

Enterprise Risk Management

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During the financial year 2022/23, the Enterprise Risk Management (ERM) function of the Bank continued with the implementation of the ERM strategy as informed by the corporate strategy. The focus was to address all the issues that compromise the effectiveness of the ERM function in ensuring efficiencies and effective delivery of the CBE's mandate.

A momentous achievement of level 5 maturity level was attained in the self-assessment tool prescribed by the International Operational Risk Working

Group (IORWG). Significant progress was recorded in four of the aspects considered for the ERM Maturity assessment, Risk Management Process, Risk Reporting, Risk Culture as well as Scope and Outcome. There is still room for improvement in the Risk Organisation aspect which addresses the level of involvement and ownership of risks by all role owners. The approach adopted by the Bank to facilitate the evolution from one level to the other has been considered for the 3 factors depicted below.

Defined Desired Maturity Level

Commitment through Risk KPI and Continuous Monitoring of adherence to Risk Appetite & Tolerance Levels

Closing Gaps

Focus on actions that will yield desired results , capacity being key consideration

Intergration

Embedding Risk into decision-making and day-to-day processes

Material Matters

The Bank identified external and internal factors that can substantively affect its ability to create value over the short, medium, and long terms. These positive and/or negative conditions posed by the operating environment and considered as threats and opportunities to the Bank's objectives, inform the CBE's risk landscape. The graphic on the next page outlines the critical factors for 2022/23.

Material Matters



Strategic Risks

For the financial year 2022/23, 48 per cent (13 of the 27) risks identified to have the potential of affecting the strategic objectives had an exposure level above the set appetite levels. These were mitigated through specific mitigation plans (process and project-based) and none of these materialised or caused significant major incidents.

Objectives

- Cultivate sustained healthy relationships and build strong influence in our ecosystem.
- Transform the Bank to be effective and efficient in an increasingly digital ecosystem.
- Deliver a dynamic organisation that is efficient, coordinated and responsive.

Top 13 Risks

Risks	Mitigation
1. Inadequate reserves	- Introduced FX Deposit Facility - Optimised IMF SDR allocation
2. Inability to build resilience, respond and recover from cyber attacks	Implemented Cyber Resilient Framework including a Cyber Threats monitoring tool
3. Inability to meet Government funding demands	Obtained approval of JSE listing
4. Failure to effectively implement and comply with the FAFT standards	Pursuing full implementation of ESAAMLG Report recommendation collaboration with all stakeholders
5. Inability to anticipate threats / opportunities and effectively manage and recover from crisis or disaster	Implemented initiatives to improve ERM and BCM maturity levels including review of outdated / development of new policies and frameworks. Review of BCPs / DRPs still ongoing
6. Weak influence in the Bank's ecosystem / compromised independence of the Bank	- Developed and implemented stakeholder engagement plan - Implemented the influence the ecosystem project
7. Ineffective change leadership and low levels of readiness for change	Implemented change management strategic project
8. Low / Damage / Abuse of the Bank's tangible and intangible assets	- Established working relations with national security forces - Harmonised and periodically communicated Code of Conduct for all employees
9. Failure to transform the Bank to effectively respond to and adapt to the increasingly digital ecosystem.	Implementing Digital Transformation Strategy and IT Optimisation projects
10. Misaligned / inappropriately resourced projects	- Developed project prioritisation model - Implemented project portfolio management project
11. Inefficient supply chain	- Implementing e-sourcing portal - Improved Supplier Database and Contracts management
12. Poor internal relations / emergence of subcultures	- Implementing Living the CBE Values project - Monitored compliance with Employee Relations Framework
13. Inefficient resource allocation	Implementing cost-containment project

Business continuity ensures that the CBE can respond, recover, and resume effectively in the event of a disruption to normal business operations.

Business Continuity Management

The Business Continuity Management (BCM) Unit within the Risk Management Department oversees the development, maintenance and improvement of the Bank's BCM system. The unit follows the good practice guidelines published by the Business Continuity Institute and also aligns itself to the International Organisation for Standardisation (ISO) 22301:2012. Business continuity ensures that the CBE can respond, recover, and resume effectively in the event of a disruption to normal business operations.

In the period under review, the BCM unit continued to monitor business continuity risks that the Bank is exposed to and the impact those risks could

have on mission critical processes. This involved training of BCM Champions on how to manage BCM risks, review of business continuity plans and developing strategies to ensure that critical functions can continue to operate during and after a disaster.

Review of Business Continuity Plans and Disaster Recover Plans

In the period under review, the BCM Unit followed the business continuity lifecycle which ensures the improvement of resilient procedures. The unit continued to enhance the procedures by reviewing the Business Continuity and Disaster Recovery Plans (BCP/DRPs) for mission critical processes as identified in the Business Impact Analysis.

BCP/DRPs are documented procedures that guide the CBE to respond, recover, resume and restore continuity of mission critical processes in the event of an emergency or disruption. The plans are owned and maintained by the respective BCM Champions across the Bank.

The aim of the review was to ensure that the BCP/DRPs are up to date, fit for purpose, relevant and realistic and will help the CBE to robustly respond to an incident or disruption.

Occupational Health, Safety, Environment, Risk and Quality

The Occupational Health, Safety, Environment, Risk and Quality (SHERQ) Unit provides an oversight on occupational health safety, environment, risk and quality issues. The Unit has been pivotal in providing safe and healthy working conditions to prevent the risk of injury and ill-health to Bank employees as well as other stakeholders, by identifying and, where practicable, eliminating hazards.

The Unit promotes a behavioural safety culture as a building block to prevent, control and manage workplace safety as well as health. This is achieved through assessing risks and considering the type of hazards, the severity of the hazards, the likelihood of the hazards resulting in severe consequences for the CBE and its ability to deal with hazards. Once the hazards have been identified, then the Unit decides on an action plan on how best to eliminate or reduce the risk.

In compliance with the Occupational Safety and Health (OSH) Act of 2001, the Unit appointed and conducted training for Fire Marshals and Safety Representatives. The training, facilitated by the Eswatini National Fire and Emergency Services, focused on Fire Management, Evacuation and Safety Requirements in the Workplace. Furthermore, Canteen Staff were trained on Food Safety Practices. This was in line with the Hazard Analysis

Critical Control Point (HACCP) and ISO22000 (Food Safety).

Financial Risk

The CBE is exposed to financial risks arising as a result of performing its statutory roles in terms of:

- » Monetary policy implementation within the domestic financial sector;
- » Investment activities relating to the management of foreign exchange reserves; and
- » Operation of payment and settlement activities.

These activities expose the Bank to a variety of financial risks including market, credit, liquidity, and settlement risks. The Board holds ultimate responsibility for risk management. Several departments of the Bank are engaged in the active management of the CBE's financial risks. The Financial Markets Department (FMD) carries out investment activities to manage the Bank's foreign exchange reserves, whilst the Treasury Operations Division of the FMD is responsible for, inter alia, international payment settlements, including foreign debt service payments on behalf of the Government.

The FMD also provides emergency liquidity assistance to local banks whenever needed while the Bank Supervision division monitors the liquidity position of the local banks. The settlement of transactions relating to

the CBE's own operations is managed by the Finance Department while the Financial and Management Accounting divisions ensure accurate accounting of the financial position and financial reporting.

The Enterprise Risk division, as the second line of defence, is responsible for, inter alia, defining the risk management policies in addition to assessing and monitoring financial risks in conjunction with the other divisions.

The CBE defines the investment limits through an Investment Policy and Investment Guidelines complemented by a Strategic Asset Allocation process. The Bank further conducts periodic counterparty due diligence, monitors both monetary and investment policy compliance, and assesses current as well as emerging risks within the Bank's operations. The risk management policies and measures applied to each of the CBE's principal financial risk exposures are described below.

Credit Risk

Credit risk is the risk of loss arising from the failure of a borrower, issuer, or counterparty with obligations to the Bank. The CBE is primarily exposed to credit risk associated with its investment activities.

Credit risk in the Bank's investment portfolios is controlled by a system of approved counterparty credit limits



guided by external credit ratings provided by selected rating agencies. An internally developed credit allocation model combining external credit ratings and key financial ratios is used to allocate risk-based credit limits to counterparties. Credit exposure is further mitigated by the implementation and maintenance of an approved Investment Policy. The policy provides that investments can be made with counterparties with investment grade credit ratings (AAA-BBB), with exception provided for RSA.

Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimise a loss in the event of adverse price changes. Liquidity risk also entails the Bank's ability to meet its obligations when they fall due, which necessitates holding adequately liquid assets to meet such obligations.

Liquidity risk is mitigated through the allocation of a portion of the CBE's investment portfolio to liquid assets in specific liquidity sub-portfolios in the Bank's investment tranches. To avoid excessive concentration, investments in the liquidity portfolios, issuer (and counterparty) limits are allocated, thereby minimising exposure to any issuer (counterparty) that could create acute liquidity risk in a situation where

the asset(s) must be liquidated. In addition, issuer limits are coupled with minimum credit ratings to moderate the likelihood of unscheduled disposals due to the potential of an issue being downgraded below the CBE's approved investment grade threshold.

Interest Rate Risk

Interest rate risk refers to the risk of loss arising from adverse changes in interest rates. The CBE's investment portfolios are managed following the risk management parameters, governance, and control frameworks as approved in the Bank's Investment Policy and Guidelines as well as the Strategic Asset Allocation.

A key source of interest rate risk exposure for the CBE relates to the sensitivity of the value of its investment assets to interest rate changes. The Bank mitigates this interest rate risk exposure on a portion of the investment portfolio through allocation to a hold-to-maturity strategy. Risk management preferences in the investment assets are expressed through an externally compiled benchmark, against which the investment portfolios are measured and managed. The interest rate risk of the CBE's investment portfolios is calculated and managed using modified duration which quantifies the sensitivity of the value of an investment portfolio to changes in bond yields. The Bank is also exposed to interest

rate risk on its portfolio of Eswatini Government bonds and Treasury bills which are acquired from time to time. The CBE mitigates its interest rate exposure to Eswatini Government securities by implementing a hold-to-maturity strategy.

Foreign Exchange (Currency) Risk

Foreign exchange risk refers to the risk of loss due to changes in exchange rates. The strategic asset allocation informs the currency composition of the assets held in the investment portfolios. The currency composition is established using a combination of quantitative methodologies, future forecasts as well as a variety of qualitative factors, to ensure that foreign asset balances are adequate to meet projected liabilities in the respective currencies.

At the end of the 2022/23 financial year, the Bank's portfolios were predominately denominated by US Dollar and South African Rand, together with smaller proportions of other currencies, - namely Euro, British Pound, and Chinese Yuan. The CBE is also exposed to currency risk through an open exposure in terms of the asset position in IMF's Special Drawing Rights.

