

The bank established an Ethics Office to support correct behaviours among staff and promote the bank's desired risk culture. The bank's Forensics Unit investigates and reports misconduct or non-adherence to behavioural standards set by the bank. Staff are required to make fresh attestations annually that they are aware and understand the contents of the bank's conduct and ethics policies. Staff pledge to adhere to the defined standards at all times.

4.2 Risk Governance

Nedbank Eswatini recognizes that the success of a bank lies in its ability to effectively manage risk. The bank therefore manages risk according to a three-lines-of-defence model both as a threat and an opportunity. The Board is ultimately responsible for the bank's risk management activities. The bank's risk management frameworks, policies, and charters are subject to review annually either by MANCO (if operational) and/or Board (governance related).

The bank uses the Enterprise-wide Risk Management (ERM) Framework to manage risks across the bank. Each business unit holds an Enterprise-wide Risk Committee (ERCO), at least monthly, where risks, root causes and their mitigating controls are discussed and evaluated for their impact on business units. The business unit (BU) ERCO define what also requires escalation to the main ERCO, held quarterly. The ERCO is governed by a charter that is reviewed annually.

A risk control self-assessment (RCSA) is used to compile BU risks that can be classified into any or a combination of the 17 risks that comprise the bank's risk universe. The bank's risk escalation matrix guides assessments of the likelihood and impact of risk events across the business. All risks are assessed from both an inherent (before applying controls) and residual perspective (after applying controls). Open assurance findings form part of ERCO discussions and are tracked to resolution.

Almost certain	**LIKELIHOOD**	**5**	**5**	**10**	**15**	**20**	**25**
Likely		**4**	**4**	**8**	**12**	**16**	**20**
Possible		**3**	**3**	**6**	**9**	**12**	**15**
Unlikely		**2**	**2**	**4**	**6**	**8**	**10**
Rare		**1**	**1**	**2**	**3**	**4**	**5**
			1	**2**	**3**	**4**	**5**
			IMPACT				
			<E100k	**E100k-E400k**	**E400k-E1m**	**E1m-E2m**	**>E2m**
			Insignificant	**Low**	**Medium**	**High**	**Critical**

NEDBANK ESWATINI LIMITED ENTERPRISE-WIDE RISK MANAGEMENT FRAMEWORK (ERMF)

Risk Universe

Accounting Financial & Taxation Risk	Credit Risk	Operational Risk	Financial Crime Risk	Liquidity & Funding Risk	Capital Risk	Insurance Risk (Incl. non-banking risk)	Market Risk		Concerntrat-ion Risk	Conduct Risk	Regulatory Risk	Information Technology Risk	Business & Strategic (execution) Risk	Reputation-al Risk	Governance & Compliance Risk	Transformat-ion, Social & Environ-mental Risk	People Risk
							Trading Book	Banking Book									

Key features of the ERMF

1. The board of directors is ultimately for all risks in the Nedbank Eswatini Limited ('the bank') approval and oversight of the risk measurement and management system and setting of risk appetite
2. The ERMF provides the foundation and underpins the entire risk management structure and system of the bank (monitoring, reporting and remediation)
   a. Strong emphasis in the ERMF is placed on individual accountability and not on reliance on committees.
   b. Risk management frameworks (for all risk types) are in place.
   c. Provides a set of sub risks where relevant to each main risk category.
   d. Shows the statutory Board Committee (as required by the Financial Services Regulations and Companies Act) and their role as the final oversight and monitoring function for the bank.
   e. Depicts the structure of the Executive management committees and their roles / responsibilities for the proper efficient and effective functioning of the business.
   f. Reporting philosophy - provides a reporting structures from the business units through to the board
3. Three Lines of Defence Model - Sets out the positions the Three Lines of Defence model across the bank and the role responsibilities of each within the overall framework.
   a. Primary responsibility and accountability for the risks originating in the businesses are clearly assigned to the respective heads of department and executives.
4. The Chief Risk Officer reports to the Managing Director who has the ultimate individual accountability for risk.

1ST LINE OF DEFENCE

Board Committees

BOARD OF DIRECTORS

- Audit Committee
- Directors Affairs and Remuneration Committee
- Risk, Compliance and Loans Review Committee

Management Committees

EXECUTIVE MANAGEMENT COMMITTEE (MANCO)

MANAGEMENT COMMITTEE MEETING (MANCO)

- Assets and Liabilities Committee (ALCO)
- Process Enhancement Group (PEGS)
- Product and Pricing Committee
- Information Steering Committee (ITSCO)
- Human Resources (HR) Committee
- Procurement Committee
- Sponsorship & Corporate Social Investment Committee
- Sales Committee
- Eswatini Credit Committee
- Eswatini Monitoring Credit Administration and Monitoring (CRAM)
- Enterprise-wide Risk Committee (ERCO)
- Anti-Money Laundering (AML)/ Combating Financing of Terrorism (CFT) , and Sanctions & Regulatory Risk Committee
- Strategic Committee (StratCom)

Central Functions

- FINANCE AND TREASURY
- SHARED SERVICES
- OPERATIONS (MARKETING, COMMUNICATIONS AND STRATEGY)
- HUMAN RESOURCES
- RETAIL
- CORPORATE, WHOLESALE AND BUSINESS BANKING

2ND LINE OF DEFENCE

Central Functions

RISK

- Company Secretariat and Legal
- Compliance
- AML/CFT, Sanctions and Regulatory Risk Monitoring ← High Risk Client Committee
- Enterprise Risk Management

3RD LINE OF DEFENCE

Central Functions

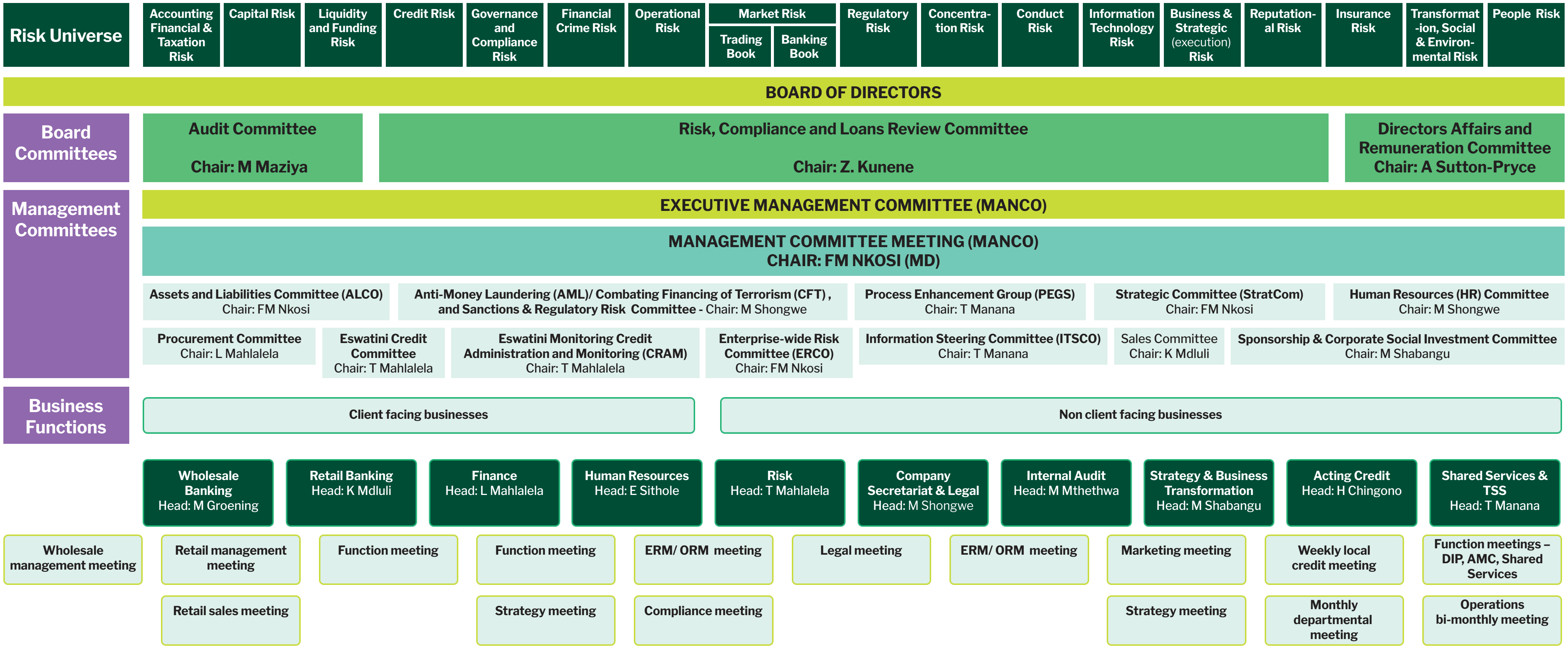
- SWAZILAND AND GROUP INTERNAL AUDIT
- EXTERNAL AUDIT
- OTHER ASSURANCE FUNCTIONS
- INDEPENDENT ACTUARIES

4.3 Board of Directors ERM Responsibilities

The Board oversight on the bank's risk universe is depicted below:

Board Committee	#	Risk Universe (Risk Types)
Audit Committee	1	Accounting, Financial and Taxation Risks
Risk, Compliance and Loan Review Committee (RCLRC)	2	Credit Risk
	3	Concentration Risk (Credit)
	3	Concentration Risk (Other)
	4	Financial Crime Risks
	5	Liquidity & Funding Risks
	6	Capital Risk
	7	Market Risks
	8	Regulatory Risk
	9	Conduct Risk
	10	Insurance risk
	11	Liquidity & Funding Risks
	12	Business (incl. Country) & Strategic Execution Risks
	13	Information Technology Risk
	14	Governance and Compliance Risks
	15	Reputational Risk
	16	Transformation, Social and Environmental Risks
Directors' Affairs and Remuneration Committee (REMCO)	17	People Risk

BOARD OVERSIGHT ON ENTERPRISE-WIDE RISK MANAGEMENT FRAMEWORK



4.4 Reporting to the Board

Reports to the Board are prepared comprehensively, aligning to the Board reporting matrix and Board Committee mandates. Reporting is informed by internal data as well as data collected through international research bodies eg Risk Institute, external audit firms, Operational Risk data eXchange Association (ORX) etc. Reportable items to the Board include matters referred for approval, enterprise risk universe, latest financial management accounts, assurance reports and key issues arising from published reports, compliance and regulatory issues, AML/CFT and sanctions status, people issues, liquidity and capital management, IT and projects, etc. The Board deliberates on the underlying risk exposures and mitigating controls pursued by business to ensure that the bank continues to operate within its desired risk appetite.

4.5 Risk Appetite

Risk appetite is an articulation and allocation of the risk capacity or quantum of risk the bank is willing to accept in pursuit of its strategy, duly set and monitored by MANCO and the Board, and integrated into our strategy, business, risk and capital plans.

Nedbank Eswatini Limited has cultivated a strong risk culture and embedded a prudent and conservative risk appetite in delivering its solutions to clients. The bank's Risk Appetite Framework (RAF) and Policy support business strategies to achieve the bank's vision. Dedicated Board and MANCO committees continuously track the risk profile of the bank against appetite metrics to ensure risk management strategies are accordingly formulated and implemented.

Nedbank Eswatini has a cascading system of risk appetite targets and limits at all levels of the bank and for all financial risks, which is a core component of the implementation of the RAF. The size of the various targets and limits is a direct reflection of the board's risk appetite, given the business cycle, market environment, business plans and strategy, and capital planning. The suite of base-case risk appetite metrics are incorporated into the business plans at both bank and business units levels. Stressed (extreme event) risk appetite limits for the point-in-time (PIT) risk appetite metrics have been defined, adopted and linked to the Nedbank Eswatini's stress and scenario testing program.

Qualitatively, the bank also expresses risk appetite in terms of policies, processes, procedures, statements and controls meant to limit risks that may or may not be quantifiable. Policies, processes and procedures relating to governance, effective risk management, adequate capital and internal control have board and senior management oversight and are governed by the bank's three lines of defence. A key component of the ERMF is a comprehensive set of board-approved risk policies and procedures, which are updated as necessary or annually. The co-ordination and maintenance of this formal process rests with the Risk department.

4.6 Conclusion

In conclusion, Nedbank Eswatini Limited has a strong risk culture and a conservative risk appetite, which is well-formalised, managed and monitored on an ongoing basis, bearing in mind the board's ultimate approval and oversight. The bank's risk assessment methodologies and capabilities continue to evolve. Climate risk is a topical issue for the bank now. The bank is evaluating its role in climate change by considering the extent of its involvement in certain industries with high environmental impact. Nedbank has aligned to global accords driving responsible climate management and has strategically scoped in progressive reduction of funding industries deemed to be pollutants. In this regard, the Board has adopted an Energy policy which defines the bank's approach.

5. SCENARIOS AND STRESS TESTING

Nedbank Eswatini Stress Testing Framework leverages the Nedbank Group Stress and Scenario Testing Framework. Deviations in risk factors due to in-country idiosyncrasies are quantified to the bank's best estimate through the various stress scenarios to determine adequacy of capital.

5.1 Stress Testing Process

The stress testing model is utilised to stress test regulatory (Basel III) capital for different macroeconomic stress scenarios. The stress testing model requires the base case income statement, capital projections (qualifying and required), credit parameters as well as the likelihood of the stressed scenario expressed as a 1-in-N year event.

The stress testing model produces the following outputs:

- o Stressed projections of regulatory capital requirements, per risk type
- o Stressed income statement projections
- o Stressed available capital resources (regulatory) and capital adequacy ratio projections

The following table summarizes the risk types and the items affected by them in a stress scenario:

Area	Item	Credit	Business	Comment	Influencing factor
Required Capital	Regulatory capital	✓		Stressed using credit growth since Eswatini's portfolio are on Standardised approach.	Credit growth
Income Statement	NII		✓	Stressed based on credit growth expectation. Growth being lower than expected will result in NII and NIR being lower than expected.	Credit growth
	NIR		✓		Credit growth
	Impairments	✓		Stressed using default rate and PIT LGD.	Mc (DR and PIT LGD)
Credit Parameters	Default rate	✓		Stressed using Mc (Credit state of the world)	Mc
	Point-in-time LGD	✓		Stressed using Mc (Credit state of the world)	Mc
	Exposure At Default EAD	✓		Stressed based on credit growth.	Credit growth

5.2 Management Intervention

Stress test results incorporate the impact of plausible management interventions in response to an obtaining stress event. Such management interventions include reducing expenses and project spend, reducing business growth (credit exposure), Cutting dividends, deleveraging the balance sheet, and/or raising of capital through a rights issue.

The bank's Recovery Plan (RP) provides a clear framework to identify potential severe financial stress. The RP prescribes appropriate actions to be undertaken by the bank's management in response to a capital, liquidity or business continuity crisis. These actions may include the use of facilities or the disposal of liquid and marketable assets, business lines, significant assets or books of assets.

5.3 Stress testing scenarios for the financial year 2022

The 2022 stress testing scenarios were based on the bank's 3-year business plan with data as at 31 December 2022 taken as the base-case/expected scenario for the 2022 ICAAP. The stress testing was conducted during the month of February 2023. The bank continued to include the effects of the Covid-19 on its 3-year plan ending 31 December 2025 with the view that Africa was still recovering from the socio-economic repercussions of the health pandemic. The Russia-Ukraine conflict poses another major threat to the global economy with many African countries being directly affected.

The table below summarises the 2022 scenarios:

Key assumptions		
Expected scenario	**Stagflation scenario**	**Severe stress structural stagnation scenario**
• This scenario assumes strong global growth led by developed economies, as the world economy recovers from a COVID-19 induced recession. The reopening of global economies and restoration supply chains, leading to higher exports and consumer demand. The global upswing helps to resolve fiscal difficulties, reducing the constraints on governments and boosting confidence across the developed world. Growth in developing countries accelerates, helped by growing domestic markets. • Higher inflation, caused by increasing commodities prices, and the release of global pent-up demand sees interest rates increasing. • In Eswatini, government continues efforts to reduce supplier arrears and implement government procurement reforms to improve confidence in fiscal expenditure. • COVID-19 inoculations progress as scheduled with all high-risk groups receiving vaccinations by year end of 2022.	**External Price Shock** Cost-push inflationary cycle evolves, with second-round effects amplified by the country's skewed power balance, network monopolies, labour market rigidities and increasingly concentrated markets. This keeps inflation high despite a shrinking economy. **Sharply tighter monetary policy** Interest rates increase sharply not only to counter cost-push pressure but to offset rising inflation expectations, wage pressures, increased pass-through, loose fiscal policies, and rising country risk premia. **Poor fiscal policy choices** Budget deficits widen to increasingly unsustainable levels. Rising social support, surging debt service costs and wasteful infrastructure spending. SA heading rapidly towards a fiscal cliff.	**Increasingly inefficient and dysfunctional economic structure** • Capacity constraints in energy, rail, road, port, ICT worsen • Poor educational outcomes continue to exacerbate unemployment & inequality • Labour market rigidities intensify, but fails to translate into higher wages due to fading profitability **Easier monetary policies** Interest rates decline despite pressure on capital inflows, currency weakness and rising risk premia. Exceptionally weak domestic demand contains price pressures despite persistent external & internal shocks **Poor fiscal policy choices** Budget deficit steady but unsustainable. Left-leaning policies worsen the composition of government spending, but rapid decline in tax revenue limit scope for aggressive stimulus.

	GDP contracts – start a prolonged recession	GDP contracts – start a prolonged recession
Consequences		
Expected scenario	Key assumptions	Adverse scenario
Economic growth: Eswatini's economy picks up in 2022. There are modest employment gains, which allow a more compelling recovery in disposable income growth and therefore consumer spending. Capital formation remains relatively modest in 2022, dominated mainly by increased capital expenditure by the public sector on economic and social infrastructure, and a recovery in output from sectors that had been negatively affected by the COVID-19 pandemic. **Credit growth and bad debts:** The recovery in credit remains relatively moderate in the short term but picks up in the later part of 2022 and throughout 2023 as business outlook improves, prompting a resumption of stalled capital projects. Bank credit loss ratios improve from 2021 levels. The world economy grows significantly, driven by global inoculations and restored business operations.		

6. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

6.1 Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

The table below depicts differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories.

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation		Carrying values of items:			
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Subject to the market risk framework
Assets							
Cash and cash equivalents	1 188 628	97 110	97 109	-	-	-	-
Government and public sector securities	1 246 768	1 246 768	97 109	-	-	1 246 768	-
Derivative assets held for risk management	19 090	19 090	19 090	-	-	-	-
Amounts due from other banks	36 496	972 524	972 524	-	-	-	-
Investements	12 879	131 873	-	-	-	131 873	-
Loans and advances to customers	3 545 598	3 545 337	3 859 065	-	-	-	(46 384)
Other receivables	6 639	43 396	43 396	-	-	-	-
Deferred tax asset	88 502	88 502	-	-	-	-	88 502
Property and equipment	45 836	45 836	45 836	-	-	-	-
Intangible assets	61	61	-	-	-	-	61
Total Assets	6 190 497	6 190 497	5 037 020	-	-	1 378 641	42
Liabilities							
Share capital	12 305	12 305	-	-	-	-	-
Share premium and reserves	980 036	980 036	-	-	-	-	-
Total equity attributable to equity holders of the bank	**992 341**	**992 341**	-	-	-	-	-
Funding from other banks	12 305	12 305	-	-	-	-	-
Derivative liabilities held for risk management	18 744	18 744	-	-	-	-	-
Deposits from banks	5 731	119 898	-	-	-	-	-
Deposits from customers	4 830 136	4 821 985	-	-	-	-	-
Current tax liabilities	5 350	5 350	-	-	-	-	-
Deferred tax Liability	10 696	10 696	-	-	-	-	-
Other Liabilities	221 482	221 483	-	-	-	-	-
Total liabilities	6 190 497	6 190 497	-	-	-	-	-

6.2 Main sources of differences between regulatory exposure amounts and carrying values in financial statements

Credit risk

Cash, including certificates of deposit collateral are adjusted in the exposure amounts for credit risk mitigation purposes. The bank has adopted IFRS 9 for maintaining provisions against loans and other assets but still adheres to CBE's circular 8' required provisions.

Market risk

Derivative financial instruments at fair-value instruments are included in the market risk regulatory exposure amounts.

Capital

Portfolio impairments (general provisions) are included as part of tier 11 capital. Goodwill and other intangibles and Deferred tax assets are deducted from Gross Common Equity Tier 1.

The table below depicts the main sources of differences between regulatory exposure amounts and carrying values in financial statements.

		(a)	(b)	(c)	(d)	(e)
		Total		Items subject to:		
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	6 415 661	5 037 020	-	-	1 378 641
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	**Total net amount under regulatory scope of consolidation**	6 415 661	5 037 020	-	-	1 378 641
4	Off-balance sheet amounts	1 215 399	582 441	-	-	632 958
5	*Differences in valuations*	972 524	972 524	-	-	13 494
6	*Differences due to different netting rules, other than those already included in row 2*	-	-	-	-	-
7	*Differences due to consideration of provisions*	(313 728)	3 545 337	-	-	(46 384)
8	*Differences due to prudential filters*	(88 563)	43 396	-	-	-
9						
10	**Exposure amounts considered for regulatory purposes**	7 242 262	5 619 461	-	-	2 025 092

7. CREDIT RISK MANAGEMENT

Credit risk is managed through the bank's credit policies which set out high-level credit principles, standards and responsibilities, in line with the Enterprise-wide Risk Management Framework and the Credit Risk Framework.

7.1 Credit Risk Controls

The bank's Credit department is responsible for all credit assessments, credit management and monitoring activities of the existing book.

A Credit Review Team was established by Nedbank Africa Regions (NAR) Credit to scrutinize the level of credit assessment and credit management within the bank. This process is complementary to the bank's existing audit process.

The Risk and Compliance functions serve as second line of defence and conduct ad-hoc reviews. The Chief Risk Officer sits in the Credit committee and maintains line of sight on the credit activities of the bank.
The Credit department is also subjected to internal and external audit reviews on an annual basis.

7.2 Reporting

The Board has ultimate responsibility for ensuring that the Bank's credit risk is managed adequately and effectively. In discharging its responsibilities, the Board plays a critical role in overseeing the credit-granting and credit-risk-management functions of the bank.

The Board periodically reviews the credit strategy, credit risk management policies and methodologies (including credit rating models), the underlying credit risk management and reporting process of the bank as a whole, including the bank's tolerance or appetite for credit risk, and the level of profitability the Board expects to achieve from incurring various credit risks.

The Credit department reports quarterly to the Board and monthly to MANCO. Reporting covers the bank's total credit risk exposure during the period, the quality of the book as well as the operational issues impacting the environment.

8. CREDIT RISK MITIGATION

8.1 Credit risk mitigation techniques overview

During the period under review, there were significant downgrades of overdrafts noted which are unsecured accounts. The increase was as a result of the clients under the small-scale guarantee that increased funds under cash cover to improve on the security of the facilities.

		(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Exposures unsecured: carrying amount	**Exposures secured by collateral**	**Exposures secured by collateral, of which: secured amount**	**Exposures secured by financial guarantees**	**Exposures secured by financial guarantees, of which: secured amount**	**Exposures secured by credit derivatives**	**Exposures secured by credit**
1	Loans	1 281 651	2 510 278	2 510 278	10 732	8 900	-	-
2	Debt Securities	-	-	-	-	-	-	-
3	**Total**	1 281 651	2 510 278	2 510 278	10 732	8 900	-	-
4	Of which defaulted	108 049	215 774	215 774	6 814	5 406	-	-

8.1.1 Credit Quality of Assets as at 31 December 2022

The bank noted an increase in impairments during the period because of significant downgrades. The significant downgrades were noted across products such as business loans, asset-based finance, and overdrafts, where the affected clients were coping with delayed payments from their respective customers as well as proceeds of sale of properties to adjust the arrears position.

		(a)	(b)	(c)	(d)
		Gross carrying values of			Net values
		Defaulted exposures	Non-defaulted exposures	Allowances / impairments	(a+b-c)
1	Loans	330 637	3 528 428	246 331	3 612 734
2	Debt Securities				
3	Off-balance sheet exposures		582 441	8 900	577 773
4	***Total***	330 637	4 110 869	250 999	4 190 507

8.1.2 Changes in stock of defaulted loans and debt securities

The increase in impairments is because of significant downgrades in the reporting period. The significant downgrades were noted across products such as business loans, asset-based finance, and overdrafts, where the affected clients are awaiting payments from their customers as well as proceeds of sale of properties to adjust the arrears position. The notable increase on the returned to non-defaulted status facilities was because of significant upgrades made in the period which included, one corporate client which was upgraded after consistent deposits in the last 6 months, two Small Medium Enterprises (SME) clients which cleared arrears through sale of property.

		(a)
1	Defaulted loans and debt securities at end of the previous reporting period	338 739
3	Loans and debt securities that have defaulted since the last reporting period	58 404
1	Returned to non-defaulted status	58 404
3	Amounts written off	3 808
1	Other changes (Balancing amount)	(6 107)
3	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**330 637**

8.1.3 Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

The credit risk weighted assets balance for the period ending 31 December 2022 reflected a 2% decline from June 2022 position attributable to the following.

- Off balance sheet; committed undrawn facilities and guarantees balances increased by E67 - 18% and E41m - 40% respectively from the June 2022 position.
- Total Overdrafts balance went down by E58m - 10% and a new guarantee instrument amounting to E62m was issued to an individual client in the Construction sector in the second half of 2022.

	(a)	(b)	(c)	(d)	(e)	(f)
	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Assets classes	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
Sovereigns and their central banks	414 910	-	414 910	-	-	-
Non-central government public sector entities	135 646	-	115 775	-	-	1
Multilateral development banks	-	-	-	-	-	-
Banks	557 614	-	557 614	-	557 614	1
Securities firms	-	-	-	-	-	-
Corporates	1 470 929	582 441	1 327 936	363 763	1 327 936	1
Regulatory retail portfolios	387 450	-	363 967	-	272 975	1
Secured by residential property	1 298 831	-	1 298 831	-	649 416	1
Secured by commercial real estate	235 572	-	235 572	-	235 572	1
Equity	-	-	-	-	-	-
Past-due loans	330 637	-	330 637	-	568 293	2
Higher-risk categories	-	-	-	-	-	-
Other assets	71 827	-	71 827	-	71 827	1
Total	**4 903 416**	**582 441**	**4 717 069**	**363 763**	**3 799 408**	1

8.1.4 Standardised approach – exposures by asset classes and risk weights

The bank noted an increase in impairments during the period because of significant downgrades. The significant downgrades were noted across products such as business loans, asset-based finance, and overdrafts, where the affected clients were coping with delayed payments from their respective customers as well as proceeds of sale of properties to adjust the arrears position.

- Sovereigns and their central banks (0% risk weight); this line went up attributable to deposits held with CBE which increased by E131m from the June 2022 position of E284m as a results of clients' transactional demands.
- Corporates and banks (100% risk weight); commercial mortgage loans and due to banks other foreign countries balances have increased by 30% - E54m and 10% - E81m respectively

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
	Risk Weight	-	0.10	0.20	0.35	0.50	0.75	1.00	1.50	Others	Total credit exposures amount (post CCF and post-CRM)
Assets classes											
Sovereigns and their central banks		414 910	-	-	-	-	-	-	-	-	**414 910**
Non-central government public sector entities (PSEs)		-	-	-	-	-	-	115 775	-	-	**115 775**
Non-central government public sector entities (PSEs)		-	-	-	-	-	-	-	-	-	**-**
Banks		-	-	-	-	-	-	557 614	-	-	**557 614**
Securities Firms		-	-	-	-	-	-	-	-	-	**-**
Corporates		-	-	-	-	-	218 678	1 473 020	-	-	**1 691 698**
Regulations retail portfolios		-	-	-	-	-	363 967	-	-	-	**363 967**
Secured by residential property		-	-	-	-	1 298 831	-	-	-	-	**1 298 831**
Secured by commercial real estate		-	-	-	-	-	-	235 571	-	-	**235 571**
Equity		-	-	-	-	-	-	-	-	-	**-**
Past due loans		-	-	-	-	19 283	-	178 214	133 140	-	**330 637**
Higher risk categories		-	-	-	-	-	-	-	-	-	**-**
Other Assets		-	-	-	-	-	-	71 827	-	-	**-**
Total		**414 910**	**-**	**-**	**-**	**1 318 114**	**582 645**	**2 632 021**	**133 140**	**-**	**5 080 831**

8.2 Collateral evaluation and management

The bank has policies and processes that have been put in place for the evaluation and management of risk mitigation techniques i.e., securities or collateral. The establishment of securities or collateral is negotiated to protect the interests of the bank's stakeholders against the effect of unforeseen circumstances. The primary consideration in the assessment of lending opportunities remains the borrower's capacity and willingness to repay from their own resources and cash flows.

8.3 Market and credit risk concentrations

The bank has a risk participation agreement with Nedbank Group to cushion any losses as a result of concentration risk per individual client. The agreement allows for risk participation by Group whereby exposures are above 25% of the bank's unimpaired capital are, i.e. Group shares in the risk relating to those facilities granted.

9. MARKET RISK

The bank's Market Risk Framework covers the market risks in the banking book. The bank does not hold any assets in a Trading Book.

The governance of the Market Risk Framework is aligned with the principles set out in the Enterprise-wide risk management framework and policy. The board retains ultimate responsibility for the Market Risk framework. The risk strategies pursued by the bank for the different categories of market risks are discussed in turn below.

9.1 Interest rate risk

The Interest Rate Risk Management Policy outlines the bank's approach to identifying, assessing managing, monitoring, controlling and reporting interest rate risk in the banking book (IRRBB) within the business. At a minimum, the bank measures interest rate risks through sensitivity analyses of forecasted Net Interest Income (NII) to calculate re-pricing risk, basis risk and yield curve risk where appropriate. This process involves making behavioural assumptions relating to business volume, business growth and product mix. Sensitivity is tested at least at base, high and low scenarios. Business operates within limits set by ALCO and the Board. The bank's management of IRRBB is described in greater detail below in section 10.

9.2 Property Risk

The bank performs analytical assessments of property purchases, leases, and sales to ensure fair presentation to the business Management Committee (MANCO) and the Board to enable appropriate and informed decision-making. Key risk indicators include the value of the bank's property portfolio as well as the concentration profile. The bank was exposed to minimal property market risk during the period as the acquisition and selling of property is not part of its BAU activities.

The bank monitors the value of its properties (excluding properties in possession) against internal limits and ensures that depreciation and impairment methods are consistent with the bank's accounting policy, International Financial Reporting Standards (IFRS) and the Income Tax Order, 1975. The bank observes the limits placed on banks by the regulatory authorities in terms of sections 58, 59 and 60 of the Financial Institutions Act, 2005.

9.3 Foreign Exchange Risk

The bank hedges foreign exchange (FX) transactions by concluding large trades on a back-to-back basis with Nedbank Group and ensuring that residual foreign exchange positions are within Board and ALCO Net Open Position limits. Treasury risk middle office monitors the currency translation exposure as a key risk indicator. The bank conducts daily FX sensitivity stress tests on its portfolio across all foreign currency exposures. Further, the bank utilizes Historical Simulation Value at Risk (VaR) measures on its FX portfolio. All business units within the bank that have foreign currency cash flow commitments or receivables compile details of their foreign currency commitments and receivables and propose hedges for the same. Documentation with respect to foreign currency cash flows is assessed for completeness and compliance with IFRS standards, exchange control regulations and the bank's overall hedging strategy. Treasury reports on the bank's hedging activities to ALCO on an ongoing basis. The bank does not take speculative foreign currency positions. Foreign currency exposures are managed to be commensurate with client demand.

9.4 Liquidity and Funding Risk

The bank strives to meet the liquidity preferences of the bank's customers and to meet regulatory and internal liquidity risk limits. The bank's principle is to fully comply with regulatory requirements in terms of liquidity and funding risk. The bank's risk strategy for managing liquidity risk flows from the bank's Market Risk Framework and includes the monitoring of various qualitative (e.g. relationships with depositors and regulators) as well as quantitative metrics including liquidity ratios, maturity mismatches, volume, survival horizons and nature of liquid assets. The bank observes Board approved liquidity limits that are monitored daily.

The Board and senior management ensure that the bank has sufficient liquidity to meet its obligations as they fall due. The Board and senior management ensure that the resources allocated to the management of liquidity risk as well as the formality and sophistication of the risk management processes, procedures and internal controls are appropriate given the risk profile, strategic business plan, nature and complexity of the business undertaken by the bank.

The bank's liquidity strategies are designed to enable the bank to assess, measure and actively manage liquidity risk in business-as-usual and under stress liquidity conditions. The bank's scenario analysis and stress testing cover both bank specific stress events as well as market shocks. Scenario analysis and stress testing assist the bank's management to plan for crisis avoidance or reduce crisis severity where adverse liquidity scenarios have materialized.

The bank's approach to stress testing includes making assumptions about asset market illiquidity and erosion in the value of liquid assets, FX convertibility, identification of assets that can be liquidated at short notice, the ability to transfer liquidity across entities, sectors and borders pursuant to legal, regulatory, operational and time zone restrictions and constraints.

The bank's Liquidity and Funding Risk Management Policy provides for a Liquidity Risk Contingency Plan (LCRP). The LRCP is fully integrated into the bank's Recovery Plan (RP) which sets out a clear framework for dealing with stresses associated with a severe shortfall in liquidity, capital and significant operational failures. The LRCP and the RP were formulated in accordance with the bank's belief that early detection, advance preparations and prompt responses can contribute to liquidity crisis avoidance or minimisation.

The LRCP guides the bank towards the best possible actions to take to avert or address a liquidity event. A liquidity event can be triggered within the bank (internally) or without (externally). Examples of internal triggers include a breach of liquidity risk limits or guidelines, an increase in cost of funds or a material decline in the value of the bank's investment portfolios. External trigger events include adverse market rumours about the bank, a decline in market liquidity of tradeable securities or significant systemic disturbances. The preceding examples do not constitute a liquidity event in and of themselves respectively or in any combination. An invocation of the LRCP is at the discretion of senior management.

Internal communications to the Board, ALCO and other key managers within the bank are promptly disbursed in instances where a liquidity event culminates in the invocation of the LRCP. The bank apprises the Central Bank of Eswatini (CBE) of any liquidity event that leads to the bank invoking its LRCP.

9.5 Equity Risk

The bank does not take up equity positions as part of its day-to-day business. The only equity exposure in bank's books is an investment into a local parastatal established to foster industrial development in Eswatini. The exposure is relatively stable as the domestic equity market is shallow and illiquid. Price discovery is hence inefficient.

9.6 Market Risk Under Standardised Approach as at 31 December 2022

The bank operates one Treasury desk under the Standardised Approach that trades foreign currency and money market instruments only. The bank provides in the table below components of the capital charge under the Standardised Approach for market risk. The bank's capital charge from June 2022 to December 2022 decreased by 20% due to the bank decreasing its exposure to interest rate instruments denominated in the South African Rand currency. Market risk exposure was within bank appetite throughout the calendar year ended 31 December 2022.

		Dec-22	June-22
		Capital charge in SA	Capital charge in SA
1	General interest rate risk	16 751	21 931
2	Equity risk	60	60
3	Commodity risk	-	-
4	Foreign exchange risk	1 349	886
5	Credit spread risk – non-securitisations	-	-
6	Credit spread risk – securitisations (non-correlation trading portfolio)	-	-
7	Credit spread risk – securitisations (correlation trading portfolio)	-	-
8	Default risk – non-securitisations	-	-
9	Default risk – securitisations (non-correlation trading portfolio)	-	-
10	Default risk – securitisations (correlation trading portfolio)	-	-
11	Residual risk add-on	-	-
12	**Total**	**18 161**	**22 877**

10. INTEREST RATE RISK IN THE BANKING BOOK

The bank defines interest rate risk in the banking book as the risk that a bank's earnings or economic value will change as a result of changes in interest rates. The sources of interest rate risk in the banking book are:

- Repricing risk (mismatch risk): timing differences in the maturity (for fixed-rate) and repricing (for floating-rate) of bank assets, liabilities, and off-balance sheet positions.
- Endowment risk: the net mismatch between non-rate-sensitive assets, liabilities, capital and non-repricing transactional deposit accounts effectively invested in rate-sensitive assets.
- Basis risk: imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar repricing characteristics.
- Yield curve risk: changes in the shape and slope of the yield curve.
- Embedded options risk: the risk pertaining to interest-related options embedded in bank products.

The bank actively monitors interest rate risk in accordance with the Interest Rate Risk Management Policy which sets out the key principles for managing interest rate risk in the banking book (IRRBB) within the bank. The policy guides the bank to achieve an advantageous balance between risk and reward in line with regulations and industry best practice.

The bank conducts interest rate sensitivity analyses across various small and large tenor buckets against approved limits. The sensitivity measure used by the bank is the PV01 measure which calculates how the value of the portfolio changes from a one basis point increase in the interest rate. This analysis forms part of the Market Risk Report that is circulated to senior management daily.

10.1 Interest rate risk in the banking book at 31 December 2022

In reporting currency	ΔEVE		ΔNII	
	December 2022	December 2021	December 2022	December 2021
Parallel down	8 075	7 519	(20 538)	(18 701)
Steepener	-	-	60	60
Flattener	-	-	-	-
Short rate up	-	-	(962)	(1 811)
Short rate down	-	-	-	-
Maximum	-	-	-	-
Period	December 2022		December 2021	
Tier 1 capital	903 088		862 992	

- A 100bps parallel shift decline in interest rates projected over a period of 12 months would result in NII reducing by E20.5m, an adverse position from the previous period's E18.7m as a result of E213m current account liabilities shifting to the non-rate sensitive class and average term Deposits balances decreasing by 54% - E338m.
- Based on 25bps basis shift call/overnight rates increase NII would decrease by E962k an improvement from the previous position of E1.8m as a results of average Call deposits balances decreasing by 13.5% - E312m
- A 100bps downside parallel shift in rates would lead to an EVE change of E8.1m, an adverse position from the previous year's E11.3m mainly due to average Wholesale Fixed Deposits balance increasing by E372m - 60%. E25