



INVESTMENT BANK

www.cdh-malawi.com

Risk and Capital Management Report

December 2021



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1. Introduction

The Reserve Bank of Malawi published the Basel II Pillar 3 regulatory framework which aims at complementing the minimum capital requirements under Pillar 1 and the supervisory review process under Pillar 2. The Pillar 3 and Public disclosure is in line with section 96 of the Financial Services Act 2010 and in line with Market Disclosure directive 2013. The purpose of the framework is to encourage market discipline through a set of disclosure requirements which allows market participants to assess key pieces of information on the scope of application, capital risk exposures, risk assessment processes and hence capital adequacy of the bank. CDH Investment Bank is regulated and supervised by the Reserve Bank of Malawi.

1.1.1 Objectives and Strategies

The Pillar 3 disclosures are designed to complement the minimum capital requirements in Pillar 1 and the Supervisory Review and Evaluation Process in Pillar 2. The aim of Pillar 3 is to promote market discipline by allowing market participants access to information of risk exposures and risk management policies and process adopted by the bank.

The objective of this document is to provide information and disclosure to the Bank's stakeholders in relation to the internal procedures and policies adopted by the Bank to manage and mitigate its key risks.

1.1.2 Frequency

Frequency of disclosure Pillar 3 disclosures are made at semi-annually and more frequently should management determine that significant events justify such disclosures. This is in-line with the Basel 2 as stated in the Pillar 3 Market disclosure requirements.

1.1.3 Materiality of disclosure

The disclosure in this document includes credit risk, market risk, operational risk, liquidity risk, legal and compliance risk. All disclosures in this document are made in line with the bank's disclosure policy. The bank has a disclosure policy that states all disclosures under Basel II should be done made on a semi-annual basis except for the qualitative disclosures which shall be disclosed on an annual basis.

1.1.4 Audit of disclosure

The information presented in this report is extracted from the bank's full set of financial statements which are subject to independent external audit. The full set of financial statements is available on the bank's website.

2. Corporate structure

CDH Investment Bank is a subsidiary of Continental Holdings Limited (the major shareholder) alongside Continental Capital Limited, Continental Asset Management Limited, Continental Asset Management Nominees Limited, CDH Commodities Limited, Continental Properties Limited, and Continental Pension Services Company Limited.

CDHIB has the following shareholding structure: -

Shareholder	December 2021	December 2020
Continental Holdings Limited	82.46%	82.46%
Investments Alliance Limited	10.18%	10.18%
Kesaart Capital Limited	4.84%	4.84%
Savannah Investments Limited	2.52%	2.52%
Total	100.00%	100.00%

3. Capital management

The Bank's capital management philosophy is aimed at maintaining an optimum level of capital and liquidity to enable it pursue strategies that build long term shareholder value, whilst always meeting minimum regulatory capital and liquidity requirements. The risk appetite includes internal capital requirements which are the Bank's internal estimates of the capital required to cover all its material risks including those which are not captured under regulatory capital calculations.

Regulatory capital

Reserve Bank of Malawi sets and monitors the capital requirements and requires the Bank to maintain a minimum of 10 percent and 15 percent for core and total capital respectively. The Bank's regulatory capital is analysed in two parts: -

- Tier I capital, which includes paid-up share capital, share premium, retained earnings, and other reserves less investment in subsidiaries
- Tier II capital, which includes investment revaluation reserve, property revaluation reserve, loan loss reserve and subordinated debt capital at 50% of the Tier I capital.

The capital ratios of CDHIB as at 31st December 2021, are as shown in the table below: -

	December 2021	December 2020
Tier 1 capital		
Share capital	308,326	275,984
Share premium	4,025,247	3,244,832
Irredeemable preference shares	487,243	1,300,000
Retained earnings	11,380,172	8,762,382
Less: Investments in unconsolidated banking & financial subsidiary companies	(180,500)	(140,000)
Deferred tax asset	(103,638)	(34,880)
	15,916,850	13,408,318

	December 2021	December 2020
Tier 2 capital		
Subordinated debt (limited to 50% of tier 1 capital)	773,333	1,093,333
Investments in unconsolidated banking & financial subsidiary companies	(180,500)	(140,000)
Loan loss reserve	-	-
	592,833	953,333
Total regulatory capital	16,509,683	14,361,651

Risk component		
Credit risk	16,925,008	12,900,551
Market risk	2,776,384	2,945,906
Operational	15,273,227	12,020,717
Total risk weighted assets	34,974,700	27,867,174

Capital ratios		
Tier 1 capital as a percentage of total risk-weighted assets	45.51%	48.12%
Total capital as a percentage of total risk weighted assets	47.20%	51.54%

In its capital planning, the Bank considers the impact of macro-economic factors and the impact this would have on its capital and earnings. This is covered under the budgeting process where financial projections are made based on the information gathered. The budgeting process is continuous as financial projection are reviewed as available information or the macro-economic conditions change.

The Bank continues to comply with all capital requirements. The Bank does not have any restrictions or impediments on the transfer of funds or regulatory capital.

4. Risk management framework

The Board of directors of the Bank has ultimate responsibility for the level of the risk taken by the Bank and accordingly, they have approved the overall business strategies and significant policies of the Bank, including those related to managing and taking risk. Senior management in the Bank is responsible for implementing strategies in a manner that limits risks associated with each strategy and that ensures compliance with applicable rules and regulation, both on a long term and day to day basis. The Bank has a Risk department, which is independent of those who accept risks. The Risk department is tasked to: -

- identify current and emerging risks
- develop risk assessment and measurement systems
- establish policies, practices, and other control mechanisms to manage risks
- develop risk tolerance limits for senior management and board approval
- monitor positions against approved risk tolerance limits and
- report results of risk monitoring to senior management and the board.

To ensure that risk management is properly explained to and understood by all business lines, the board has established the following policies:

- Risk Management Policy
- Credit Policy
- Investment policy
- Liquidity Risk Management Policy
- Capital Risk Management Policy
- Information and Communication Policy
- Stress Testing Framework

4.1 Key Risks

The Bank is exposed to the following financial risks from financial instruments:

- a) Credit risk
- b) Liquidity risk
- c) Market risk
- d) Operational risk
- e) Legal and compliance risks
- f) Reputational risks

4.2 Risk Governance

CDHIB risk management approach is directed through compliance with legislation, policies and procedures and alignment with standards and best practices. It is the Heads of departments that are leading in managing risk. Therefore, everyone in the Bank is responsible and accountable for risk management.

4.2.1 Board of Directors (BOD)

The Board of directors retains the overall responsibility for strategic risk management of the Bank. It is chiefly responsible for setting corporate strategy and reviewing management performance in implementing the Bank's strategic plan.

The Board through its risk oversight role satisfies itself that the risk management processes designed and implemented by executives and Risk Manager is adapted to the Board's corporate strategy and are functioning as directed, and that necessary steps are taken to foster a culture of risk-adjusted decision-making throughout the Bank.

The Boards:

- a) Manages the overall responsibility of risk management
- b) Defines clearly risk limits and approve those set by Executive Management
- c) Reviews various policies of the Bank and make appropriate changes as and when deemed necessary.
- d) Re-evaluates these guidelines

The Bank has a unitary Board of Directors comprising a chairman, nine non-executive directors and three executive directors. The Board has adopted without modification,

the major principles of modern corporate governance as contained in the reports of Cadbury and King II, and the Basel Committee on Banking Supervision.

The Board meets four times a year. There are adequate and efficient communication and monitoring systems in place to ensure that the Directors receive all relevant, accurate information to guide them in making necessary strategic decisions, and providing effective leadership, control, and strategic direction over the Bank's operations, and in ensuring that the Bank fully complies with relevant legal, ethical and regulatory requirements.

Board meetings - meeting attendance					
Member		Date	Date	Date	Date
		26 Mar 2021	25 Jun 2021	24 Sep 2021	10 Dec 2021
Mr. Franklin Kennedy	Chairman	√	√	√	√
Mr. Kofi Sekyere	Director	√	√	√	√
Mr. Robert Abbey	Director	√	√	√	√
Dr Naomi Ngwira	Director	√	√	√	N/A
Mr. Elias Malion	Director	√	√	√	√
Mr. Sydney Chikoti	Director	√	√	√	√
Mr. Kingsley Zulu	Director	√	√	√	√
Mr. John McGrath	Director	√	√	√	√
Mr. Charles Asare	Director	√	√	√	√
Mr. Jean R Ngando Moukala	Managing Director	√	√	√	√
Mr. Thoko Mkavea	Executive Director (Effective 14th October 2021)	N/A	N/A	N/A	√
Mrs. Beatrix Mosiwa Ndovi	Executive Director (Effective 14th October 2021)	N/A	N/A	N/A	√
In attendance					
Mr. Daniel Mwangwela	Company Secretary				

Key

√ = Attendance

N/A = Not Applicable

4.2.2 Board Audit Committee (BAC)

The Committee comprise of three non-executive directors.

The Committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control and risk management, and the Bank's process for monitoring compliance with laws and regulations. The Committee meets on a quarterly basis.

4.2.3 *Board Risk and Compliance Committee (BRCC)*

The Committee comprise of three non-executive directors.

The Committee is responsible for determining the Bank's risk appetite, tolerance limits for critical exposures, provide oversight of the ERM program to ensure that that the ERM process is used to develop and achieve strategic objectives of the Bank. It provides risk management advice to the Executive management.

4.2.4 *Chief Executive Officer/Managing Director (MD)*

The Chief Executive Officer has the ultimate responsibility and accountability for establishing and maintaining suitable systems of internal control and risk management and manages the Bank in a manner that is consistent with best practice in risk management.

4.2.5 *Risk and Compliance Committee (RCC)*

This is an executive management risk committee responsible for identifying emerging enterprise risks, prioritizing identified enterprise risks, directing, and approving risk treatments, ensuring that sufficient resources are allocated to implement treatment, monitor the results, review, and update the risk register in preparation of the quarterly board report. The Committee meets monthly and, on an ad-hoc basis.

4.2.6 *Asset and Liability Management Committee (ALCO)*

The Committee is responsible for the structuring and management of the Bank's book/balance sheet and investment policy.

Its objective is to maintain a balance between risk and return. It focuses on the management, identification, and measurement of both the risks as related to interest rate risk and tenor mismatches, asset quality, capital planning, liquidity management and returns, as approved by the Board. The Committee meets fortnightly.

4.2.7 *Credit Risk Committee (CRECO)*

The Committee oversees the credit and lending strategies and objectives of the Bank including overseeing the credit risk management, review internal credit policies and establishing portfolio limits, review the quality and performance of the Banks' credit portfolio and any matters as delegated by the Board. The Committee meets on an ad-hoc basis as required.

4.2.8 *Chief Risk and Compliance Officer (CRCO)*

The Chief Risk and Compliance Officer is responsible for managing the Bank's Enterprise Risk Framework. This involves working with risk owners and executive management to analyse operational and enterprise risks, develop effective risk treatments, monitoring and ensuring that risks tolerance limits are maintained within the bank policy. The CRCO also coordinates risk management training and education, continuous improvement of ERM framework and associated policies and procedures. In addition to risk governance, the Officer carries regular reviews and assessment of compliance risks in the bank's activities including new products.

4.2.9 *Legal Officer (LO)*

The Officer is tasked to understand and advocate the rules and regulations and effective management of and proactively work and advise the Bank to manage legal risk to meet stakeholder expectations.

4.2.10 *Chief Internal Auditor (CIA)*

The Chief Internal Auditor provides independent and objective insight on the effectiveness internal controls, risk management and governance processes. The CIA does also offer advice on process improvements as well as best practice standards.

4.2.11 *Chief Finance Officer (CFO)*

The Chief Finance Officer plays broad strategic role in Enterprise-Wide Risk Management through involvement in financial reporting and performance management. The function is relied upon as the owner of business information, reporting and financial data and assist in decision support operations that enables effective and efficient operations of the Bank.

4.2.12 *Chief Credit Officer (CCO)*

The Chief Credit Officer plays an important role to maximise the bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. The CCO needs to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. The Officer should also consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organisation.

5. Management of risks

CDHIB has risk governance structures which approve limits and thresholds consistent with the applicable regulatory requirements.

5.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a counterparty to a financial instrument fails to meet their contractual obligations and arises principally from the Bank's loans and advances to customers and other banks and its investment in securities. 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).

Management of credit risk

The Board of Directors of the Bank have delegated responsibility for the management of credit risk to their Credit Committee to which separately Credit Department reports. The Credit Committee is responsible for oversight of credit risk, including: -

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Some credit facilities are authorized by Head Office management. Larger facilities require approval by The Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. The Credit Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business centres concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies, and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- Reviewing compliance of business centres with agreed exposure limits.

Best practices for credit risk

As a fundamental credit principle, the Bank generally does not grant credit facilities solely on the basis of the collateral provided. All credit facilities are granted based on the credit standing, source of repayment and debt servicing ability of the borrower. Furthermore, the bank uses Credit Reference Bureaus to obtain credit history of all new loan applications and renewals. The main reference agencies the bank uses are Credit Data and TransUnion Reference Bureau.

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and/or interest due according to the contractual terms of the loan/securities agreements.

Past due but not impaired loans

These are loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represent its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures.

Impairment policy

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when the Credit committee determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. In addition, the assets in the trading book are passed on to

investors. However, this awaits confirmation in respect to successfully achieving a transfers of credit risk to external entities.

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

Economic sector risk concentrations within the customer loan portfolio was as follows:

	Maximum Limit %	Dec 2021	Dec 2020	Dec 2021	Dec 2022
Agriculture	35%	9%	10%	4,770,319	3,905,203
Construction	5%	1%	1%	771,087	545,505
Manufacturing	35%	12%	25%	6,871,571	9,828,067
Wholesale and retail	40%	52%	38%	28,587,975	15,072,571
Tourism and leisure	5%	8%	4%	4,469,145	1,741,805
Transport	15%	1%	1%	500,023	465,538
Community, social and personal services	11%	16%	12%	8,901,915	4,682,967
Others	43%	1%	9%	766,549	3,588,930
		100%	100%	55,638,584	39,830,586

The risk that counterparties to trading instruments might default on their obligations is monitored on an on-going basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and the volatility of the fair value of trading instruments.

To manage the level of credit risk, the Bank deals with counterparties of good credit standing enters into master netting agreements whenever possible, and when appropriate, obtains collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

The table below shows the asset quality as at 31 December 2021.

	Stage 1	Stage 2	Stage 3	Total
1. Mortgage loans	450,221	-	-	450,221
2. Loans to finance agricultural production and other loans to farmers	4,720,603	1,164	48,552	4,770,319
3. Commercial and industrial loans	24,859,276	860,009	55,507	25,774,792
4. Loans to individuals for household, family and other personal expenditures	7,569,651	2,830	-	7,572,481
5. Loans to governments & statutory bodies	16,220,086	-	-	16,220,086
6. Lease financing receivables	-	-	-	-
7. Forex loans	850,685	-	-	850,685
8. All other loans	-	-	-	-

	Stage 1	Stage 2	Stage 3	Total
9. Loss Provisions	316,538	243,603	103,597	663,738
Net classified assets	54,353,984	620,400	462	54,974,846

5.1 Credit risk (continued)

In respect of certain financial assets, the Bank has legally enforceable rights to offset them with financial liabilities. However, in normal circumstances, there would be no intention of settling net, or of realising the financial assets and settling the financial liabilities simultaneously. Consequently, the financial assets are not offset against the respective financial liabilities for financial reporting purposes. However, the exposure to credit risk relating to the respective financial assets is mitigated as follows:

At 31st December 2021		
	Carrying amount	Net exposure to credit risk
Cash and balances with banks	5,113,250	5,113,250
Loans and advances to other banks	5,767,051	5,767,051
Loans and advances to customers	54,974,846	54,974,846
Financial assets	104,743,581	104,743,581
Investment securities	8,539,620	8,539,620
Other accounts receivables	205,455	205,455
	179,343,803	179,343,803

At 31st December 2020		
	Carrying amount	Net exposure to credit risk
Cash and balances with banks	7,206,052	7,206,052
Loans and advances to other banks	1,500,473	1,500,473
Loans and advances to customers	38,273,785	38,273,785
Financial assets	71,188,220	71,188,220
Investment securities	4,400,106	4,400,106
Other accounts receivables	83,777	83,777
	122,652,413	122,652,413

Loan and advances to corporate customers

The general credit worthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the credit risk of a loan deteriorates significantly and the loan is monitored more closely for impaired loans, the Bank obtains appraisals of

collateral measurement. At 31 December 2021, the net carrying amount of impaired loans and advances to corporate customers amounted to MK104 million (2020: MK1,517 million) and the value of identifiable collateral held against those loans and advances amounted to MK55 million (2020:MK1,783 million).

The Table below shows classification of loans according to their stages. This also includes collective impairment provisions as at 31st December 2021.

	Stage 1	Stage 2	Stage 3	Total
1. Agriculture, forestry, fishing and hunting	4,720,603	1,164	48,552	4,770,319
3. Manufacturing	6,868,167	4	-	6,868,171
5. Construction	771,083	3,404	-	774,487
6. Wholesale and retail trade	28,526,687	5,781	55,507	28,587,975
7. Tourism and leisure	3,618,411	850,734	-	4,469,145
8. Transport, storage and communications	499,937	86	-	500,023
10. Community, social and personal services	8,899,085	2,830	-	8,901,915
12. Other sectors	766,549	-	-	766,549
13. Less: Loss Provisions	316,538	243,603	103,597	663,738
Net classified assets	54,353,984	620,400	462	54,974,846

Other types of collateral and credit enhancements

In addition to the collateral included in the table above, the Bank also holds other types of collateral and credit enhancements such as second charges for which specific values are not generally available. Assets obtained by taking possession of the collateral.

Details of financial and non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances as well as calls made on credit enhancements and held at the year-end are shown below:

The Bank policy is to pursue timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations but will be actively marketed to be sold.

Credit Exposures

As at 31st December 2021, the geographical distribution of credit exposures was as follows:

Concentration by region	December, 2021	December, 2020
South	25,119,410	16,838,630
Centre	30,519,174	22,991,956
Total	55,638,584	39,830,586

Counter party type distribution	December, 2021	December, 2020
Corporate	47,687,820	34,844,011
Retail	7,950,764	4,986,575
Total	55,638,584	39,830,586

Credit exposures under the standardized approach

The tables below show Risk Weighted Assets for credit risk under the Standardized Approach as at 31st December 2021.

Nature of Item	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Portfolio I: Exposures to Sovereign or Central Banks						
Exposures to the Malawi Government or RBM	8,539,620	-	-	8,539,620	0%	-
Exposures to Sovereigns rated AAA to AA-	-	-	-	-	0%	-
Exposures to Sovereigns rated A+ to A-	-	-	-	-	20%	-
Exposures to Sovereigns rated BBB+ to BBB-	-	-	-	-	50%	-
Exposures to Sovereigns rated BB+ to B- or unrated.	-	-	-	-	100%	-
Past Due Exposures	-	-	-	-	100%	-
Sub-total	8,539,620	-	-	8,539,620		-

Portfolio II: Exposures to Public Sector Entities (PSEs)						
Exposures to Parastatals or Statutory Corporations	14,942,469	-	14,259,954	682,515	100%	682,515
Exposures to Central Government Departments e.g. Immigration and MRA	1,277,617	-	-	1,277,617	0%	-
Exposures to Local Assemblies	-	-	-	-	100%	-
Exposures to other Government related entities not included in 11 and 12 above e.g. NAC, SFFRM	-	-	-	-	100%	-
Exposures to PSEs rated A+ to A-	-	-	-	-	50%	-
Exposures to PSEs rated BBB+ to BBB-	-	-	-	-	100%	-

Exposures to PSEs rated BB+ to B- or unrated.	-	-	-	-	100%	-
Past Due Exposures	-	-	-	-	100%	-
Sub-total	16,220,086	0	14,259,954	1,960,132		682,515

Portfolio III: Exposures to other Banks

Exposures to local banks with original contractual maturity of less than three months	-	-	-	-	20%	-
Exposures to local banks with original contractual maturity of more than three months	5,767,051	-	-	5,767,051	50%	2,883,526
Exposures to banks assigned a Credit Risk Assessment Rating of AAA to AA-	2,359,682	-	-	2,359,682	20%	471,936
Exposures to banks assigned a Credit Assessment Rating of A+ to A-	-	-	-	-	50%	-
Exposures to banks assigned a Credit Assessment Rating of BBB+ to BBB- or unrated banks.	-	-	-	-	50%	-
Exposures to banks assigned a Credit Assessment Rating of BB+ to B-	-	-	-	-	100%	-
Past Due Exposures	-	-	-	-	100%	-
Sub-total	8,126,733	-	-	8,126,733		3,355,462

Portfolio IV: Exposures on Corporates

Claims to local corporates	21,709,901	-	21,709,901	-	100%	-
Exposures in foreign currency	850,685	-	-	850,685	100%	850,685
Claims to Corporates assigned a credit assessment rating of AAA to AA-	1,403,473	-	-	1,403,473	20%	280,695
Claims to Corporates assigned a credit assessment rating of A+ to A-	-	-	-	-	50%	-
Claims to corporate assigned a credit assessment rating of BBB+ to BB-	3,597,031	199,731	-	3,397,300	100%	3,397,300
Past Due Exposures	-	-	-	-	100%	-
Sub-total	27,561,090	199,731	21,709,901	5,651,458		4,528,680

Portfolio VI: Exposures included in the Retail Portfolio

Retail exposures (excluding overdrafts) that fully comply with the RBM Credit Risk Guidelines) not exceeding MK30 Million	2,992,141	40,081	93,407	2,858,653	75%	2,143,990
Overdrafts and Retail exposures above MK30 Million	8,310,987	320,329	5,308,694	2,681,964	100%	2,681,964
Exposures in foreign currency	-	-	-	-	100%	-
Past Due Exposures	104,059	103,597	-	462	100%	462
Sub-total	11,407,187	464,007	5,402,101	5,541,079		4,826,416

Portfolio VII: Residential Mortgages

Claims fully secured by residential mortgage (whether owner occupied or not)	450,221	-	-	450,221	35%	157,577
Mortgage where bank is not the holder of the first mortgage bond or portion of mortgage bond that has been consolidated with other facilities.	-	-	-	-	100%	-
Past Due Exposures	-	-	-	-	100%	-
Sub-total	450,221	-	-	450,221		157,577

Portfolio X: Other Assets

Cash, gold, coins, bullion, foreign notes & coins, statutory reserves with the Reserve Bank of Malawi	2,745,724	-	-	2,745,724	0%	-
Cheques in course of collection	-	-	-	-	20%	-
Other assets	3,186,890	-	-	3,186,890	100%	3,186,890
Sub-total	5,932,614	-	-	5,932,614		3,186,890

Portfolio XI: Exposures to Higher Risk Categories

Exposures pertaining to venture (startup) capital or private equity, or project finance as per Guidance Note	-	-	-	-	150%	-
Exposures to sovereigns, PSEs, banks, and securities firms rated below B-	-	-	-	-	150%	-

Exposures to corporates rated below BB-	-	-	-	-	150%	-
Past Due Exposures	-	-	-	-	150%	-
Sub-total	-	-	-	-		-
TOTAL ON-BALANCE SHEET RISK- WEIGHTED AMOUNT	78,237,550	663,738	41,371,956	36,201,856		16,737,540

5.2 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations arising from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due, both under stressed and normal conditions, without causing damage to the Bank's reputation.

The daily liquidity position is monitored. It is assumed that under normal circumstances customer demand deposits will remain stable or increase in value and unrecognized loan/ overdraft commitments are not expected to be immediately drawn down in their entirety. Regular stress testing is done under normal and severe market conditions. The results are discussed with the Asset and Liability Committee (ALCO) and the Board Risk and Compliance Committee (BRC).

All liquidity policies and procedures are subject to review and approval by ALCO. The daily monitoring of liquidity is the responsibility of an integrated treasury department which monitors the level of mismatches in the maturity positions of assets and liabilities.

Asset and Liability Management Committee (ALCO)

The primary objective of ALCO is to ensure a proper balance in terms of maturity profile, cost and yield, risk exposure, etc. between funds mobilized and funds deployed. ALCO seeks to manage risks in order to minimize the volatility of net interest income and protect the long-term economic value of the Bank. The committee also monitors the capital adequacy of the Bank.

Key functions of ALCO include setting pricing guidelines for assets and liabilities, setting limits and managing liquidity risk and interest rate risk and ensuring that contingency funding plans are in place to avert funding crises.

The table below analyses financial assets and financial liabilities into relevant maturity rankings based on the remaining contractual maturities:

ASSETS 2021	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 6 Years	Over 6 Years	Total
Notes and coin, Malawi currency	382,303	-	-	-	-	-	-	382,303
Cheques in the course of collection	-	-	-	-	-	-	-	-
Balances at Reserve Bank of Malawi	2,363,420	-	-	-	-	-	-	2,363,420
Balances with other banks in Malawi	7,844	-	-	-	-	-	-	7,844
Balances with banks abroad	2,359,682	-	-	-	-	-	-	2,359,682
Investments in Securities	-	14,306,671	0	0	11,102,278	-	361,000	25,769,949
Bills of exchange etc. payable abroad	-	-	-	-	-	-	-	-
Loans and advances	12,447,974	253,534	2,339,837	16,880,566	6,097,007	11,041,899	6,577,767	55,638,584
Other assets	-	-	-	2,076,465	-	-	1,225,613	3,302,077
Total assets	17,561,224	14,560,205	2,339,837	18,957,031	17,199,285	11,041,899	8,164,380	89,823,859
LIABILITIES AND SHAREHOLDERS FUNDS								
Domestic deposits	17,855,178	4,857,058	36,108,322	-	-	-	-	58,820,559
Foreign currency denominated deposits	3,541,097	-	-	-	-	-	-	3,541,097
Balances due to Reserve Bank of Malawi	-	-	-	-	-	-	-	-
Balances due to other banks in Malawi	6,348,768	-	-	-	-	-	-	6,348,768
Balances due to banks abroad	-	-	-	-	-	-	-	-
Other borrowed funds	-	-	-	-	-	1,600,000	-	1,600,000
Other liabilities	-	-	-	3,299,363	-	-	-	3,299,363
Shareholders' funds	-	-	-	-	-	-	16,214,074	16,214,074
Total liabilities and shareholders' funds	27,745,043	4,857,058	36,108,322	3,299,363	0	1,600,000	16,214,074	89,823,859
Net Liquidity Gap	(10,183,819)	9,703,147	(33,768,485)	15,657,668	17,199,285	9,441,899	(8,049,694)	-
Cumulative Liquidity Gap	(10,183,819)	(480,672)	(34,249,158)	(18,591,490)	(1,392,205)	8,049,694	-	-

ASSETS 2020	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 6 Years	Over 6 Years	Total
Notes and coin, Malawi currency	486,284	-	-	-	-	-	-	486,284
Cheques in the course of collection	-	-	-	-	-	-	-	-
Balances at Reserve Bank of Malawi	2,627,756	-	-	-	-	-	-	2,627,756
Balances with other banks in Malawi	11,049	-	-	-	-	-	-	11,049
Balances with banks abroad	7,127,159	-	-	-	-	-	-	7,127,159
Investments in Securities	-	3,875,571	-	-	10,191,077	-	280,000	14,346,648
Bills of exchange etc payable abroad	-	-	-	-	-	-	-	-
Loans and advances	6,674,228	265,779	511,401	7,531,435	7,176,790	8,549,629	3,940,027	34,649,291
Other assets	-	-	-	842,072	-	-	2,158,248	3,000,319
Total assets	16,926,476	4,141,350	511,401	8,373,507	17,367,867	8,549,629	6,378,275	62,248,506
LIABILITIES AND SHAREHOLDERS FUNDS								
Domestic deposits	14,467,458	3,873,694	18,835,986	-	-	-	-	37,177,138
Foreign currency denominated deposits	2,006,843	-	-	-	-	-	-	2,006,843
Balances due to Reserve Bank of Malawi	-	-	-	-	-	-	-	-
Balances due to other banks in Malawi	5,201,340	-	-	-	-	-	-	5,201,340
Balances due to banks abroad	-	-	-	-	-	-	-	-
Other borrowed funds	-	-	-	-	-	1,600,000	-	1,600,000
Other liabilities	-	-	-	4,843,027	-	-	-	4,843,027
Shareholders' funds	-	-	-	-	-	-	11,420,159	11,420,159
Total liabilities and shareholders' funds	21,675,640	3,873,694	18,835,986	4,843,027	-	1,600,000	11,420,159	62,248,506
Net Liquidity Gap	(4,749,164)	267,656	(18,324,584)	3,530,479	17,367,867	6,949,629	(5,041,884)	-
Cumulative Liquidity Gap	(4,749,164)	(4,481,508)	(22,806,092)	(19,275,613)	(1,907,746)	5,041,883	-	-

Details of the value of public and private traded instruments have been listed below as at 31st December 2021:

- Public instruments: Treasury Notes
- Private Instruments: Corporate Paper

Asset/ Liab	Prodname	Position Principal	Position AccrInt	Position Present Value	Position Nominal	Income Exp For- Day	Rate
A	Floating Rate Note	3,000,000	96,208	3,096,208	3,000,000	1,052	12.80
A	Interbank Lending	3,261,425	63,120	3,324,545	3,261,425	1,107	12.38
A	MWK Structured CP	47,632,621	23,188	47,655,808	47,632,621	23,188	17.76
A	Promissory Note Government	3,778,075	555,703	4,333,778	3,778,076	2,106	20.34
A	Treasury Notes	43,562,200	1,246,216	44,808,416	54,539,939	22,972	19.22
L	Floating Investment Contract	11,914,123	109,327	12,023,449	11,914,123	4,593	14.07
L	Investment Contract	80,790,159	1,320,401	82,110,560	80,790,159	28,530	12.88
L	USD Investment Contract	1,103,138	13,456	1,116,594	1,103,138	144	4.70

5.2 Liquidity risk (Continued)

The Reserve Bank of Malawi has issued the following guidelines on the management of liquidity:

- Liquidity Ratio 1: Net liquidity (total liquid assets less suspense accounts in foreign currency) divided by total deposits must be at least 25 percent.
- Liquidity Ratio 2: Net liquidity (total liquid assets less suspense account in foreign currency and cheques in the course of collection) divided by total deposits must be at least 25 percent.

Liquidity Ratios 1 and 2 were as specified below:

Consolidated and Separate	December, 2021	December, 2020
	Liquidity Ratio I	41.23%
Liquidity Ratio II	41.23%	45.53%

5.3 Market risk

Market risk management policy

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Bank income or the value of its holding of financial instruments. The objective of the Bank's market risk management policy is to manage and control market risk exposures within acceptable parameters while optimizing the return on risk.

The bank uses the standardised approach which aligns regulatory capital requirements more closely with the key elements of banking risk by introducing a wider differentiation of risk weights and a wider recognition of risks mitigation techniques, while avoiding excessive complexity.

The portfolio and instruments that are subjected to the standardised approach have been listed below:

	Issuer/ Counterparty	Type of instrument	Position (MK '000)	Specific Risk		General Risk	
				Weight (%)	Charge	Weight (%)	Charge
Specific Risk	-	-	-	-	-	-	-
Residual General Risk	-	-	-	-	-	-	-
Time Bands	-	-	-	-	-	-	-
less than 1 month	-	-	-	-	-	-	-
1 to 3 months	-	-	-	-	-	-	-
3 to 6 months	-	-	-	-	-	-	-
6 to 12 months	-	-	-	-	-	-	-
1 to 2 years	Treasury Notes	11,102,278	-	-	-	-	-

5.3.1 Foreign exchange risk

Foreign exchange rate risk is the potential impact of adverse currency rates movements on earnings and economic value. It arises from the change in value of the local currency against foreign currencies.

Foreign currency transactions and positions are monitored by senior management and ALCO.

The responsibilities of the Integrated Treasury Department include monitoring of foreign exchange risk. This involves the risks of the Bank incurring financial loss on settlement of foreign exchange positions taken in both the trading and banking books. The foreign exchange positions arise from the following activities:

- Trading in foreign currencies through spot, forward and option transactions as a market maker or position taker, including the unhedged position arising from customer driven foreign exchange transactions.
- Holding foreign currency position in the bank books (e.g. in the form of loans, deposits, cross border investments, etc.).

The Treasury Department is responsible for:-

- Setting the foreign exchange risk management strategy and tolerance levels.
- Ensuring that effective risk management systems and internal controls are in place.

- Monitoring significant foreign exchange exposure.
- Ensuring that foreign exchange operations are supported by adequate management information systems which complement the risk management strategy
- Reviewing the policies, procedures and currency limits regularly in line with changes in the economic environment.

The ALCO regularly monitors the controls put in place by the treasury department, which are approved and reviewed by the board from time to time.

The Bank's foreign exchange exposures at the reporting date were as follows:

Ccy	Positions in foreign currencies		Exchange rates		Positions in		In %		
	Balance sheet net	Off bal. sheet net	Overall net positions	Cross rates	Local ccy rates	Balance sheet, net	Off bal. sheet, net	Overall net positions	of capital
USD	277,302	(250,000)	27,302	1.00	824.00	228,497,128	(206,000,000)	22,497,128	0.17%
GBP	1,417	-	1,417	1.34	1256.85	1,781,372	-	1,781,372	0.01%
EUR	710,865	(195,207)	515,658	1.1323	1134.98	806,823,814	(221,557,303)	585,266,511	4.52%
ZAR	1,173,530	(700,000)	473,530	15.96	62.77	73,666,680	(43,941,520)	29,725,160	0.23%
OTHER	-	-	-	1.24	660.25	-	-	-	0.00%
				Net foreign currency positions		1,110,768,994	(471,498,823)	639,270,171	4.94%

At 31 December 2021, the Kwacha appreciated by 0.10% against the USD. During the same period, the kwacha also depreciated against the GBP by 1.48%. The Kwacha further depreciated against the EUR and ZAR by 2.41% and 0.47% respectively.

5.3.2 *Interest rate risk*

Interest rate risk is the exposure of the Bank's financial condition to adverse movements in interest rates. It basically arises from timing differences in the maturity of re-pricing of the Bank's assets and liabilities. Changes in interest rates can have adverse effects on the Bank's earnings and its economic value. ALCO monitors interest rate risk in the Bank.

With respect to the total unrealized gains /losses that have not been reflected in the income statement of the bank, and the extent to which these have been included in Tier 1 capital or Tier 2 capital, the bank normally does its revaluation on annual basis. The last valuation was done in Dec 2021 and revealed immaterial unrealized losses/ impairment which was not disclosed.

Stress testing on the three elements of market risk is done by an independent risk function. The results are discussed with ALCO and the Risk and Compliance Committee and appropriate risk mitigation measures and contingency plans are implemented. Below is a summary of the Bank's interest rate gap position:

2021	Assets subject to interest rate adjustment within the following time horizons	Zero rate	Floating rate	Fixed Rate Instruments					Total
				0 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	Over 12 months	
	Loans and leases:	-	-	-	-	-	-	-	-
	Fixed rate by maturity	-	-	-	-	-	-	-	-
	Floating rate by repricing interval	-	55,638,584	-	-	-	-	-	55,638,584
	Scheduled payments due on all other loans	-	-	-	-	-	-	-	-
	Securities:	-	-	-	-	-	-	-	-
	Fixed rate by maturity	-	-	5,767,051	-	-	-	11,102,278	16,869,329
	Floating rate by repricing	-	-	-	-	-	-	-	-
	Interest-bearing balances	-	-	-	-	-	-	-	-
	Inter-bank loans	-	-	-	-	-	-	-	-
	Other	-	-	8,776,327	-	-	-	-	8,776,327
	Total rate sensitive assets (RSA)	-	55,638,584	5,767,051	-	-	-	11,102,278	81,284,240
	Liabilities subject to interest rate adjustment:	-	-	-	-	-	-	-	-
	Demand accounts	-	19,467,259	-	-	-	-	-	19,467,259
	Savings deposits	-	-	1,929,016	-	-	-	-	1,929,016
	Time deposits	-	-	4,857,058	36,108,322	-	-	-	40,965,380
	Other borrowings	-	-	6,348,768	-	-	-	-	6,348,768
	Long-term debt	-	-	-	-	-	1,600,000	-	1,600,000
	Other	-	-	17,201,340	-	-	-	-	17,201,340
	Total rate sensitive liabilities (RSL)	-	19,467,259	13,134,842	36,108,322	-	-	1,600,000	87,511,764
	Asset Liability Gap	-	36,171,325	(7,367,791)	(36,108,322)	-	-	9,502,278	(6,227,524)
	Cumulative Gap	-	27,746,311	20,378,520	(15,729,801)	(15,729,801)	(6,227,524)	(6,227,524)	(6,227,524)

2021	Assets subject to interest rate adjustment within the following time horizons	Zero rate	Floating rate	Fixed Rate Instruments					Total	
				0 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	Over 12 months		
	Net position as a percent of total assets	(1)	1	(1)	0	0	0	0	1	0
	RSA as a percent of RSL	1	3	0	0	0	0	0	7	1
	Impact of increase in Interest Rate	(8,846,264)	37,979,891	(7,736,180)	(37,913,738)	0	0	0	9,977,392	(6,538,900)
		(9,267,515)	39,788,457	(8,104,570)	(39,719,154)	0	0	0	10,452,506	(6,850,276)
		(9,688,765)	41,597,023	(8,472,959)	(41,524,570)	0	0	0	10,927,620	(7,161,652)
	Impact of decrease in Interest Rate	(8,003,763)	34,362,758	(6,999,401)	(34,302,906)	0	0	0	9,027,164	(5,916,147)
		(7,582,512)	32,554,192	(6,631,012)	(32,497,490)	0	0	0	8,552,050	(5,604,771)
		(7,161,261)	30,745,626	(6,262,622)	(30,692,074)	0	0	0	8,076,936	(5,293,395)

5.3 Market risk (Continued)

The bank has capital requirement for the following risks computed under the standardized approach.

5.3.3 Interest rate risk

General risk capital charge							
				Specific Risk		General Risk	
	Issuer/ Counterparty	Type of instrument	Position (MK '000)	Weight (%)	Charge	Weight (%)	Charge
1	2	3	4	5	6	7	8
Specific Risk	-	-	-	0	-	0	-
Residual General Risk	-	-	-	0	-	0	-
Time Bands							
less than 1 month	-	-	-	0	-	0	-
1 to 3 months	-	-	-	0	-	0	-
3 to 6 months	-	-	-	0	-	0	-
6 to 12 months	-	-	-	0	-	0	-
1 to 2 years	Treasury Notes	11,102,278		0	-	0	-
2 to 3 years	-	-	-	0	-	0	-
3 to 4 years	-	-	-	0	-	0	-
4 to 5 years	-	-	-	0	-	0	-
5 to 7 years	-	-	-	-	-	0	-
7 to 10 years	-	-	-	-	-	0	-
7 to 10 years	-	-	-	-	-	0	-

5.3.4 Foreign exchange risk

Currency		Net long (short) position excluding options		Total net long (short) position
		On Balance Sheet items	Off-Balance sheet items	
1. U.S. DOLLAR	USD	277	(250)	27
2. BRITISH STERLING	GBP	1	0	1.41
3. SOUTH AFRICAN RAND	ZAR	1,174	-700	473.52
4. EURO	EUR	711	-195	515.65
5. OTHER		-	-	-
6. Aggregate net long position		-	-	1,018
7. Aggregate net short position		-	-	-
8. Larger of sum of net long/short position		-	-	1017.90
9. Gold	GOL	-	-	
10. Overall net open position(10=8+9)		-	-	1,018
11. Risk weight		-	-	0
12. Capital charge for foreign exchange risk		-	-	81

5.4 Operational risks

Operational risk is the probability and likelihood of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, liquidity, interest rate and market risks such as those arising from legal and regulatory requirements and the requirement to observe generally accepted standards of corporate behavior. Operational risks arise from all the Bank's operations, systems, and processes.

The objective of the Bank is to manage operational risks to balance the avoidance of financial losses and damages to the bank's reputation with an overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned by the Board Risk and Compliance Committee to senior management within all operating units. The responsibility is supported by the development of overall standards in the Bank for the management of operational risks in the following areas: -

- requirements for appropriate segregation of duties, including the independent authorization of transactions.
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures.
- requirements for the yearly assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified by Internal and External auditors

- requirements for the reporting of operational losses and proposed remedial action.
- development of contingency plans
- training and professional development
- risk mitigation, including insurance where it is cost-effective

Compliance with Bank standards is supported by a programme of reviews undertaken by the Bank Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board Audit Committee.

Risk function also assesses operational risks as a second line of defense and discusses the results with management as well as the Risk and Compliance Committee.

The bank uses an operational risk measurement system that has certain key features to meet the supervisory soundness standard set out. The Bank measures operational risk using the Basic Indicator Approach. In using this approach, the Bank derives the gross income for 3 years and then multiplies it by a capital charge factor of 10% to determine the total operational risk capital charge.

Operational Risk	December 2021	December 2020
	MK '000	MK '000
Mean Average of Aggregate Capital Charge	1,527,323	1,079,512

5.5 Legal and Compliance risk

The Bank's Chief Legal Officer and Chief Compliance Officer are responsible for managing the bank's Compliance function. The Chief Legal and Compliance Officers have unrestricted access to the managing director and the chairman of Board, Risk and Compliance Committee. The Bank is subject to extensive supervisory and regulatory regimes, and the executive management remains responsible for overseeing the management of the bank's compliance risk.

Money laundering controls are managed within the Compliance function. The Bank has adopted anti-money laundering policies including Know-Your-Customer policies and procedures and adheres to the country's anti-money laundering legislation and Reserve Bank of Malawi regulations.

The management of compliance risk has become a distinct discipline within the Bank's overall risk management framework. The ultimate responsibility for this risk lies with the Board of Directors. A combination of key activities is undertaken to manage the risk such as developing compliance management plans, training staff and other stakeholders on relevant regulatory requirements, and monitoring compliance. Compliance with the Know-Your-Customer and anti-money laundering procedures and legislation became an area of major focus for the Bank. The Compliance function consults the country's Financial Intelligence Authority on money laundering and anti-terrorist financing matters. The bank makes a provision for litigation risk based on the cases available. As at 31st December 2021 the provision amount was MWK145Million.

6. Equities

The following were the equity positions as at 31st December 2021.

Other investment	2021	2020
National Switch Limited	111,000	30,000
MAIIC	250,000	250,000
	361,000	280,000



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