



INVESTMENT BANK
2023
Annual report



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An overview of who we are

CDH Investment Bank Limited (CDHIB) is a leading investment bank in Malawi. It is licensed as a bank by the Reserve Bank of Malawi and is a member of Continental Holdings Limited, a financial services group registered in Malawi. CDHIB opened for business on 2nd April 2012 following the successful conversion from Continental Discount House Limited (CDH) which had operated in the financial services sector for 14 years since August 1998.

CDH Investment Bank offers investment banking and commercial banking services. It is a deposit-taking investment bank out of which it makes loans and advances. The bank's unique value proposition is the provision of bespoke financial services and corporate financial advisory. The bank is also a significant participant of the financial markets as a market maker in the trading of over-the-counter financial securities, including money market, and foreign exchange instruments.

Our approach is commitment to an “on-going client-advisor relationship” and delivery of tailor-made financial solutions to clients who wish to grow their businesses.

CDH Investment Bank is poised to continue leading in mobilizing resources from both the local and international capital markets for investment in Malawi’s groundbreaking projects.

Our vision

To be the leading specialist bank in Malawi.

Our mission

To deliver financial solutions to our clients by effectively utilizing the best human capital and information technology while fostering good corporate governance principles.

Core values

Integrity

We adhere to principles of honesty, trust and moral judgement.

Respect

We accord all stakeholders the dignity they deserve

Innovation

We convert knowledge into solutions creatively

Trust

We will do all it takes to sustain trustworthiness among our stakeholders

Teamwork

We value individual contributions and celebrate the diversity of our expertise

Equity

Justice and fairness are our pillars for inclusion



Our services

Commercial banking

1. Current, call and savings accounts
2. Term and investment accounts
3. Foreign currency accounts
4. International trade and remittances
5. Overdrafts, short and medium-term finance, letters of credit
6. Asset finance
7. Value chain financing
8. Internet banking
9. EFT payments
10. Mobile banking

Investment banking

1. Capital raising (debt and equity)
2. Financial restructuring
3. Company valuation
4. Stock exchange listing, delisting and capital market advisory
5. Leveraged buyouts
6. Mergers, demergers, acquisitions and divestitures
7. Assets backed securities
8. Balance sheet restructuring

Treasury

1. Trading of financial instruments
2. Foreign exchange services
3. Spot and forward foreign exchange transactions
4. Fixed income and foreign exchange market specialist advice
5. Trading corporate securities
6. Investment contracts

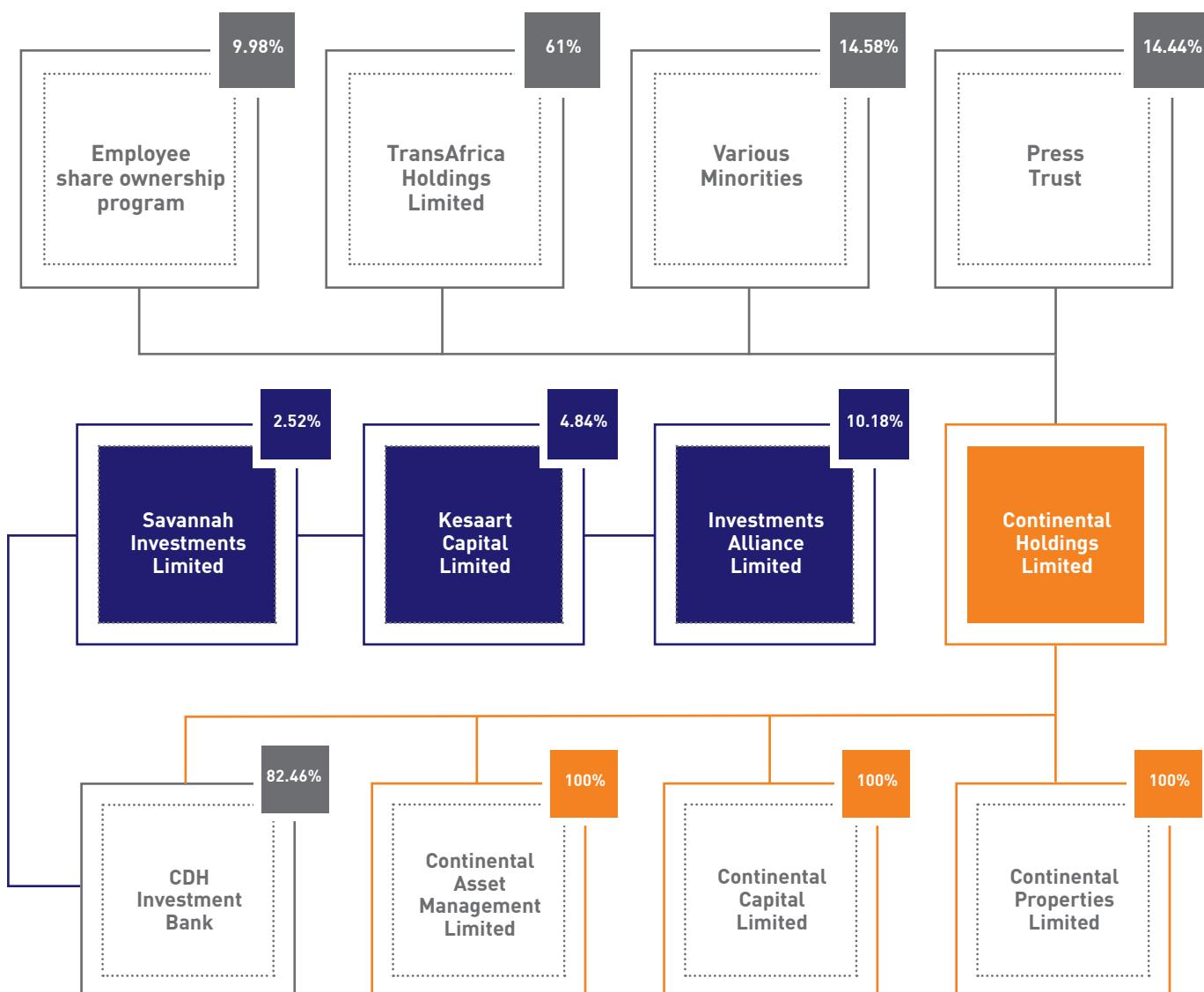
Target market

The bank serves a select niche market grouping of:

1. Corporations
2. Governments
3. International organizations and agencies
4. High net worth individuals
5. Small to medium scale enterprises (SMEs)
6. State owned enterprises (SOEs)

Bank structure

CDH Investment Bank is a subsidiary of Continental Holdings Limited, which is itself 61.00% owned by Trans Africa Holdings Limited (TAH), 14.44% by Press Trust, 9.98% by an Employee Share Ownership Programme (ESOP) and 14.58% by various minorities. Other companies within the group include Continental Asset Management Limited, Continental Asset Management Nominees Limited, Continental Capital Limited and Continental Properties Limited.



Corporate governance

CDH Investment Bank recognizes that good corporate governance is instrumental in ensuring the attainment of its objectives for the benefit of its shareholders whilst taking cognizance of the interests of all other stakeholders. The bank is committed to the highest level of corporate governance and the implementation of effective structures, policies and practices which improve corporate governance and create sustainable value for our shareholders and other stakeholders.

Our corporate governance practices are periodically reviewed and improved by benchmarking against internationally accepted best practices. The board is responsible for setting and reviewing the bank's strategic direction and monitoring the implementation of strategy by management. The Chief Executive Officer is responsible for the strategic leadership of the business.

Board of directors

CDH Investment Bank's board has a balance of executive, non-executive and independent directors. The board comprises a majority of independent directors and non-executive directors who are independent as defined in the King IV report.

The board continues to ensure that governance structures and processes are effective to ensure proper discharge of its oversight role.

The board recognizes its responsibility in creating value by providing ethical leadership, promoting the bank's vision and upholding its values. The board members act in the best interest of the bank and its stakeholders at all times.

The board of CDH Investment Bank comprises the following:

Name	Nationality
Franklin Kennedy (Chairman)	Canadian
Kofi Sekyere	Ghanaian
Robert Abbey	Ghanaian
Elias Malion	Malawian
Sydney Chikoti	Malawian
Kingsley Zulu	Malawian
John McGrath	Australian
Joyce Gundani	Malawian
Charles Asare	Ghanaian
Kwame Ahadzi	Ghanaian
Thoko Mkavea	Malawian
Beatrix Mosiwa	Malawian

Corporate governance

Board sub-committees and members

The board has the following standing sub-committees:

Name of sub-committee	Chairperson	Members
Audit	Sydney Chikoti	<ul style="list-style-type: none">• Elias Malion• Kingsley Zulu
Risk and Compliance	Joyce Gundani	<ul style="list-style-type: none">• John McGrath• Charles Asare
Finance, Business and Information Technology	Kofi Sekyere	<ul style="list-style-type: none">• Robert Abbey• Kwame Ahadzi
Human Resources and Remuneration	John McGrath	<ul style="list-style-type: none">• Kofi Sekyere• Robert Abbey

Risk management

The Board of CDH Investment regards risk management as a key discipline within the bank's operations. Risk management is a standard business practice consistently applied throughout the bank's operations. The day-to-day responsibility for identifying, managing, and mitigating emerging risks lies with management. Management is accountable to the board for designing, implementing and monitoring the systems and processes of risk management and compliance. The bank maintains separate risk and compliance functions to ensure adherence to the law, its policies and standards. The risk management process is integrated with the strategic business planning process and is embedded throughout our management reporting and performance management system.

Executive management

CDH Investment Bank's executive management deals with all material matters relating to implementing the bank's strategy, monitoring performance and considering policies and approving significant transactions within its mandate. The management team consists of seasoned bankers and professionals who are driven to make CDHIB a leading financial institution by prudently managing the assets of the bank to provide adequate return to investors.

Corporate governance

The executive management of CDH Investment Bank comprises of the following:

Name	Designation
Kwame Ahadzi	Chief Executive Officer/Managing Director
Thoko Mkavea	Deputy Chief Executive Officer/Executive Director
Beatrix Mosiwa	Executive Director, Finance and Operations
Kelvin Mkulichi	Chief Finance Officer
Jamal Kamoto	Acting Chief Business Development Officer
Zondwayo Mafuleka	Chief Treasury Officer
Chris Chirwa	Chief Information Technology Officer
Daniel Mwangwela	Chief Legal Officer and Company Secretary
Christopher Ngwira	Chief Internal Auditor
Robert Malipa	Chief Risk and Compliance Officer
James Chikoti	Chief Operating Officer
Ivy Kwatiwani	Chief Human Capital Development Officer
Sungani Mkandawire	Chief Credit Officer

Our culture

CDH Investment Bank is a dynamic investment bank with a commitment to excellence and innovation. Our business approach necessitates an investment in intellectual capital and as such, the bank remains committed to on-boarding qualified, talented and culturally fit individuals on our teams. CDHIB is an equal opportunities employer and prides itself in having the cream of the nation amongst its employees.

We believe that every team member is valuable to the success of the bank and strive to provide team members opportunities to realize their full potential, develop and grow. We encourage team members to constantly seek to improve their knowledge and skills both formally through education and informally through interaction with local and international industry peers.

Recognition of our top talent remains a priority for the bank as we endeavor to become the employer of choice in Malawi. The bank is constantly enhancing its employee engagement and employee recognition programs. We reward exceptional performance while identifying and improving performance that does not meet the bank's standards. Our open-door policy encourages the sharing of ideas across all levels within the organization to enhance our service delivery.

Corporate governance

As the ultimate judges of our performance, our customers expect exceptional service and value. We therefore focus on developing new and better solutions to customers' financial challenges. We stress creativity in everything we do and are proud to have pioneered several innovations in the industry. We appreciate the dedication and effort from our team in upholding our values and standards of excellence.

Corporate social responsibility

Corporate social responsibility is one of our fundamental values at CDHIB. We are committed to supporting growth not only for investors, but also for our employees, clients, the communities we serve as well as other stakeholders. In the past year, we dedicated resources to a variety of corporate social responsibility initiatives ranging from projects of national impact, sports, education, health, and professional institutes activities. The initiatives were executed with partners to ensure community involvement and indoctrination of the causes which shall lead to long lasting national impact. We continue to adopt the highest standards of governance and ethics in providing products and services which exceed customer expectations. We are committed to supporting initiatives which will develop and grow communities, and the nation to lessen the environmental impact of our business practices.



Investment banking services

We provide specialised, well researched financial advice to organizations confronted with complex financial challenges. Our market leadership in investment banking is defined by a combination of determination and commitment to create value for our clients.



Financial
Advisory

Lead advisor
2023



INVESTMENT BANK



Secured loan
programme

Lead arranger
2023



INVESTMENT BANK



ADMARC LIMITED

Commercial
paper programme

Lead arranger
2021



INVESTMENT BANK



Medium
term note

Lead arranger
2020



INVESTMENT BANK



Medium
term note

Lead arranger &
local agent bank
2020



INVESTMENT BANK



MAIIC
Malawi Agricultural & Industrial
Investment Corporation plc

Establishment of a
national development
finance institution in
Malawi

Lead arranger
2019



INVESTMENT BANK



INVESTMENT BANK

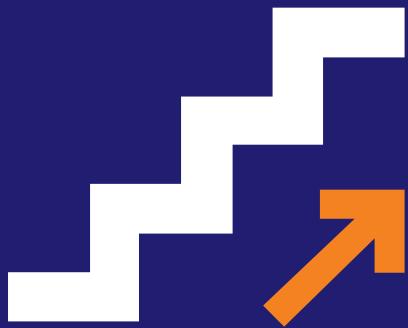


Banking innovations that help your business **grow**

info@cdh-malawi.com | www.cdh-malawi.com



Customer deposits



40%
increase

Profitability



48%
increase

Return on equity



45%

Total assets growth



42%





INVESTMENT BANK

Our performance

For the year ended 31 December 2023

Chairman's statement



Franklin Kennedy

Chairman

Operating environment

As we reflect on the past year, it is evident the global economic landscape has been shaped by unprecedented challenges, from the lingering effects of the COVID-19 pandemic to geopolitical tensions and natural disasters. Given these turbulent times, our annual report highlights both strategic measures taken to navigate this environment and provides an analysis of the Bank's financial achievements over this period.

The economic recovery from the pandemic was hindered by a slowdown in global growth and increased market volatility. Supply chain disruptions, exacerbated by the Russia/Ukraine conflict and an energy crisis in Europe, contributed to higher inflation levels worldwide. Central banks responded by raising interest rates, impacting borrowing costs in local markets, including Malawi.

The demise of five banks in the United States and Credit Suisse in Switzerland in 2023, underscored the importance of prudent financial management in a changing economic landscape. We have taken note of the lessons learned and reaffirmed our commitment to asset diversification and effective risk management.

International tensions have added complexity to the business environment. Events such as the conflict between Israel and Hamas and lockdowns in China have disrupted global trade, leading to a reorganization of supply networks. These challenges highlight the need for resilience and adaptability in the face of evolving geopolitical dynamics.

On the domestic front, Malawi faced its own set of challenges, including the aftermath of Cyclone Freddy and continuing shortages of foreign exchange. Despite these obstacles, our Bank recorded a commendable profit, reflecting the dedication of our team and our commitment to serving our stakeholders.

Bank performance

The Bank remained resilient in the turbulent operating environment. The board, management and staff were determined and fully committed to identifying opportunities to deliver on the promise to help our stakeholders to grow through offering specialized and innovative financial services. I am pleased to report that the Bank registered a strong performance in 2023, recording a profit after tax of K11.140 billion which was 48% higher than the prior year resulting in a return on shareholder's equity of 45%.

The Bank's performance continues to be underpinned by a strong governance culture, highly committed and experienced staff and the continuous strengthening of our relationships with our clients, regulatory authorities, the Government of Malawi and local and international financial institutions. During this period, we remained focused on protecting stakeholder value and building operational resilience, while maintaining a strong risk management and a compliance culture as the key element to the Bank's long-term success.

Strategic direction

Looking ahead, continued economic challenges are anticipated in 2024. However, we remain steadfast in our long-term growth plans, which include continued focus on effective governance, continuous investments in technology, and strategic partnerships. Our goal is to maintain our position as Malawi's premier investment bank while delivering value to our stakeholders.

Executive management changes

There were key changes at the helm of affairs at the Bank within executive management. Mr Kwame Ahadzi who had been brought in as the Chief Executive Officer and Managing Director under a two year contract to build on and strengthened our human resource capacity and controls, retired on December 31, 2023. On January 1, 2024, Mr Thoko Mkavea was appointed as the new Chief Executive Officer and Managing Director. Mr Mkavea was the Deputy Managing Director until his recent appointment. Ms Beatrix Mosiwa who was the Executive Director responsible Finance and Operations, replaced Mr Mkavea as the new Deputy Chief Executive Officer effective January 1, 2024. It is important to mention that both Mr Mkavea and Ms Mosiwa represent home-grown talent.

Both Mr Mkavea and Ms Mosiwa bring a wealth of experience to their new positions, and we are confident in their ability to lead us into the future. The Board of Directors expresses its appreciation to Mr Ahadzi for his inspirational leadership in growing the human and financial capital of the Bank.

Appreciation

In closing, I would like to express my gratitude to our clients, partners, shareholders, and regulatory agencies, for their continued support. Our success would not be possible without the dedication of our Team, and I extend my sincere appreciation to our Board of Directors, our Management Team and to each member of the CDHIB family.

Thank you for your trust and confidence in CDH Investment Bank.

Sincerely



Franklin Kennedy
Board Chairman

Ceo's statement



Kwame Ahadzi
Chief Executive Officer

Overall performance

The Bank effectively navigated a challenging macro-economic landscape characterized by rising interest and foreign exchange rates, alongside volatile global markets. An after-tax profit of K11.140bn was achieved, marking a 48% growth from the previous year's K7.5bn. Total assets grew impressively by 42% from K219bn in 2022 to K311bn in 2023. Despite inflationary pressures on operating costs and higher credit impairment charges, our return on assets and return on equity remained strong at 4% and 45% respectively. Diversified revenue streams were pivotal in delivering this performance, underscoring the successful execution of our strategy to focus, simplify, and grow the business. Robust capital generation enabled us to maintain strong capital adequacy and liquidity ratios, improve shareholder returns, and sustain support for our clients. Significant progress in our capital optimization strategy positions us strongly for the future.

Business units overview

Our three business units – Investment Banking, Commercial Banking, and Treasury Management – continue to drive the bank's performance with a commitment to technology, teamwork, high-quality service, and research. We remain dedicated to offering innovative banking solutions tailored to our clients' needs.

Investment banking

We maintain our position as the investment bank of choice in Malawi, dedicated to delivering exceptional long-term value through tailored solutions. Our focus on hiring and developing top talent, coupled with a commitment to financial advisory services, reinforces our leadership in investment banking contributing to sustainable economic growth in Malawi.

Commercial banking

Despite market uncertainties, our client-centric strategy enabled us to maintain quality asset portfolios and stable deposit bases. We provided tailored solutions and enhanced digital banking services, positioning CDHIB as the preferred transaction bank. This approach strengthens customer relationships and ensures diversified revenue streams.

Treasury management & international trade

Despite challenges, our treasury management business witnessed robust growth, supported by strong business relationships and increased forex transactions. We anticipate continued growth in this area.

Human capital

We appreciate the dedication of our staff and prioritize their development through leadership training, coaching programs, and various staff well-being initiatives. Our commitment to talent management ensures a skilled and motivated workforce.

Business prospects and outlook

Despite economic challenges, we remain proactive in identifying and capitalizing on investment opportunities. Our strategic alliances and focus on technology will drive growth and innovation, ensuring continued value delivery to our clients.

Corporate social responsibility

CDH Investment Bank committed substantial resources to support various institutions, customers, and staff under a variety of corporate responsibility initiatives. In 2023, the nation was hit by devastating Cyclone Freddy, and the Bank, in collaboration with its sister companies, supported disaster relief plans that provided health and shelter relief to victims of the cyclone. Additionally, in the field of education, the Bank signed a Memorandum of Understanding (MoU) with Lilongwe University of Agriculture and Natural Resources (LUANAR) to support three strategic initiatives, including the annual tree-planting, Vice Chancellor's agri-innovation awards, and provision of scholarships to talented needy students. Furthermore, the Bank collaborated with the University of North Carolina (UNC) Malawi to support its education project at Dzama Educational Development Program in Lilongwe, contributing to the construction of a new school block that supports learners with proper infrastructure to realize their future dreams.

Regarding health initiatives, the Bank donated funds to various organizations to support capacity building with respect to child surgeries and other medical needs. These initiatives reflect our commitment to making a positive impact on society and supporting the well-being of our communities.

Appreciation

We extend our gratitude to our clients, partners, directors, shareholders, and staff for their continued support and commitment. With their invaluable contributions, CDH Investment Bank is poised for continued growth and improved service delivery.



Kwame Ahadzi
Chief Executive Officer





INVESTMENT BANK

Our structure

For the year ended 31 December 2023

Board of directors



Franklin Kennedy
Chairman



Kofi Sekyere
Director



Robert Abbey
Director



Charles Asare
Director



John McGrath
Director



Kingsley Zulu
Director



Elias Malion
Director



Sydney Chikoti
Director



Joyce Gundani
Director



Kwame Ahadzi
Managing Director



Thoko Mkavea
Executive Director



Beatrix Mosiwa
Executive Director

Executive management



Kwame Ahadzi
Chief Executive Officer



Thoko Mkavea
Deputy Chief Executive Officer



Beatrix Mosiwa
Executive Director
Finance and Operations



Zondwayo Mafuleka
Chief Treasury Officer



Kelvin Mukulichi
Chief Finance Officer



Jamal Kamoto
Acting Chief Business
Development Officer



James Chikoti
Chief Operating
Officer



Daniel Mwangwela
Chief Legal Officer and
Company Secretary



Chris Chirwa
Chief Information
Officer



Robert Malipa
Chief Risk and
Compliance Officer



Ivy Kwatiwani
Chief Human Capital
Development Officer



Sungani Mkandawire
Chief Credit Officer



Christopher Ngwira
Chief Internal Auditor





INVESTMENT BANK

CDHIB Corporate social responsibility

For the year ended 31 December 2023

Corporate social responsibility

CDH Investment Bank continues to support various growth and development initiatives through its corporate social responsibility programs. The bank supported a variety of activities in health, sports, education, and other activities of national importance in 2023.

Highlights of the 2023 corporate social responsibility initiatives include:

1. Disaster relief
2. Health
3. Education
4. Environment
5. Sports
6. Youth – early child development
7. Stakeholder engagement
8. Community support initiatives
9. Staff welfare

1. Disaster relief

Continental Asset Management Limited , CDH Investment Bank and Continental Holdings Limited joined hands to support victims of Cyclone Freddy through the Malawi Red Cross Society



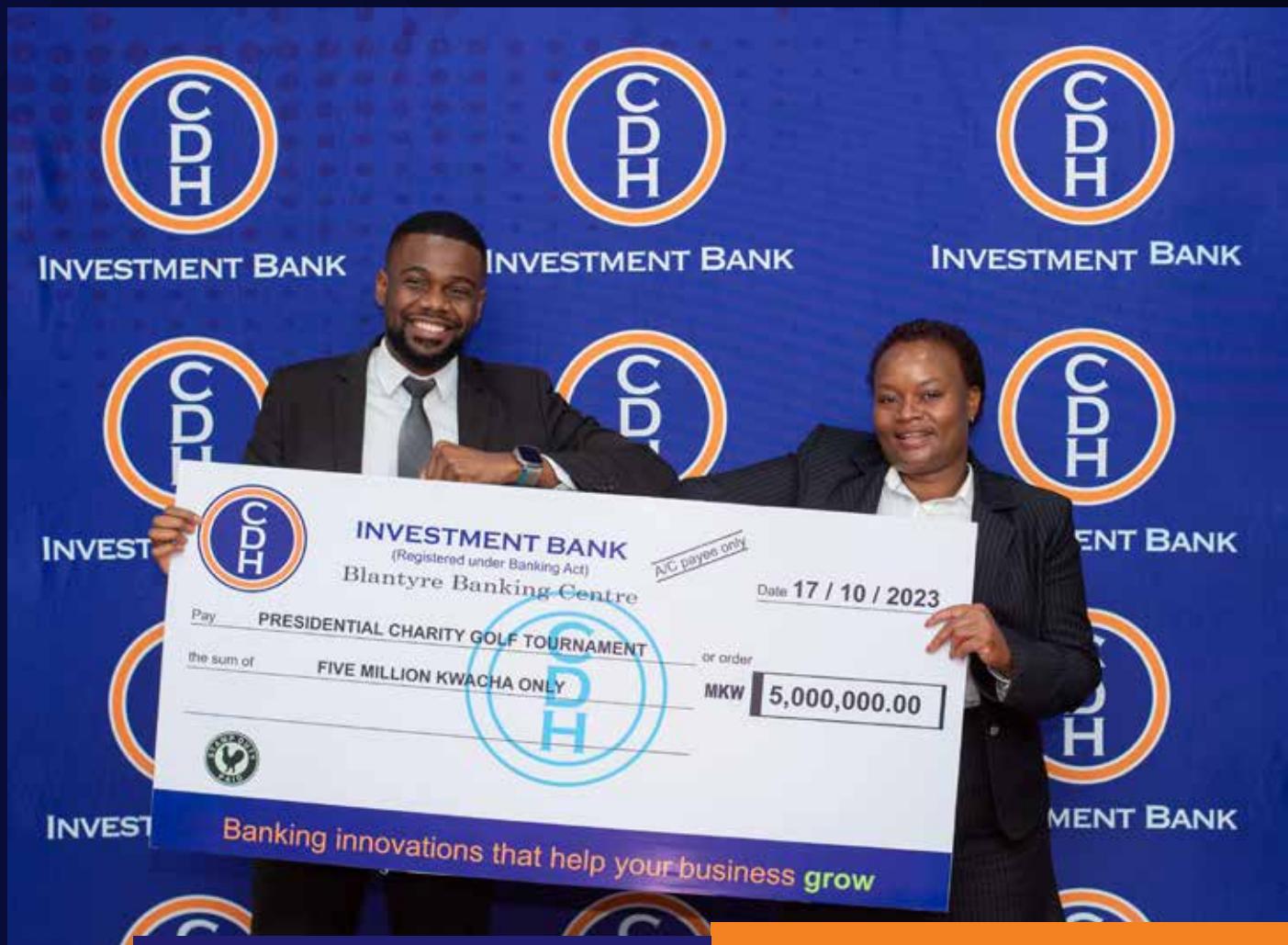
Mrs Gillian Kachikondo, Chief Executive Officer of Continental Asset Management Limited, Mr Kwame Ahadzi, Chief Executive Officer/Managing Director CDH Investment Bank, Mr Kingsley Zulu, Group Financial Officer of Continental Holdings Limited presenting a cheque to Mr McBain Kanongodza, Secretary General, Mr Magwede, Blantyre Division Chair, Mr Felix Washon, Communication Coordinator, and Martha Mkandawire, Senior Accountant of the Malawi Red Cross Society

CDH Investment Bank, together with Continental Asset Management Limited and Continental Holdings Limited, donated K60 million to the Malawi Red Cross Society in support of victims of Cyclone Freddy.

The Malawi Red Cross Society is a local humanitarian organization which is affiliated to the International Committee of the Red Cross

Corporate social responsibility

CDH Investment Bank joins other banks and corporates in supporting the 2023 Presidential Charity Golf tournament



Mr Jamal Kamoto, CDH Investment Bank Acting Chief Business Development Officer presenting a cheque to Ms Sophie Mlumbe, Presidential Charity Golf organising committee member

CDH Investment Bank donated K5 million to the Presidential Charity Golf tournament which was played at Lilongwe Golf Club on 21st October 2023. The initiative supports needy students with tertiary education fees and families affected by various natural disasters.

Corporate social responsibility

2. Health

CDH Investment Bank cares about the health and wellbeing of all children in Malawi



Mr Zondwayo Mafuleka, Chief Treasury Officer of CDH Investment Bank handing over a donation to Mr Elly Chemey, Executive Director, Beit Cure International Hospital

CDH Investment Bank donated K7.9 million to Beit Cure International Hospital in Blantyre towards improving children's health. The hospital is the only facility in sub-Saharan Africa recognized by the Royal College of Surgeons of England and performs over 1,200 life-changing surgeries every year to help children suffering from treatable disabilities.

Corporate social responsibility

CDH Investment Bank supports the development of quality research in Malawi



Mr Jamal Kamoto, CDH Investment Bank Acting Chief Business Development Officer presenting a donation to Professor Macpherson Mallewa of the Kamuzu University of Health Sciences

CDH Investment Bank donated K5 million to the Kamuzu University of Health Sciences. The donation was made to support the university's second research dissemination conference. The conference was held from 30th November to the 1st December 2023 at the Blantyre Campus. The theme of the conference was

"Tackling the #MW2063 Health Research Priorities: Through a Multidisciplinary Approach".

Corporate social responsibility

CDH Investment Bank supports orthopaedics and trauma care in Malawi



Mr Jamal Kamoto, CDH Investment Bank, Acting Chief Business Development Officer handing over a donation to Ms Maureen Sabawo, Malawi Orthopaedic Association President

CDH Investment Bank donated K2 million to support Malawi Orthopaedic Association's 2023 scientific conference on "*Orthopaedics and Disaster Management: Lessons from Cyclone Freddy*." The conference took place from Sep 21-23, 2023 at Chikho Hotel, Dowa. The association coordinates, advises and provides rehabilitation services for the neuromuscular and skeletal system and has improved orthopaedic and trauma care in Malawi through its training school and annual conferences.

Corporate social responsibility

3. Education

CDH Investment Bank in partnership with UNC Projects invests K15m in a school block in Lilongwe



Representative from the contractor, representative from Dzama community, Head teacher of Nafutsa Primary School, Mrs Jennie Madinga, Mr Molius Mangaawuma, Mr Benison Jambo of CDH Investment Bank pose with UNC Project Country Director Mr Innocent Mofolo the Guest of Honor Mrs Judith Chiwoko (3rd right) after unveiling the school block building plaque.

CDH Investment Bank invested K15 million in partnership with UNC Project Malawi to build a school block at Nafutsa Primary School Dzama, Lilongwe. The block was officially opened on 31 May 2023 by Mrs Judith Chiwoko. UNC Project-Malawi conducts HIV and STD research and has helped establish the Dzama Educational Development Program by building school blocks and supporting a school feeding program.



Mr Benison Jambo, CDH Investment Bank Chief Business Development Officer, the Guest of Honor Mrs Judith Chiwoko, The Primary Education Advisor and Mr Innocent Mofolo, PEA, UNC Project Malawi, Country Director cutting ribbon before entering the school block.

Corporate social responsibility

CDH Investment Bank invests in LUANAR's 2023 student innovator awards



CDH Investment Bank Relationship Manager (Corporate and Public Sector), Mrs Jennie Madinga (2nd right), and CDH Investment Bank Lilongwe Banking Centre Manager, Mr Molius Mangaawuma (far right) presenting the donation to (L-R) Associate Professor Judith Kamoto, Campus Director Bunda, Prof. Emmanuel Kaunda LUANAR Vice Chancellor and Agness Mwangwela, Deputy Vice Chairperson, LUANAR.

CDH Investment Bank (CDHIB) donated K10, 559, 047.14 to Lilongwe University of Agriculture and Natural Resources (LUANAR) on Thursday 14th December 2023. The funds were used to support talented needy students with scholarships and were presented at the 2023 student innovator awards student innovator awards, by awarding five first year students with money amounting to K1.7million each. The scholarships support national efforts to enhance access to education and sustain various talents, innovations and unique explorations for talented students which will provide agri-innovative solutions to the nation in future.

Corporate social responsibility

CDH Investment Bank participates in '60 minutes with a banker' financial literacy campaign



CDH Investment Bank Chief Executive Officer, Mr Kwame Ahadzi [seated third left] with some students and teachers from Ndirande Hill Secondary School after the talk.

CDH Investment Bank participated in the Bankers' Association of Malawi (BAM) 60-minute financial literacy campaign along with other banks in 2023. On Friday, 5th May 2023, CDH Investment Bank interacted with students from Ndirande Hill Secondary School where they conducted a motivational talk and raised awareness on the significance of adopting a saving culture among the youth. The Chief Executive Officer of the Bank, Mr Kwame Ahadzi, led the event and inspired the students to work hard and develop an interest in finance-related matters for the betterment of the economy.

Corporate social responsibility

CDH Investment Bank joined other financial institutions in the Reserve Bank of Malawi 2023 world savings week financial awareness drive.



Satakwawa Zuze, CDH Investment Bank Blantyre Banking Centre Manager interacting with a student at Nanjiriri Community Day Secondary School



CDH Investment Bank Capital City Banking Centre Manager, Mercy Sekani engages students at Chipasula Secondary School during the school savings talk

CDH Investment Bank participated in the Reserve Bank of Malawi's savings awareness week from 6th to 10th November 2023. The event was aimed to promote a culture of saving, investing, and wealth creation. CDH Investment Bank provided savings tips to students of Chipasula Secondary School in Lilongwe and Nanjiriri Community Day Secondary School in Machinjiri, Blantyre, and participated in a financial awareness drive at Lilongwe University of Agriculture and Natural Resources (LUANAR).

The financial literacy talks created awareness on the need for the youth to develop a saving culture and how they can access banking services in Malawi.

4. Environment

CDH Investment Bank committed to a sustainable green economy through tree-planting



Representatives from CDH Investment Bank and Lilongwe University of Agriculture & Natural Resources pose with tree-seedlings prior to commencing the tree-planting exercise

CDH Investment Bank donated K3.5million to Lilongwe University of Agriculture & Natural Resources (LUANAR) Forestry Department towards the annual tree planting exercise. The tree-planting exercise took place at Chiseka Community Day Secondary School in March 2023.

Corporate social responsibility

5. Sports

CDH Investment Bank boosts Southern Zone Basketball League (SOZOBAL) with a donation of K15million



Mr Sungani Mkandawire, CDH Investment Bank, Chief Credit Officer handing over a donation to Mr Raymond Chikoko, Southern Zone Basketball League President

CDH Investment Bank donated K15, 000,000.00 to the Southern Zone Basketball League (SOZOBAL). K5, 000,000 was donated for the 2022/2023 end-of-season CDHIB SOZOBAL play-off series held in May 2023 and K10, 000,000 for the 2023 CDH Investment Bank Cup held in October 2023. SOZOBAL oversees the development of basketball in Malawi and is a member of the Basketball Association of Malawi (BASMAL).

Corporate social responsibility

CDHIB SOZOBAL end of season basketball cup - Crazy Warriors and Mystics crowned champions



Crazy Warriors receiving the champion's trophy for the CDHIB SOZOBAL end of season cup from CDH Investment Bank Deputy Chief Executive Officer/Executive Director, Mr Thoko Mkavea

Crazy Warriors and Mikoko Mystics won the CDH Investment Bank Southern Zone Basketball League (SOZOBAL) end of season cup in the men and women's divisions respectively. The end of season basketball cup hosted by SOZOBAL worth K5million was sponsored by CDH Investment Bank.



Mikoko Mystics celebrating their win

Corporate social responsibility



CDH Basketball team being crowned champions of the 2022/23 SOZOBAL basketball league

CDH Investment Bank was crowned the SOZOBAL league 2022/2023 season champions at the same event. In the ladies category, Eagles were awarded the championship for the fourth time in a row.

Corporate social responsibility

6. Youth - early child development

CDH Investment Bank donated K16.9m to Mary's Meals



The Head Teacher and some learners from Mbinda Junior Primary School, some Mary's Meals Malawi and CDH Investment Bank representatives pose with the Guest of Honor, Zelita Zamula, Ministry of Education Principal Education Officer in front of the new school kitchen and feeding block at Mbinda Primary School.

CDH Investment Bank, in partnership with Mary's Meals, invested a K13.8 million school kitchen and feeding block at Mbinda, Blantyre. In addition, the bank sponsored K3.1 million towards the schools feeding program which is managed by Mary's Meals. The kitchen was officially launched on Tuesday 13th June 2023 in a ribbon cutting ceremony held at Mbinda Junior Primary School in Blantyre.

Corporate social responsibility



The Guest of Honor, Zelita Zamula participates in the school feeding program along with representatives from CDH Investment Bank and Mary's Meals Malawi

Zelita Zamula, the Guest of Honor, thanked Mary's Meals and CDH Investment Bank for providing a new school kitchen which was well received by the authorities and community. Mary's Meals operates the largest school feeding program in Malawi, serving over 1 million children every school day and supporting pre-school children who are most vulnerable to malnutrition.



The newly launched school kitchen

7. Stakeholder engagement

CDH Investment Bank partners the Malawi Stock Exchange in promoting investments in listed financial securities



Mr John Robson Kamanga, Chief Executive Officer, Malawi Stock Exchange, delivering his remarks



Professor James Kamwachale Khomba Chairperson, Malawi Stock Exchange, delivering his remarks



Mr Dennis Kawawa, Investment Banking Associate, CDH Investment Bank giving his presentation

Corporate social responsibility

8. Community support

CDH Investment Bank donates K2million to Blantyre Police Station



Ms Ivy Kwatiwani, CDHIB Chief Human Capital Development Officer handing over a donation to Superintendent Jackson Silungwe (Centre)

CDH Investment Bank donated K2 million to Blantyre Police Station. The donation was made to support the station in a project aimed at installing CCTV cameras in the city of Blantyre.

9. Staff welfare

Staff quarterly wellness engagements



The team from Lilongwe captured after a staff engagement session

CDH Investment Bank supported staff wellness with quarterly engagement activities in 2023.





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Annual economic review

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For the year ended 31 December 2023

1. Executive summary

- 1.1 The Reserve Bank of Malawi (RBM) continued to pursue a tight monetary policy in 2023. The Monetary Policy Committee raised the Policy rate twice during the year, from 18.0% to 22.0% in April 2023 and to 24.0% in July 2023. The Committee also raised the Liquidity Reserve Requirement (LRR) ratio on domestic currency deposits from 3.75% to 5.75% in April 2023 and to 7.75% in July 2023.
- 1.2 Market interest rates and yields on government securities continued to increase in 2023 following the increase in the Policy rate.
- 1.3 Liquidity levels on the interbank market increased during the year 2023 compared to 2022, with banks' excess reserves held with the RBM increasing by 58.62% to the average of K54.26 billion per day in 2023 from the average of K34.20 billion per day in 2022.
- 1.4 The supply of foreign currency remained critically low which resulted in the continued depreciation of the Kwacha against major trading currencies during the year. The RBM introduced foreign exchange auctions with Authorised Dealer Banks (ADB)s during the year to correct the misalignment in the exchange rate and devalued the Kwacha by 44% on 8th November 2023. The Kwacha to US Dollar TT rate lost 64.11% cumulatively to close at K1,697.98 per USD during the year.
- 1.5 The Inflationary pressure remained high in 2023, with headline inflation rate increasing to an average of 28.7% in 2023 from an average of 20.9% in 2022. The rate closed the year at 34.5%. The government projects an annual average inflation rate of 27.1% for 2024.
- 1.6 The real GDP growth rate for 2023 was estimated at 1.5% from the growth rate of 0.9% registered in 2022. The government expects a higher growth rate in 2024 of 3.2%, supported by the approved International Monetary Fund's Extended Credit facility which is expected to support macroeconomic stability.
- 1.7 The stock market registered a positive return on the Malawi All Share Index (MASI) of 78.85% in 2023, higher than the return of 36.74% in 2022.

2. Interbank

- 2.1 Liquidity conditions in the banking system were higher in 2023 compared to the level registered in 2022. Banks' excess reserves held with the Reserve Bank of Malawi (RBM) averaged K54.26 billion per day in 2023, compared to the average of K34.20 billion per day in 2022, representing an increase of 58.62%. Liquidity conditions were highest in the fourth quarter of 2023 when banks' excess reserves averaged K90.97 billion per day and were lowest in the third quarter when excess reserves averaged K31.11 billion per day.
- 2.2 The volume of borrowing among banks on the interbank market increased by 61.94% in nominal terms to a total of K6.78 trillion in 2023 from K4.19 trillion in 2022. Funds accessed through the Lombard Facility of the RBM increased by 224.74% in nominal terms to K21.42 trillion in 2023 compared to K6.60 trillion in 2022.
- 2.3 The interbank borrowing rate increased to an average of 19.50% during the year from an average of 12.64% in 2022. The Lombard rate increased to 24.20% as at the end of the year 2023 from 18.20% as at the end of 2022. The increase in interbank rates followed upward adjustments of the Policy rate in April and July 2023.

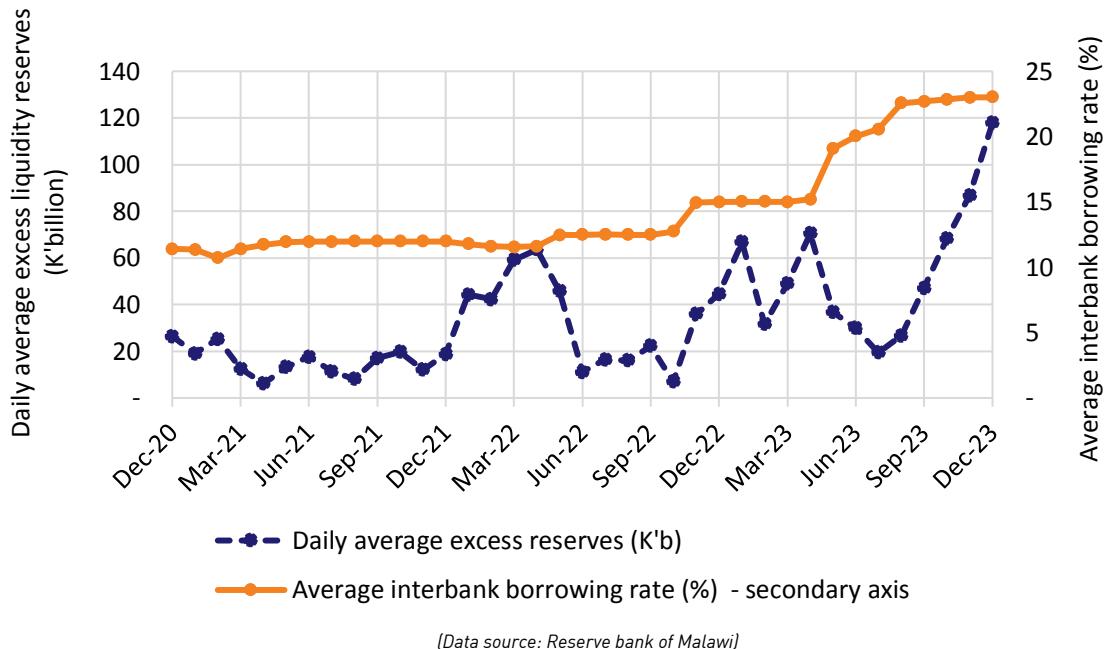
Annual economic review

For the year ended 31 December 2023

2.4 To manage liquidity in the banking system, the RBM injected funds through the issuance of OMO reverse repos which amounted to K11.00 billion in 2023 (K241.63 billion in 2022); through conducting outright purchase of securities which amounted to K139.64 billion (K443.86 billion in 2022); and through the Rediscounting Standing Facility of which K38.25 billion was accessed (K103.71 billion in 2022). To mop up liquidity, the RBM issued OMO repos that amounted to K120.50 billion (K46.66 billion in 2022) and conducted outright sale of securities that amounted to K1.47 billion (K90.72 billion in 2022) during the year.

2.5 Chart 1 provides a summary of excess liquidity reserves and interbank rate movements over the immediate past three years. The Chart shows the significant increase in liquidity levels and interbank borrowing rates in 2023 relative to 2022.

Chart 1: Daily average excess liquidity reserves and interbank borrowing rate



(Data source: Reserve bank of Malawi)

3. Government securities

3.1 The government raised K638.91 billion in auctions of Treasury Bills (TB) in 2023, representing an increase of 7.26% from K595.66 billion raised in 2022. The rejection rate was at 11.28% in 2023 compared to 10.04% in 2022.

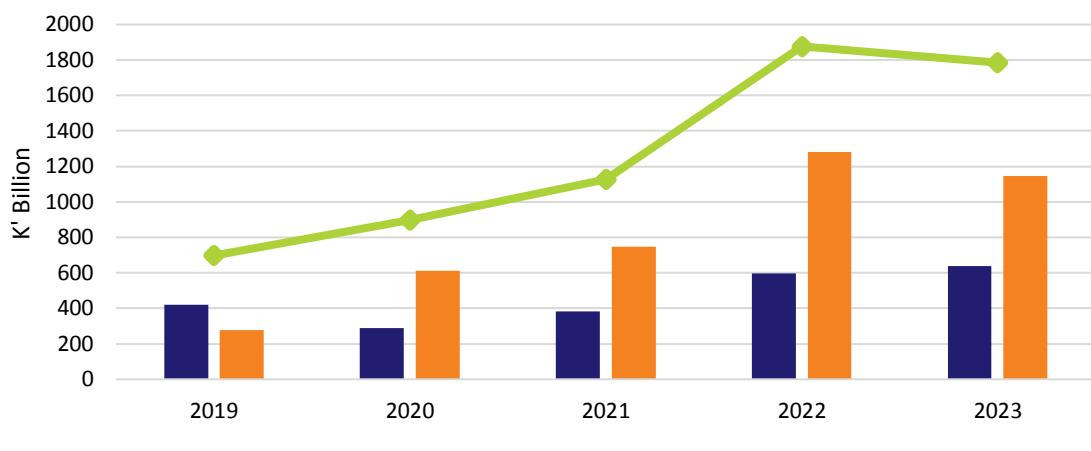
3.2 K1,147.19 billion was raised in auctions of Treasury Notes (TNs) during 2023, compared to K1,281.04 billion raised in 2022, representing a nominal decrease of 10.45%. Rejection rate for TNs was at 5.80% in 2023 compared to 9.07% in 2022.

3.3 Overall, the total amount raised by government in the domestic market through issuance of Treasury securities (TBs and TNs combined) decreased by 4.83% in nominal terms in 2023 (K1,786.09 billion) relative to 2022 (K1,876.70 billion) as shown in Chart 2:

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For the year ended 31 December 2023

Chart 2. Comparative analysis of amounts raised in Treasury securities



(Data source: Reserve bank of Malawi)

3.4 Yields on government securities increased in 2023, reflecting an increase in the Policy rate. The 91-day, 182-day and 364-day TB yields averaged 13.70%, 17.80% and 22.11%, respectively, increasing from 10.56%, 14.73% and 17.13% in 2022. The all-type average TB yield, consequently, increased to 17.87% in 2023 from 14.14% in 2022. Average yields for TNs also increased across all tenors as shown in the Table 1 below:

Table 1: Annual average and year-end yields of Treasury Bills and Notes

Tenor	Annual average yields			Year-end yields		
	2023 average	% points change	2022 average	As at 31 Dec 2023	% points change	As at 31 Dec 2022
91-days	13.70%	▲ 3.14	10.56%	14.70%	▲ 1.70	13.00%
182-days	17.80%	▲ 3.07	14.73%	18.00%	▲ 0.50	17.50%
364-days	22.11%	▲ 4.97	17.13%	24.00%	▲ 4.50	19.50%
2-years	24.90%	▲ 5.30	19.60%	26.75%	▲ 4.25	22.50%
3-years	26.17%	▲ 4.52	21.65%	28.00%	▲ 4.00	24.00%
5-years	28.23%	▲ 4.43	23.80%	30.00%	▲ 4.00	26.00%
7-years	29.72%	▲ 5.33	24.39%	32.00%	▲ 4.50	27.50%
10-years	31.04%	▲ 5.35	25.69%	33.00%	▲ 4.50	28.50%

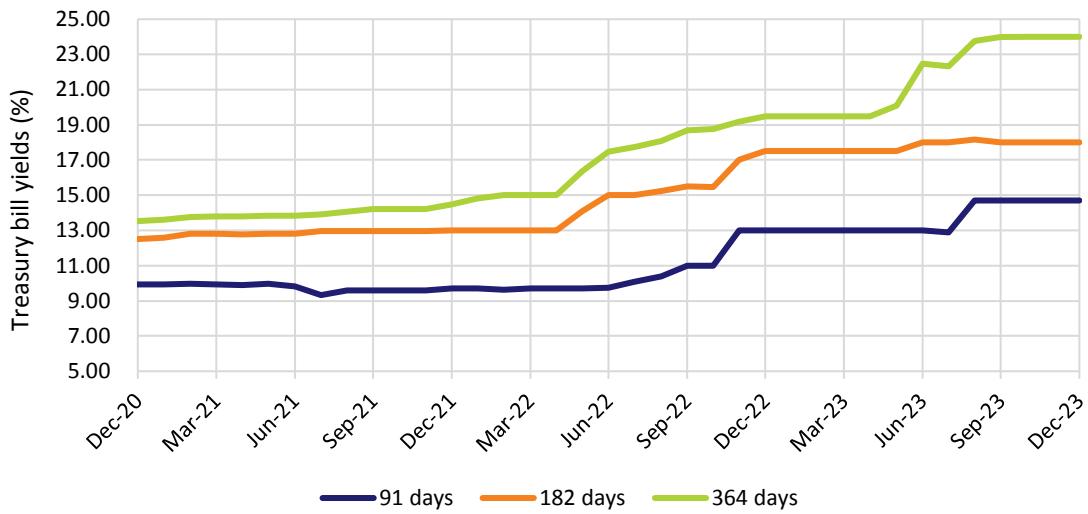
(Data source: Reserve bank of Malawi)

Annual economic review

For the year ended 31 December 2023

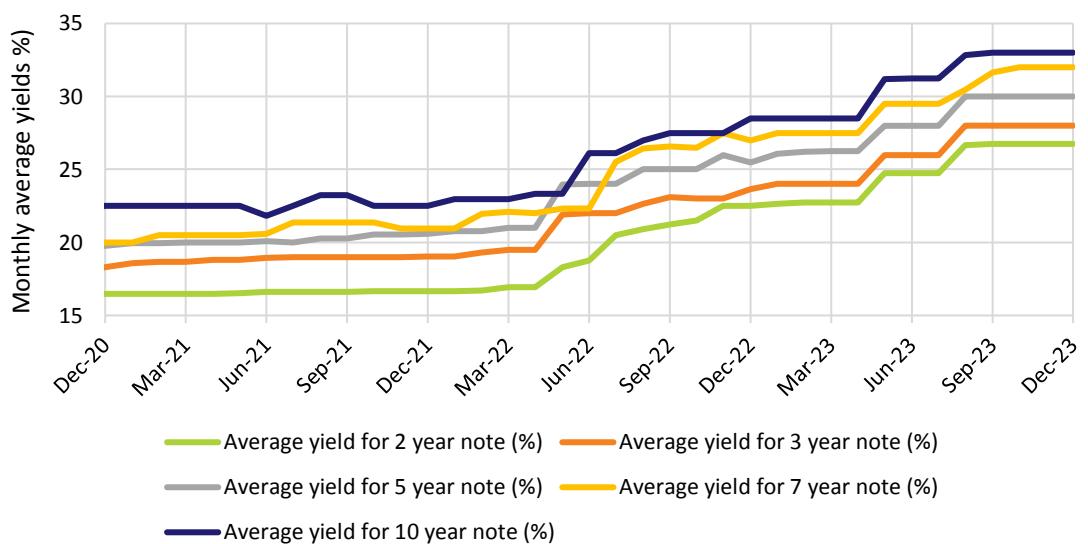
3.5 Chart 3a and 3b below depict the above trend.

Chart 3a: Monthly average Treasury bill yields



(Data source: Reserve bank of Malawi)

Chart 3b: Monthly average Treasury Note yields



(Data source: Reserve bank of Malawi)

Annual economic review

For the year ended 31 December 2023

4. Foreign exchange

4.1 In the year 2023, the Malawi Kwacha continued to weaken against major trading currencies as the imbalance between supply and demand of foreign currencies widened.

4.2 The Malawi Kwacha to USD TT middle exchange rate averaged K1161.09 per USD in 2023, up by 22.34% from the average of K949.04 per USD in 2022. The Malawi Kwacha to GBP TT average middle exchange rate increased by 19.05% to K1,486.27 per GBP from K1,248.47 per GBP; the Malawi Kwacha to EUR TT average middle exchange rate increased by 18.31% to K1,291.17 per EUR from K1,091.31 per EUR; and the Malawi Kwacha to ZAR TT average middle exchange rate increased by 2.48% to K64.26 per ZAR from K62.71 per ZAR.

4.3 RBM introduced monthly foreign exchange auctions during 2023 which were aimed at facilitating the discovery of prevailing market clearing exchange rates for the Kwacha against major currencies. In these auctions, Authorised Dealer Banks (ADB)s submit bids to sell foreign currencies to RBM at prices freely determined by each participating ADB.

4.4 On 8th November 2023, RBM devalued the Kwacha by 44% against the United States Dollar (USD). The devaluation was aimed at addressing the prevailing supply-demand imbalances in the forex market and the arbitrage opportunities emanating from the mismatch in exchange rates in the cash and TT markets. This followed another devaluation of 25% which was effected on 26th May 2022.

4.5 Table 2a and Chart 4a show that the Kwacha significantly depreciated against USD, GBP, EUR and ZAR in 2023, especially after the 44% devaluation in November 2023. **(Note:** downward arrows represent depreciation of the Kwacha).

Table 2a: TT middle exchange rates

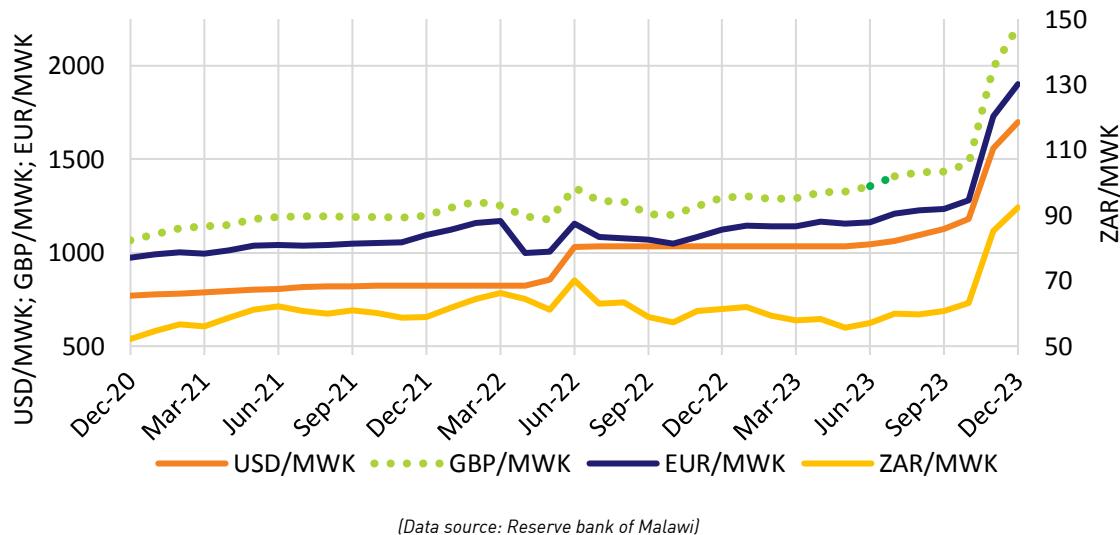
Currency	Annual Average			End year		
	2023	Change	2022	31 Dec 2023	Change	31 Dec 2022
USD/MWK	1161.09 	22.34%	949.04	1697.98 	64.11%	1034.67
GBP/MWK	1486.27 	19.05%	1248.47	2224.30 	73.42%	1282.60
EUR/MWK	1291.17 	18.31%	1091.31	1917.45 	69.55%	1130.92
ZAR/MWK	64.26 	2.48%	62.71	94.17 	50.22%	62.69

(Data source: Reserve Bank of Malawi)

Annual economic review

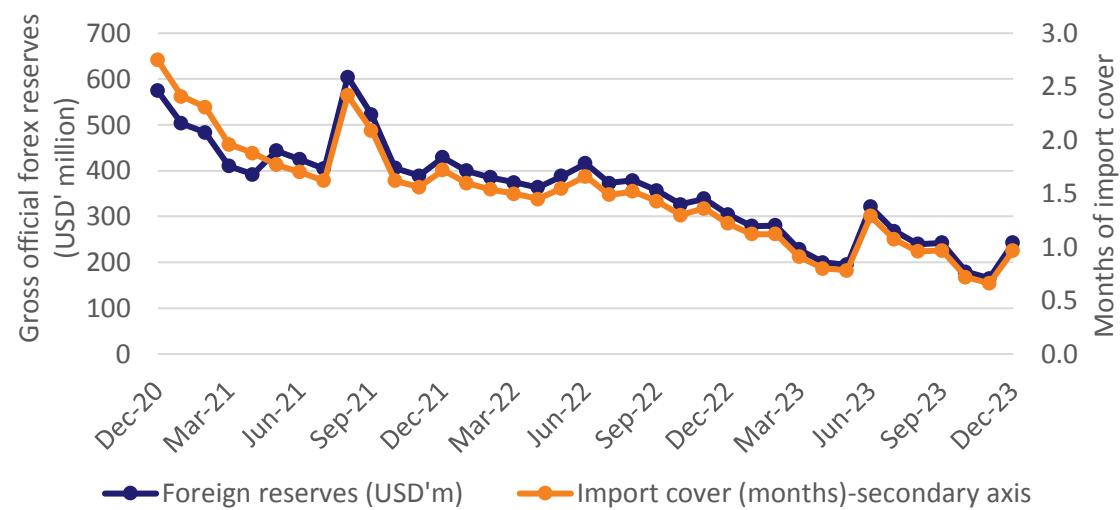
For the year ended 31 December 2023

Chart 4a: Monthly average TT middle exchange rates



4.6 Month-end balances of gross official forex reserves averaged USD236.84 million (0.95 months import cover) in 2023, down from the average of USD367.14 million (1.47 months of import cover) in 2022. As of 31st December 2023, the reserves were at USD242.58 million (0.97 months of import cover), decreasing from USD304.65 million (1.22 months of import cover) as of 31st December 2022. The reserves have been below the recommended 3 months of import cover since November 2020.

Chart 4b: Gross official forex reserves



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4.7 The country's earnings from tobacco sales, the country's largest forex earner, increased by 55.88% in 2023 compared to 2022 on account of an increase of 41.67% in sales volume and an increase of 2.14% in average prices as shown in the Table 2b below:

Table 2b: End season tobacco sales

	2023	% Change (2023 - 2022)	2022	% Change (2022 - 2021)	2021	% Change (2021 - 2020)	2020
Volume (kg)	120.53	41.67% 	85.07	-31.20% 	123.65	8.45% 	114.02
Average price (USD/kg)	2.35	9.81% 	2.14	34.59% 	1.59	3.92% 	1.53
Value (USD 'million)	283.76	55.88% 	182.04	-7.62% 	197.05	12.62% 	174.97

(Data source: Tobacco Commission (TC))

4.8 Looking forward, forex inflows into the formal system are expected to improve in the short to medium term following the Kwacha devaluation and as grant financing increases following the approval of the IMF's Extended Credit Facility (ECF) program.

4.9 The IMF ECF program of about \$174.00 million, covering the next four years was approved by the IMF Board on 15th November 2023. The ECF program is expected to catalyze grant financing and help to restore macroeconomic stability in the medium to long term.

4.10 The EIU projects the following annual Malawi kwacha to USD TT exchange rate averages:

Table 2c: EIU exchange rate projections

Year	2024	2025	2026	2027	2028
USD/MWK annual average	1759.10	1894.70	2146.30	2307.00	2479.80

(Source: EIU Malawi Country report Q4 2023)

5. Inflation

5.1 The rate of inflation significantly increased in 2023, relative to 2022. Year-on-year headline inflation rate stood at 34.5% as at the end of the year from 25.4% as at the end of 2022. The rate averaged 28.7% in 2023, up from the average of 20.9% in 2022.

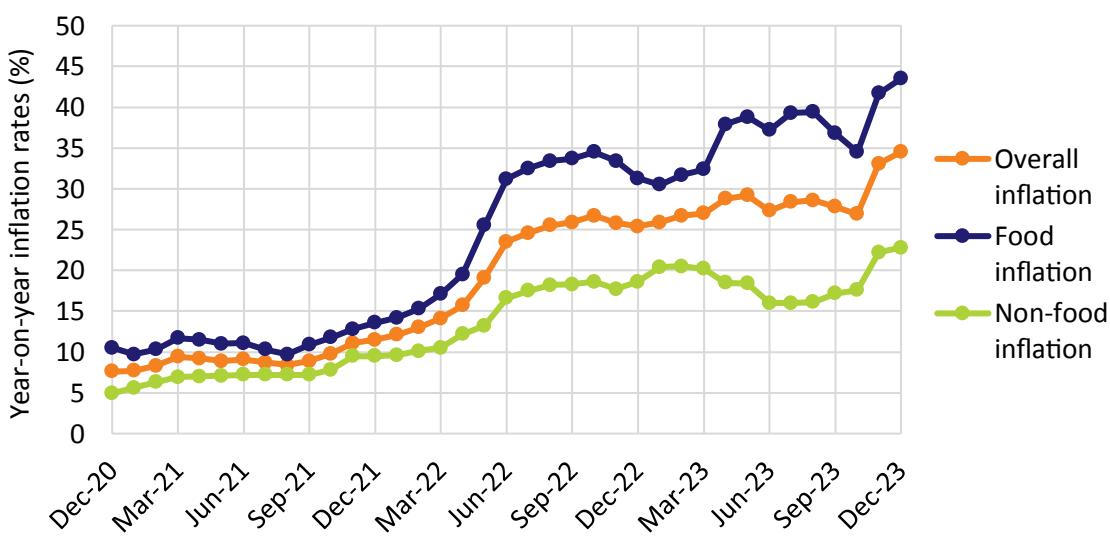
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For the year ended 31 December 2023

5.2 Inflationary pressures during the year emanated from both food and non-food factors. Food inflation rate increased to the average of 37.0% in 2023 from 26.8% in 2022, while non-food inflation rate increased to the average of 18.8% in 2023 from 15.1% in 2022. One of the major contributing factors was prolonged forex shortages and the resultant depreciation of the Kwacha which increased pressure on prices of imports. Other major contributing factors include weather-related shocks which reduced agricultural production, as well as upward adjustments in electricity and water tariffs, which led to high domestic food prices and prices of other non-food items.

5.3 Chart 6 depicts the trend of inflation rate in the past three years.

Chart 5: Year-on-year inflation rates



(Data source: National Statistical Office)

5.4 Looking forward, Malawi's inflation is expected to continue increasing in the short term, reflecting the impact of the 44% Kwacha devaluation which was effected in November 2023.

5.5 The government, IMF and EIU expect Malawi's inflation rate in 2024 to average 27.1%, 27.9% and 25.1%, respectively. The EIU project that the deficit monetization and the November 2023 sharp devaluation of the Kwacha will boost inflationary pressures in the short term. However, this will eventually be counteracted by growing fiscal rectitude and the role of funding under the ECF in alleviating the foreign-currency shortage.

5.6 Thus, in the long term, Malawi's inflation pressures could begin to subside as domestic macroeconomic conditions stabilize and global inflation eases. IMF projects that global headline inflation will fall from an estimated 6.8% in 2023 (annual average) to 5.8% in 2024 and 4.4% in 2025. In advanced economies inflation is expected to fall by 2.0 percentage points in 2024 to 2.6%, while in emerging markets and developing economies inflation is projected to decline by 0.3 percentage point to 8.1%. The drivers of declining global inflation generally reflect lower core inflation as a result of still-tight monetary policies, a related softening in labor markets, and pass-through effects from earlier and ongoing declines in relative energy prices.

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For the year ended 31 December 2023

Table 2d: Projected annual average inflation rates for Malawi

	2021	2022	2023	2024f	2025f	2026f	2027f	2028f
Government	9.3%	20.9%	28.7%	27.1%				
IMF				27.9%	14.70%	8.1%	6.80%	6.50%
EIU				25.1%	11.3%	12.1%	11.5%	10.4%

Sources:

Government: Mid-year review of the 2023-24 national budget, November 2023

IMF: Malawi Country report, November 2023

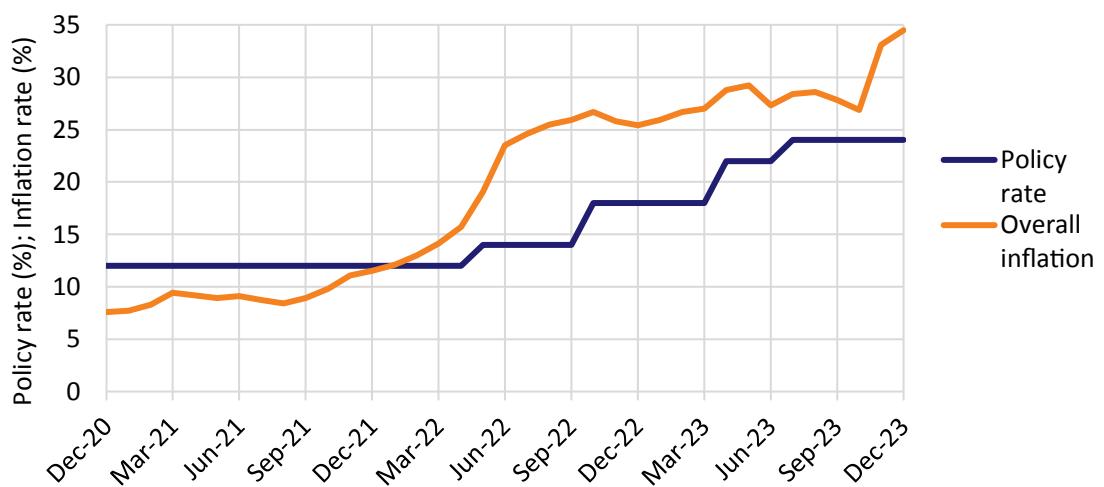
EU: Q4 Malawi Country Report, November 2023

6. Monetary policy

6.1 RBM continued to pursue a tight monetary policy in 2023, focusing mainly on containing inflation. The Monetary Policy Committee (MPC) raised the Policy rate from 18.0% to 22.0% in April 2023 and to 24.0% in July 2024. The Lombard rate was maintained at 0.2 percentage points above the Policy rate; effectively it was increased from 18.2% to 22.2% in April 2023 and to 24.2% in July 2023. The Liquidity Reserve Requirement (LRR) ratio on domestic currency deposits was increased from 3.75% to 5.75% in April 2023, while the LRR on foreign currency deposits was maintained at 3.75% throughout the year.

6.2 Chart 6 depicts the trend of the Policy rate relative to inflation rate over the past three years. The chart shows that both the inflation rate and the Policy rate significantly increased in 2023 and that the Policy rate was consistently below inflation rate throughout the year, signaling prevalence of negative real interest rates in the market.

Chart 6: Policy rate versus Inflation rate



(Data source: Reserve bank of Malawi, National Statistical Office)

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For the year ended 31 December 2023

- 6.3 Following the upward adjustment of the Policy rate, the Market Reference Rate (MRR) for commercial bank's increased from the average of 13.8% in 2022 to the average of 20.7% in 2023 and closed the year at 23.6%.
- 6.4 Upward risks to market interest rates were high for the short term, emanating from high inflationary pressures following the 44% Kwacha devaluation that was effected in November 2023. However, the EIU believes that although monetary policy shall remain tight, the policy rate shall remain at 24% in 2024-25 and that the RBM shall begin to cut the policy rate in 2026-27 as inflation falls towards the target range.

7. Economic growth

- 7.1 According to IMF's January 2024 World Economic Outlook Update, global growth is estimated at 3.15% for 2023 and is projected to remain at 3.1% in 2024 before rising modestly to 3.2% in 2025. These forecasts are based on assumptions that fuel and nonfuel commodity prices shall decline in 2024 and 2025 and that interest rates shall decline in major economies. Annual average oil prices are projected to fall by about 2.3% in 2024, whereas nonfuel commodity prices are expected to fall by 0.9%.
- 7.2 For advanced economies, growth is projected to decline slightly from 1.6% in 2023 to 1.5% in 2024 before rising to 1.8% in 2025. In sub-Saharan Africa, growth is projected to rise from an estimated 3.3% in 2023 to 3.8% in 2024 and 4.1% in 2025, as the negative effects of earlier weather shocks subside, and supply issues gradually improve.
- 7.3 For Malawi, the Government of Malawi estimates real GDP growth of 1.5% in 2023 from 0.9% in 2022. The low growth reflects a number of factors, including macroeconomic imbalances due to the exchange rate misalignment and the resultant shortages of foreign exchange for the importation of raw materials, Russian-Ukraine War and the tail-end impacts of cyclone Freddy that happened during the year.
- 7.4 Prospects for 2024 are positive for Malawi with the Government, IMF and EIU projecting real GDP growth rates of 3.2%, 3.3% and 3.0%, respectively. The IMF ECF program is expected to play a key role in bringing in donor funding, supporting investor confidence and helping to stabilise economic conditions.

Annual economic review

For the year ended 31 December 2023

Table 3a: Annual real output growth rates by type of activity (at 2017 prices)

Sector	2019	2020	2021	2022	2023*	2024*
Agriculture	5.9	3.4	3.8	0.9	0.8	1.9
Mining and quarrying	7.4	3.1	-3.6	2.6	3.5	5.8
Manufacturing	7.6	4.2	4.1	-1.4	0.4	4.4
Utilities	7.6	4.7	-1.8	-2.9	8.0	4.2
Construction	7.8	3.7	2.8	3.1	8.2	5.6
Wholesale and retail trade	6.0	-0.1	3.3	-2.3	-1.9	1.4
Transport and storage	8.8	-6.9	5.7	2.2	3.4	4.5
Accommodation and food service activities	3.4	-23.4	1.7	6.5	8.6	9.9
Information and communication	9.3	5.9	6.9	1.5	3.2	6.8
Financial and Insurance services	5.1	4.8	6.3	5.4	3.6	6.1
Real estate activities	2.8	3.1	4.5	1.5	2.2	3.7
Public administration and defense	9.5	4.2	3.6	4.9	3.6	4.9
GDP in 2017 constant prices	5.4	0.8	4.6	0.9	1.5	3.2

Source: RBM Financial and Economic Review, published on 6 December 2023

* Projections

Table 3b: Real GDP growth projections

Institution	Region	2021	2022	2023e	2024f	2025f
Government	Malawi	4.6%	0.9%	1.5%	3.2%	-
	World	6.2%	3.5%	3.1%	3.1%	3.2%
IMF	Malawi	2.2%	0.8%	1.6%	3.3%	3.8%
	Sub-Saharan Africa	4.7%	4.0%	3.3%	3.8%	4.1%
World bank	World	6.2%	3.0%	2.6%	2.4%	2.7%
	Malawi	2.8%	0.9%	1.6%	2.8%	3.3%
EIU	Sub-Saharan Africa	4.4%	3.7%	2.9%	3.8%	4.1%
	Malawi	5.8%	1.8%	1.6%	3.0%	3.4%

e Estimate; f Forecast

RBM: Monetary Policy Statement, January 2023

IMF: Malawi Country Report, November 2023; World Economic Outlook, January 2024

World Bank: Global Economic Prospects – January 2024

EIU: Fourth Quarter Malawi Country Report, December 2023

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For the year ended 31 December 2023

Table 3c: Projections by the Economist Intelligence Unit

Sector	2023e	2024f	2025f	2026f	2027f	2028f
GDP at constant market prices (% change)	1.6	3.0	3.4	3.8	4.1	4.4
Agriculture	1.0	1.3	1.5	2.2	2.6	2.5
Industry	1.4	2.2	2.6	3.0	3.2	3.3
Services	2.0	4.0	4.5	4.8	5.0	5.5

Source: Malawi Country Report - Q4 2023

8. Stock market performance

8.1 In 2023, the Malawi Stock Exchange (MSE) registered a year-on-year return on index of 78.85% (9.05% in US\$ terms). This is compared to an annual return of 36.74% (8.76% in US\$ terms) registered in 2022. The Domestic Share Index (DSI) registered a return of 69.99% [3.65% in US\$ terms] in 2023 compared to 37.08% (9.03% in US\$ terms) in 2022. The Foreign Share Index (FSI) registered a return of 181.28% (71.50% in US\$ terms) in 2023 compared to 32.94% (5.74% in US\$ terms) in 2022.

8.2 15 companies registered price gains during the year, while 1 registered a decline. Top gainers were FDHB (302.99%), NBS (237.94%), NITL (228.02%), FMBCH (184.14%) and NICO (150.67%). The loss was registered by MPICO (-27.33%).

8.3 The market registered an increase of 49.28% (23.59% in US\$ terms) in traded value of shares during the year to K77.21billion (\$66.85million) in 2023 from K51.72 billion (\$43.75 million) in 2022. The market, however, registered a decrease of 56.36% in total traded volume to 612,184,956 in 2023 from 1,402,901,021 in 2022.

8.4 On the debt market, there were no trades on the 8 Development Bonds and 72 Treasury Notes listed on the market.

8.5 Table 4 shows performance of individual companies in 2023 relative to 2022. Chart 8 shows a graphical analysis of the MASI, DSI and FSI over the past three years.

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For the year ended 31 December 2023

Chart 7: Malawi Stock Exchange share price indices

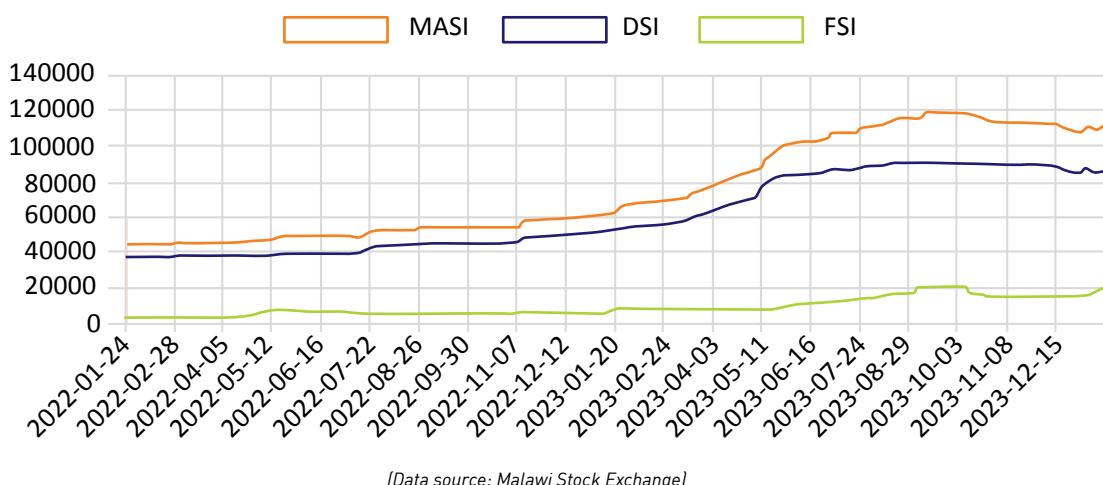


Table 4: Share trading summary

Company	31-Dec-23	31-Dec-22	Price Change (%)
Market indices			
MASI	110,951.21	62,036.05	78.85% ▲
DSI	86,359.68	50,804.03	69.99% ▲
FSI	15,792.06	5,614.30	181.28% ▲
Gainers			
FDHB	70.00	17.37	302.99% ▲
NBS	114.90	34.00	237.94% ▲
NITL	409.99	124.99	228.02% ▲
FMBCH	315.00	110.86	184.14% ▲
NICO	150.40	60.00	150.67% ▲
ILLOVO	1260.03	540.00	133.34% ▲
SUNBIRD	191.07	92.06	107.55% ▲
STANDARD	3950.00	2000.16	97.48% ▲
OMU	1500.00	985.00	52.28% ▲
ICON	17.85	11.95	49.37% ▲
NBM	2101.25	1542.05	36.26% ▲
TNM	18.70	14.00	33.57% ▲
BHL	13.00	10.97	18.51% ▲
PCL	2506.99	2181.37	14.93% ▲
AIRTEL	60.00	56.64	5.93% ▲
Losers			
MPICO	15.00	20.64	-27.33% ▼

(Data source: Malawi Stock Exchange)

Annual economic review

For the year ended 31 December 2023

9. Conclusions

- 9.1 2023 was another challenging year for Malawi in terms of economic management.
- 9.2 Foreign exchange supply remained critically low resulting in further depreciation of the Kwacha against major trading currencies.
- 9.3 Inflation pressures remained high in 2023 and are expected to remain high in the short-term, owing to the 44% devaluation effected on 8th November 2023.
- 9.4 Interest rates continued to rise in 2023 and are expected to remain high in the short to medium term due to expected persistent high inflation pressures.
- 9.5 The stock market was bullish in 2023, registering a higher return on the Malawi All Share Index compared to the previous year.
- 9.6 Malawi registered subdued economic growth in 2023, with real GDP growth rate estimated at 1.5%, largely reflecting the impact of lower agricultural production during the year caused by weather shocks, in addition to continued low supply of forex and persistent high inflation pressures which affected production. Higher growth of 3.2% is expected in 2024 supported the IMF ECF program which is expected to help stabilize the macroeconomy and lead to improved inflows of forex from development partners and investors.







INVESTMENT BANK

Financial Statements

For the year ended 31 December 2023

Directors' report

For the year ended 31 December 2023

Introduction

The Directors have pleasure in submitting their report together with the financial statements of CDH Investment Bank Limited for the year ended 31 December 2023.

Nature of business, incorporation and registered office

CDH Investment Bank Limited is a private limited liability company incorporated in Malawi under the Companies Act, 2013 of Malawi. It is a licensed bank under the Financial Services Act, 2010 and also provides financial advisory and investment banking services.

The physical address of its registered office is:

CDH House
5 Independence Drive
PO Box 1444
Blantyre
Malawi

Financial performance

The results and state of affairs of the Bank are set out in the accompanying statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows and accompanying accounting policies and notes.

Dividends

On 29th September 2023, the directors approved and paid a first interim dividend of K750 million (2022: K750 million). The directors at the meeting of 22nd March 2024 approved and paid a second interim dividend of K4.820 billion (2022: K3.017 billion) to the shareholders.

Directorate and Secretary

In accordance with the Company's Articles of Association, at least three directors offer themselves for retirement at the forthcoming Annual General Meeting, in rotation, beginning with Directors that have served on the Board for the longest period

Directors' report

For the year ended 31 December 2023

The following Directors and Secretary served during the year:

Mr Franklin Kennedy	Director, Chairperson
Mr Kofi Sekyere	Director
Mr Robert Abbey	Director
Mr Elias Malion	Director
Mr Sydney Chikoti	Director
Mr Kingsley Zulu	Director
Mr John McGrath	Director
Mrs Joyce Gundani	Director
Mr Charles Asare	Director
Mr Kwame Ahadzi	Managing Director
Mr Thoko Mkavea	Executive Director
Ms Beatrix Mosiwa	Executive Director
Mr Daniel Mwangwela	Company Secretary

Percentage Shareholding Analysis	2023	2022
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%
	100.00%	100.00%

A resolution will be proposed at the forthcoming Annual General Meeting to re-appoint Messrs Ernst and Young (EY), Chartered Accountants and Business Advisors as auditors in respect of the Bank's 31 December 2024 financial statements.



Franklin Kennedy
Board Chairperson



Elias Malion
Director

22 March 2024

Corporate governance report

For the year ended 31 December 2023

The Board

The Bank has a unitary Board of Directors comprising of a Chairman, eight 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

Members	Position	17 Mar 2023	26 Jun 2023	29 Sep 2023	15 Dec 2023
Mr Franklin Kennedy	Chairperson	✓	✓	✓	✓
Mr Kofi Sekyere	Director	✓	✓	✓	✓
Mr Robert Abbey	Director	✓	✓	✓	✓
Mr Elias Malion	Director	✓	✓	✓	✓
Mr Sydney Chikoti	Director	✓	✓	✓	✓
Mr Kingsley Zulu	Director	✓	✓	✓	✓
Mr John McGrath	Director	✓	✓	✓	✓
Mrs Joyce Gundani	Director	✓	✓	✓	✓
Mr Charles Asare	Director	✓	✓	✓	✓
Mr Kwame Ahadzi	Managing Director	✓	✓	✓	✓
Mr Thoko Mkavea	Executive Director	✓	✓	✓	✓
Ms Beatrix Mosiwa	Executive Director	✓	✓	✓	✓
In attendance					
Mr Daniel Mwangwela	Company Secretary	✓	✓	✓	✓

Key: ✓ = Attendance

Board committees

Board Audit Committee

The Committee assists the Board in discharging its duties in relation to financial reporting, asset management, risk management, internal control systems, processes and procedures and monitors the quality of both the external and internal audit functions. The Bank's external auditors and internal auditors report to the Committee in their independent, private meetings to discuss risk exposure areas. Where the Committee's monitoring and review activities reveal causes for concern or scope for improvement, it makes recommendations to the Board on required remedial actions.

The Board Audit Committee comprises three non-executive directors, one of whom acts as chairperson. The Committee meets five times in a year. The members of the Committee and their meeting attendance during the year were as follows:

Corporate governance report

For the year ended 31 December 2023

Board committees (continued)

Meeting attendance

Members	Position	24 Feb 2023	9 Mar 2023	22 Jun 2023	21 Sep 2023	7 Dec 2023
Mr Sydney Chikoti	Chairperson	✓	✓	✓	✓	✓
Mr Elias Malion	Director	✓	✓	✓	✓	✓
Mr Kingsley Zulu	Director	✓	✓	✓	✓	✓
In attendance						
Mr Daniel Mwangwela	Company Secretary	✓	✓	✓	✓	✓

Key: ✓ = Attendance

Risk and Compliance Committee

The Risk and Compliance Committee assists the Board in discharging its duties in relation to the Bank's risk management and compliance. The Committee has the following responsibilities:

1. To ensure the on-going appropriateness of the risk management, compliance, internal control systems and management reporting framework, as a result of which the Board makes decisions affecting the activities of the Bank;
2. To oversee and evaluate the quality of performance of the Risk Management and Compliance functions;
3. To ensure that systems are in place, that the affairs of the Bank are being conducted by management in conformity with policy, regulatory and legal requirements and that the reputation of the Bank is protected at all times from adverse risk events.

The Committee comprises three non-executive directors, one of whom acts as Chairperson. The Committee meets four times in a year. The members of the Committee and their meeting attendance during the year were as follows:

Meeting attendance

Members	Position	9 Mar 2023	22 Jun 2023	21 Sep 2023	7 Dec 2023
Mrs Joyce Gundani	Chairperson	✓	✓	✓	✓
Mr Charles Asare	Director	✓	✓	✓	✓
Mr John McGrath	Director	✓	✓	✓	✓
In attendance					
Mr Daniel Mwangwela	Company Secretary	✓	✓	✓	✓

Key: ✓ = Attendance

Finance, Business and Information Technology Committee

The Committee comprises three directors with a good knowledge of the Malawi economy and business environment. Its overall responsibility is to ensure the soundness of the CDH Investment Bank's credit portfolio (including advances, guarantees and other facilities). Specific responsibilities include:

Corporate governance report

For the year ended 31 December 2023

1. Assessing the annual plans, budgets and strategy and schedule of activities of the Bank;
2. Review of management reports on business operations and making recommendations to the Board;
3. Ratification of terms and conditions of all credit facilities granted by management under its discretionary powers;
4. Approval of all credit facilities above the discretionary limits set for management save for those facilities requiring full board approval in accordance with Reserve Bank of Malawi directive;
5. Review of non-performing assets and recovery procedures initiated in respect thereof and establishment of appropriate levels of provisioning where required; and
6. Ensure sound investment and decisions.

The Committee meets four times in a year and on ad hoc basis when necessary.

The members of the Committee and their meeting attendance during the year were as follows:

Meeting attendance

Members	Position	10 Mar 2023	23 Jun 2023	22 Sep 2023	8 Dec 2023
Mr Kofi Sekyere	Chairman	✓	✓	✓	✓
Mr Robert Abbey	Director	✓	✓	✓	✓
Mr Kwame Ahadzi	Managing Director	✓	✓	✓	✓
In attendance					
Mr Daniel Mwangwela	Company Secretary	✓	✓	✓	✓

Key: ✓ = Attendance

Human Resources and Remuneration Committee

Human Resources and Remuneration Committee appoints senior management. The Committee sets the remuneration of senior management and recommends the remuneration of executive and non-executive directors to the Board.

The Committee also approves overall human resource and remuneration policies and strategies. The Human resources and remuneration committee meets quarterly and on ad hoc basis when necessary.

The members of the Committee and their meeting attendance during the year were as follows:

Meeting attendance

Members	Position	10 Mar 2023	23 Jun 2023	22 Sep 2023	8 Dec 2023
Mr John McGrath	Chairman	✓	✓	✓	✓
Mr Kofi Sekyere	Director	✓	✓	✓	✓
Mr Robert Abbey	Director	✓	✓	✓	✓
In attendance					
Mr Daniel Mwangwela	Company Secretary	✓	✓	✓	✓

Key: ✓ = Attendance

Director's responsibility statement

For the year ended 31 December 2023

The Directors are responsible for the preparation and fair presentation of the financial statements of CDH Investment Bank Limited, comprising the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statements of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 2013 of Malawi. In addition, the Directors are responsible for preparing the Director's report.

The Companies Act, of Malawi 2013 also requires the Directors to ensure that the Bank keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and ensure the financial statements comply with the Act, of Malawi.

In preparing the financial statements, the Directors accept responsibility for the following:

1. Maintenance of proper accounting records;
2. Selection of suitable accounting policies and applying them consistently;
3. Making judgements and estimates that are reasonable and prudent;
4. Compliance with applicable accounting standards, when preparing financial statements, subject to any material departures being disclosed and explained in the financial statements; and
5. Preparation of financial statements on a going concern basis unless it is inappropriate to presume the Bank will continue in business.

The Directors are also responsible for such internal control as the Directors determine as what is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the ability of the Bank to continue as going concern. The Directors have no reason to believe that the operations of CDH Investment Bank Limited will not continue as a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act 2013, of Malawi.

Approval of financial statements

The financial statements of CDH Investment Bank Limited, as identified in the first paragraph, were approved by the Board of Directors on **22nd March 2024** and signed on its behalf by:



Franklin Kennedy
Board Chairperson



Elias Malion
Director

Independent auditor's report to the shareholders of CDH investment Bank Limited

For the year ended 31 December 2023



Opinion

We have audited the financial statements of CDH investment Bank Limited ("the Bank"), set out on pages 71 to 139, which comprise the statements of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and the notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of CDH Investment Bank Limited as at 31 December 2023, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act, 2013.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Malawi. We have fulfilled our ethical responsibilities in accordance with these requirements and IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the key audit matter noted below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors responsibilities for the audit of financial statements section of our report, including in relation to the key audit matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

The key audit matters noted below relate to the Bank's financial statements.

Level	Key audit matter
CDH investment Bank Limited	<p>Expected credit losses.</p> <p>The disclosures associated with Credit Risk are set out in the financial statements in the following notes:</p> <ul style="list-style-type: none">• Note 4 (b)(i) – Financial assets.• Note 5.1.1 – Credit Risk.• Note 10 - Loans and advances to customers.

Independent auditor's report to the shareholders of CDH Investment Bank Limited

For the year ended 31 December 2023

Valuation of expected credit losses on loans and advances

We identified the audit of expected credit losses (ECL) as a key audit matter considering the following:

- CDH Investment Bank's loan and advances to customers at K85.5 billion represent 27% of total assets and the associated impairment provisions for expected credit losses of K1.8 billion are material to the financial statements.
- The high degree of estimation uncertainty, significant judgements and assumptions applied in estimating the ECL on loans and advances to customers.
- The Significant portion of ECL is calculated on a modelled basis. The development and execution of the model requires significant management judgement, including estimation of the probability of default (PD); exposure at default (EAD) and loss given default (LGD) model parameters. Significant increases in credit risk (SICR) are assessed based on the current risk of default of an account relative to its risk of default at origination. This assessment incorporates judgement and estimation by management, including impact of external factors.

In particular we have focussed on the following areas of significant judgement and estimation which required the use of specialists, additional audit effort and increased discussions with management during the course of the audit:

How the matter was addressed in the audit

Our response to the key audit matter included performing the following audit procedures:

- We obtained an understanding of the bank's policies and procedures, including controls in place around determination of expected credit losses. We confirmed our understanding of the design and the operating effectiveness of the key controls over the processes of credit assessment, loan classification and loan impairment assessment including the oversight role of those charged with governance in the determination, accounting and reporting of expected credit losses.
- We carried out procedures to ensure the data being used in the models is complete, accurate, and that assumptions used are reasonable and supportable.
- We assessed the input assumptions applied within the PD, EAD, and LGD models (including forward looking information) for compliance with the requirements of IFRS 9-Financial instruments ("IFRS"). In addition, our procedures included assessing the appropriateness of the models through reperformance and validation procedures.
- We obtained an understanding and tested the relevant internal controls relating to the approval of credit facilities, subsequent monitoring and remediation of exposures, key system reconciliations and collateral management.
- Evaluating the appropriateness of the Significant Increase in Credit Risk (SICR) criteria used by assessing reasonableness of qualitative staging decisions such as the borrower's financial performance and accuracy of quantitative staging criteria based on days past due.

Independent auditor's report to the shareholders of CDH investment Bank Limited

For the year ended 31 December 2023

Valuation of expected credit losses on loans and advances	How the matter was addressed in the audit
<p>Determination of expected credit losses require consideration of multiple forward-looking macro-economic factors, including consideration of observable relationships between these factors and Non-Performing Loans (NPL) in the past projected into the future. The key factors considered by the bank include inflation, GDP, interest rates, fuel prices, and historical correlations between these inputs against the NPL rate.</p>	<p>We have assessed the appropriateness of the macro-economic forecasts and scenario weightings by benchmarking these against external evidence and economic data. Our internal specialists reviewed the correlation between probabilities of default and external macro-economic factors using historical data and results thereof, including reviewing the appropriateness of the statistical methodologies used to project these relationships in the future.</p>
<p>Extensive disclosures are required in the financial statements in order to allow users of the financial statements to understand the additional level of judgement applied by management, this included additional disclosure with regards to management adjustments and sensitivity analyses. Due to the extensive nature of these disclosures which are non- routine and very specific to the environmental conditions, this required significant audit effort to assess the reasonability and compliance with International Financial Reporting Standards (IFRS).</p>	<p>We reviewed the additional disclosures related to adequacy and appropriateness in accordance with the requirements of <i>IFRS 7-Financial Instruments: Disclosures requirements</i></p>

Other matter

The financial statements of CDH investment Bank Limited for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 29 March 2023.

Other information

The Directors are responsible for the other information. The other information comprises the Directors' Report, Statement of Corporate Governance and Statement of Directors' Responsibilities as required by the Malawi Companies Act, 2013 and which we obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Independent auditor's report to the shareholders of CDH Investment Bank Limited

For the year ended 31 December 2023

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2013 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

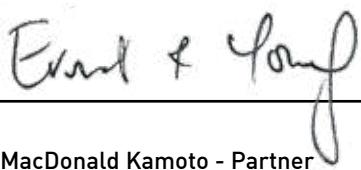
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

Independent auditor's report to the shareholders of CDH investment Bank Limited

For the year ended 31 December 2023

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the Bank or business activities within the Bank to express an opinion on the financial statements.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



MacDonald Kamoto - Partner
Chartered Accountant (Malawi)
Registered Practicing Accountant

27 March 2024

Statement of Financial Position

as at 31 December 2023

In thousands of Malawi Kwacha

	Note	2023	2022
ASSETS			
Cash and cash equivalents	7	19,863,871	10,868,255
Financial assets at fair value through profit or loss	8.1	135,090,181	96,563,517
Investment securities at amortised cost	8.2	28,009,923	20,322,216
Interbank placements	9	32,649,060	25,088,670
Loans and advances to customers	10	83,682,438	62,330,779
Other assets	11	2,005,093	1,432,645
Other investments at cost	12	838,250	361,000
Property, equipment and right of use assets	13	8,214,641	2,006,659
Intangible assets	14	1	12,991
Deferred tax asset	20	353,059	12,551
Total assets		310,706,517	218,999,283
LIABILITIES AND EQUITY			
LIABILITIES			
Interbank takings	18	20,353,052	13,060,741
Customer deposits	15	133,464,295	93,880,670
Investment funds	16	120,257,083	84,688,396
Other liabilities and accruals	19	4,799,942	2,927,129
Income tax payable	20	1,604,856	1,588,768
Subordinated liability	17	1,600,000	1,600,000
Total liabilities		282,079,228	197,745,704
EQUITY			
Share capital	21.1	327,715	327,715
Share premium	21.2	4,493,101	4,493,101
Retained earnings		23,806,473	16,432,763
Total equity		28,627,289	21,253,579
Total equity and liabilities		310,706,517	218,999,283

The financial statements were approved for issue by the Board of Directors on **22nd March 2024** and were signed on its behalf by:



Franklin Kennedy
Board Chairperson



Elias Malion
Director

Statement of Profit or Loss

For the year ended 31 December 2023

In thousands of Malawi Kwacha

	Note	2023	2022
Interest income	22	49,771,550	32,859,401
Interest expense – customer deposits and interbank taking	22	(14,570,524)	(7,300,274)
Interest expense – investment funds	22	(16,690,597)	(11,575,276)
Net interest income		18,510,429	13,983,851
Fees and commissions income	23	3,850,641	2,570,353
Trading income	24	7,729,696	3,966,112
Other operating income	24.1	34,262	39,420
Total operating income		30,125,028	20,559,736
Impairment (losses) / recoveries on loans and advances	10	(1,373,128)	(11,820)
Income after impairment losses on loans and advances		28,751,900	20,547,916
Personnel expenses	25	(5,773,213)	(4,104,823)
Depreciation and amortisation expense	13-14	(1,460,613)	(861,840)
Other expenses-profit/(loss) on disposal of fixed assets	24.2	3,721	(2,740)
Administration expenses	26	(4,334,122)	(4,101,882)
Total operating expenses		(11,564,227)	(9,071,285)
Profit before income tax expense		17,187,673	11,476,631
Income tax expense	27	(6,047,027)	(3,942,755)
Profit and other comprehensive income for the year		11,140,646	7,533,876
Earnings per share	28	33.99	22.99

Statement of Changes in Equity

For the year ended 31 December 2023

In thousands of Malawi Kwacha

2023	Share capital	Share premium	Irredeemable Preference shares	Retained earnings	Total equity
Balance at 1 January 2023	327,715	4,493,101	-	16,432,763	21,253,579
Profit for the year	-	-	-	11,140,646	11,140,646
Total comprehensive income for the year	-	-	-	11,140,646	11,140,646
<i>Transactions with owners of the Bank</i>					
Dividends paid	-	-	-	(3,766,936)	(3,766,936)
Total transactions with owners of the Bank	-	-	-	(3,766,936)	(3,766,936)
Balance as 31 December 2023	327,715	4,493,101	-	23,806,473	28,627,289

2022	Share capital	Share premium	Irredeemable Preference shares	Retained earnings	Total equity
Balance at 1 January 2022	308,326	4,025,247	487,243	11,380,172	16,200,988
Profit for the year	-	-	-	7,533,876	7,533,876
Total comprehensive income for the year	-	-	-	7,533,876	7,533,876
<i>Transactions with owners of the Bank</i>					
New issue of shares	19,389	-	(19,389)	-	-
Share premium transfers	-	467,854	(467,854)	-	-
Dividends paid	-	-	-	(2,481,285)	(2,481,285)
Total transactions with owners of the Bank	-	467,854	(487,243)	(2,481,285)	(2,481,285)
Balance as 31 December 2022	327,715	4,493,101	-	16,432,763	21,253,579

Statement of Cash Flows

For the year ended 31 December 2023

In thousands of Malawi Kwacha

	Note	2023	2022
Cash flows from operating activities			
Profit for the year		11,140,646	7,533,876
<i>Adjusted for:</i>			
▪ Depreciation and amortisation	13-14	1,460,614	861,840
▪ (Gain)/ Loss on disposal assets		(3,721)	2,740
▪ Interest charge on leases	13	893,988	-
▪ Net impairment on loans and advances	10	1,373,128	11,820
▪ Fair value adjustment on Financial Assets at FVTPL	22	114,059	(407,193)
▪ Effects of exchange rate fluctuations on cash	24	(3,480,901)	(395,530)
▪ Tax expense	27	6,047,027	3,942,755
		17,544,840	11,550,308
<i>Changes in:</i>			
Financial asset investments		(38,640,723)	8,587,257
Investment securities		(7,687,707)	(11,782,596)
Interbank Placements		(7,560,391)	(19,321,619)
Loans and advances to customers		(22,724,787)	(7,367,753)
Other assets		(572,448)	412,146
Investment funds		35,568,687	(8,952,907)
Deposits from banks		7,292,311	6,711,973
Deposits from customers		39,583,625	30,962,343
Other liabilities	19	1,268,638	1,255,458
		24,072,045	12,054,610
Interest paid on leases	13	(893,988)	(963,404)
Income tax paid	20	(6,371,447)	(2,646,680)
Net cash generated from operating activities		16,806,610	8,444,526
Cash flows from investing activities			
Proceeds from the sale of equipment		6,055	905
Acquisition of equity investment		(477,250)	-
Acquisition of equipment and intangible assets	13	(6,162,325)	(165,017)
Net cash used in investing activities		(6,633,520)	(164,112)
Cash flows from financing activities			
Dividends paid	34	(3,766,936)	(2,481,285)
Repayment of lease liabilities	19	(891,439)	(439,654)
Net cash used in financing activities		(4,658,375)	(2,920,939)
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		5,514,715	5,359,475
Effects of exchange rate fluctuations	24	10,868,255	5,113,250
Cash and cash equivalents at the end of the year	7	19,863,871	10,868,255

Notes to the financial statements

For the year ended 31 December 2023

1. Reporting entity

CDH Investment Bank Limited is a private limited liability company incorporated in Malawi. The company provides private, corporate and investment banking services. The Bank is owned by Continental Holdings Limited, as the majority shareholder, Investments Alliance Limited, Kesaart Capital Limited and Savannah Investments Limited as minority shareholders.

2. Basis of preparation

(i) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and in the manner required by the Companies Act, 2013 of Malawi.

(ii) Basis of measurement

The financial statements are prepared on the historical cost basis except for the financial instruments at fair value through profit or loss.

(iii) Functional and presentation currency

These financial statements are presented in Malawi Kwacha, which is the Bank's functional and presentation currency. Except as indicated, financial information presented in Malawi Kwacha, has been rounded to the nearest thousand.

(iv) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes.

- Note 10 - Loans and advances to customers – impairment. The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral.
- Note 8 - Fair value measurement. A number of the Bank's accounting policies and disclosures require the measurement of fair values, both of financial and non-financial assets and liabilities. The Bank has an established control framework with respect to the measurement of fair values. This includes the Finance Manager who gets inputs from the Chief Treasury Officer who oversees all significant fair value measurements, including Level 3 financial instruments, and reports directly to the Chief Finance Officer.

Notes to the financial statements

For the year ended 31 December 2023

2. Basis of preparation (continued)

(iv) Going concern basis of accounting

An evaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Bank's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable) is made. Management's evaluation is based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued (or at the date that the financial statements are available to be issued when applicable). When management identifies conditions or events that raise substantial doubt about the Bank's ability to continue as a going concern, management reviews the business plans that are intended to mitigate those relevant conditions or events to alleviate the substantial doubt. Appropriate disclosures on the going concern status of the business are made.

3. Adoption of new and revised International Financial Reporting Standards

3.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements.

In the current year, the Bank has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2023.

The adoption of these new and revised Standards and Interpretations did not have a significant impact on the financial statements of the Bank. The following are the standards that became effective during annual reporting period beginning on 1 January 2023;

Effective date	Standard, amendment, or interpretation
Annual reporting periods beginning on or after 1 January 2023	IFRS 17 Insurance Contracts IFRS 17 Insurance Contracts (IFRS 17) is effective for reporting periods beginning on or after 1 January 2023. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance, and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The Bank has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31 December 2023.

Notes to the financial statements

For the year ended 31 December 2023

Effective date	Standard, amendment, or interpretation
Annual reporting periods beginning on or after 1 January 2023	<p>International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12</p> <p>The amendments to IAS 12 have been introduced in response to The Organisation for Economic Cooperation and Development (OECD)'s Base Erosion and profit Shifting (BEPS) Pillar Two rules and include:</p> <ul style="list-style-type: none">• A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and• Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date. <p>In periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes including both qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period.</p> <p>Once the legislation is effective, additional disclosures are required for the current tax expense related to Pillar Two income taxes. The requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023. The Bank has determined that it will not be subject to Pillar Two taxes once the legislation becomes effective since its effective tax rate is above 15%.</p>
Annual reporting periods beginning on or after 1 January 2023	<p>Definition of Accounting Estimates- Amendments to IAS 8</p> <p>In February 2021, the Board issued amendments to IAS 8, in which it introduces a new definition of 'accounting estimates'. The amendments apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of the effective date. The amendments did not have a material impact on Banks' financial statements</p>

Notes to the financial statements

For the year ended 31 December 2023

Effective date	Standard, amendment, or interpretation
Annual reporting periods beginning on or after 1 January 2023	<p>Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2</p> <p>The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'material' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.</p> <p>The amendments have had an impact on the Bank's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Bank's financial statements.</p>

3.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are in issue but not effective for the year ended 31 December 2023 and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective date	Standard, amendment, or interpretation
Annual reporting periods beginning on or after 1 January 2024	<p>Amendments to IFRS 16: Lease Liability in a Sale and Leaseback</p> <p>In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted, and that fact must be disclosed.</p>

Notes to the financial statements

For the year ended 31 December 2023

Effective date	Standard, amendment, or interpretation
Annual reporting periods beginning on or after 1 January 2024	<p>Amendments to IAS 1: Classification of Liabilities as Current or Non-current</p> <p>In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:</p> <ul style="list-style-type: none">• What is meant by a right to defer settlement• That a right to defer must exist at the end of the reporting period• That classification is unaffected by the likelihood that an entity will exercise its deferral right• That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification. <p>In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.</p> <p>The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively</p>
Annual reporting periods beginning on or after 1 January 2024	<p>Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7</p> <p>In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The amendments will be effective for annual reporting periods beginning on or after 1 January 2024. Early adoption is permitted but will need to be disclosed.</p>

The directors anticipate that these Standards and Interpretations in future periods will have no significant impact on the financial statements of the Bank.

Notes to the financial statements

For the year ended 31 December 2023

4. Material accounting policies

(a) Foreign currency

Foreign currency transactions

Transactions in foreign currencies during the year are translated into Malawi Kwacha at rates ruling at spot exchange rates at the date of the transactions. Monetary assets and liabilities at the reporting date, which are expressed in foreign currencies, are translated into Malawi Kwacha at rates ruling at that date. The resulting differences from translation are recognised in the profit or loss in the year in which they arise.

Non- monetary assets and liabilities are measured at historical cost and re-translated into Malawi Kwacha using the exchange rate ruling at the reporting date.

(b) Financial assets and liabilities

Financial instruments

Financial assets and financial liabilities are recognised in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL(Fair Value Through Profit or Loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Bank will account for such difference as follows:

- If fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- In all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

i) Financial assets

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value based on the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost.

Notes to the financial statements

For the year ended 31 December 2023

- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI (Fair Value Through Other Comprehensive Income).
- All other instruments (e.g. instruments managed on a fair value basis or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Bank may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

- The Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is not held for trading in OCI (Other Comprehensive Income); and
- The Bank may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Business model assessment

The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

The Bank considers all relevant information available when making the business model assessment such as:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management; the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

At initial recognition of a financial asset, the Bank determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Bank has not identified a change in its business models.

When an instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Notes to the financial statements

For the year ended 31 December 2023

4. Material accounting policies (continued)

(b) Financial assets and liabilities (continued)

i) Financial assets (continued)

Business model assessment (continued)

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets

Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Notes to the financial statements

For the year ended 31 December 2023

Reclassifications

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. During the current financial year and previous accounting periods there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described below.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- for financial assets measured at amortised cost exchange differences are recognised in profit or loss in the 'other income' line item;
- For debt instruments measured at FVTOCI exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the 'other income' line item. Other exchange differences are recognised in OCI in the investments revaluation reserve;
- For financial assets measured at FVTPL exchange differences are recognised in profit or loss either in 'net trading income,' if the asset is held for trading, or in 'net income from other financial instruments at FVTPL' if otherwise held at FVTPL;
- For equity instruments measured at FVTOCI, exchange differences are recognised in OCI in the investments revaluation reserve; and
- The change is recognized in the statement of comprehensive income to comply with the requirement of IAS 21 Effects of Changes in Foreign Exchange Rates.

Impairment

The Bank recognises loss allowances for ECLs (Expected Credit Loss) on the following financial instruments that are not measured at FVTPL:

- Loans and advances to customers;
- Loans and advances to related party; and
- Interbank placements.
- Other receivables

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e., lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date and interest revenue is recognized on gross carrying amount of the asset, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument and interest revenue is recognized on gross carrying amount of the asset, (referred to as Stage 2 and Stage 3).

Notes to the financial statements

For the year ended 31 December 2023

4. Material accounting policies (continued)

(b) Financial assets and liabilities (continued)

i) Financial assets (continued)

Impairment (continued)

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's Effective Interest Rate (EIR).

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the disappearance of an active market for a security because of financial difficulties; or

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit impairment including meeting the definition of default. The definition of default includes unlikelihood to pay indicators and a backstop if amounts are overdue for 90 days or more.

Notes to the financial statements

For the year ended 31 December 2023

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see note 6).

- The Bank considers the following as constituting an event of default:
- The borrower is past due more than 90 days on any material credit obligation to the Bank; or
- The borrower is unlikely to pay its credit obligations to the Bank in full.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Significant increase in credit risk

The Bank monitors all financial assets to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD (Probability of Default) by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL. The internal and external information including future forecasts of economic variables are also used in measuring the loss allowance.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly.

As a backstop when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Notes to the financial statements

For the year ended 31 December 2023

4. Material accounting policies (continued)

(b) Financial assets and liabilities (continued)

i) Financial assets (continued)

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with

Notes to the financial statements

For the year ended 31 December 2023

Where a modification does not lead to derecognition the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write-off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances with the Central Bank and placements with foreign and local banks. Cash and cash equivalents are measured at amortised cost in the statements of financial position.

Notes to the financial statements

For the year ended 31 December 2023

4. Material accounting policies (continued)

(b) Financial assets and liabilities (continued)

i) Financial assets (continued)

Other investments

These are recognised at cost.

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank or a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Bank's own equity instruments.

ii) Financial liabilities

Financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" above.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liquidity and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Notes to the financial statements

For the year ended 31 December 2023

Subordinated liabilities

Subordinated liabilities are the Bank's sources of debt funding. These liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank designates liabilities at fair value through profit or loss.

iii) Liabilities to customers and interbank placements

When the Bank sells a financial asset and simultaneously enters a "repo" or "stock lending" agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank's financial statements. Securities under repurchase agreements that cannot be derecognised are reclassified separately from other assets in the Bank's statement of financial position.

Deposits are initially measured at fair value plus directly attributable transaction costs. Subsequently deposits are measured at their amortised cost using the effective interest method, except where the Bank chooses to account for the financial liabilities at fair value through profit or loss.

iv) Other payables

Other liabilities and accruals are initially measured at fair value less any directly attributable transaction costs, and are subsequently measured at amortised cost, using the effective interest method.

(c) Equipment

(i) Recognition and measurement

Items of equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where an item of equipment comprises, major components having different useful lives, they are accounted for as separate items of equipment.

Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount of equipment and are recognised net within other operating income in profit or loss.

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditure is capitalised. Other subsequent expenditure is capitalised only when it is probable that the future economic benefits embodied within the part will flow to the entity and its costs can be measured reliably. All other expenditure is recognised in the profit and loss as an expense as incurred.

(iii) Depreciation

Equipment are depreciated on a straight-line basis at rates that would reduce carrying amounts to their estimated residual values, over the estimated useful lives of the assets.

Notes to the financial statements

For the year ended 31 December 2023

4. Material accounting policies (continued)

c. Equipment (continued)

(iii) Depreciation (continued)

The Bank re-assesses the useful lives, the depreciation method and the residual values of the assets at each reporting date and adjusted if appropriate. Any changes in the useful lives, depreciation method or estimated residual values are accounted for prospectively as a change in accounting estimate in accordance with IAS 8: *Accounting policies changes in accounting estimates and errors*.

Depreciation is recognised in profit or loss.

The estimated useful lives for the current year and prior year are as follows:

• right of use - motor vehicles	4 years
• right of use - property	10 years
• equipment, fixtures, fittings and computers	5 years

(iv) Capital work in progress

Capital work in progress represent gross amount spent to date in carrying out work of a capital nature. It is measured at cost recognised to date.

Capital work in progress is presented as part of equipment in the statements of financial position. If the project is completed the expenditure is capitalised to the relevant items of plant and equipment. Capital work in progress is not depreciated.

(d) Intangible assets

Software

Software acquired by the Bank is measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative years is three to eight years.

Upon derecognition of software, the Bank recognises the resultant profit or loss in the statements of profit or loss and other comprehensive income.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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For the year ended 31 December 2023

(e) Leases

The Bank entered into lease contracts as a lessee on motor vehicles, office buildings and other residential premises. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (underlying asset) for a period in exchange of consideration. The Bank assesses the following three evaluations to determine whether the contracts above meet the definition of a lease contract:

- The contract should contain an identifiable asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank.
- The Bank obtains substantially all the economic benefits from the use of the asset throughout the period of use and within the scope of the agreed contracts.
- The Bank has the right to direct the use of the identified asset throughout the period of use.

Measurement and recognition of leases

The Bank as Lessee recognises the right-of-use asset and lease liability on the balance sheet at lease commencement date. The right-of-use asset is measured at cost, being made up of the initial measurement of lease liability, any indirect costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of lease, and any lease payments made in advance of the lease commencement date.

The right-of-use asset is depreciated on a straight-line basis from the lease commencement date to earlier of the end of the useful life of the asset or at the end of lease term. It also assesses the asset for impairment if the indicators arise.

Lease liability at the lease commencement date, is measured at present value of the lease payments unpaid at that date, discounted using the incremental borrowing rate of the Bank. The lease payments include the fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments.

Subsequent measurement

Lease liability is reduced by lease payments and increased by interest charges. It is also remeasured to reflect changes in fixed payments or any reassessment or modification. Such remeasurement of the lease liability result into corresponding adjustments in the right-of-use asset or in profit or loss if the asset is already at nil balance.

For all contracts of low value and less than 12 months, the Bank elects to recognize the payments in relation to these as an expense in profit or loss on straight line basis over the lease term.

On the statement of financial position, the right-of-use asset and lease liability is disclosed separately from equipment; and other liabilities respectively.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

Notes to the financial statements

For the year ended 31 December 2023

4. Material accounting policies (continued)

(e) Leases (continued)

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables.

(f) Equity

Share issue costs.

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

Irredeemable non-cumulative preference shares

The Bank where necessary issues perpetual irredeemable non-cumulative preference shares to fast-track capital accumulation in the year that there is a perceived gap to achieve minimum core capital as specified by the regulator.

The preferred stock pays dividends based on a coupon agreed by shareholders and is based on an interest rate that is set at the beginning of each year. The Bank pays dividends subject to its financial performance, regulatory restrictions as imposed by the Registrar of Financial Institutions and other factors considered by the Directors.

The preferred stock is perpetual and irredeemable and receives preference over the common stock as regards dividends and distributions upon liquidation.

(g) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(h) Net interest income

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter year) to the carrying amount of the financial asset or financial liability.

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When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Interest income and expense presented in the profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost on an effective interest basis.
- Interest on available-for-sale investment securities on an effective interest basis.
- Interest income is accrued and included in impairment losses when collection of the loans becomes doubtful.

Fees and commissions

Fees and commission income and expenses are recognized in the profit or loss when parties to the contract have approved the contract (in writing or orally or in accordance with the Bank's practice and it is probable that the entity will collect consideration to which it is entitled in exchange for the goods and services that are transferred to the customer.

Other fees and commission income, account service fees, sales commissions, placement fees and syndicated fees are recognized in profit or loss when goods or services are transferred.

Other operating income which includes gains and losses arising from translation of foreign exchange transactions and net gains on sale of assets are recognized in the statement of comprehensive income.

(i) Trading and other income

Other operating income includes gains or losses arising on translation of foreign exchange transactions and net gains on the sale of assets and is recognised on accruals basis.

Other income includes profit from disposal of assets and rental income from sublease of assets.

(j) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Notes to the financial statements

For the year ended 31 December 2023

4. Material accounting policies (continued)

(j) Income tax (continued)

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current assets, and they relate to income taxes levied in the same tax authority on the same taxable entity, or on different entities but they intend to settle current liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Bank accounts for deferred tax on leases by applying the integrally linked approach such that the lease asset and liability are assessed together on a net basis. Temporary difference in relation to a right of use asset and lease liability for a specific lease are regarded as a net package for the purpose of recognizing deferred tax. The Bank has disclosed the amount of deferred tax in respect of leases.

(k) Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding after adjusting for the effects of all dilutive potential ordinary shares.

(l) Acceptances, guarantees and letters of credit.

Acceptances guarantees and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities, unless it is probable that the Bank will be required to make payments under these instruments, in which case they are recognised as provisions.

(m) Determination of fair values

Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Notes to the financial statements

For the year ended 31 December 2023

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data, or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting year during which the change has occurred.

The fair values of investments in the listed equities are derived from price ruling at reporting date.

5. Risk management

The Board of Directors of the Bank has ultimate responsibility for the level of 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 management department, which is independent of those who accept risks in the Bank. The risk management 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
- report results of risk monitoring to senior management and the board.

Notes to the financial statements

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5. Risk management (continued)

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

- Credit Risk Management Policy
- Liquidity Risk Management Policy
- Operational Risk Management Policy
- Capital Risk Management Policy
- Market Risk Policy

5.1 Financial risks

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

- a) Credit risk;
- b) Liquidity risk;
- c) Market risk.

5.1.1 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. 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 for credit risk to the Finance, Business, and Information Technology Committee (FBIT). The FBIT are 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. All 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 branches 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 units with agreed exposure limits.

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Exposure to credit risk

The Bank measures credit risk using data that is predictive of the credit loss. Such data includes available Gross Domestic product projections, industry outlook data, press information, client audited financial statements, cashflow projections and external credit ratings among other variables. The Bank also applies experienced credit judgement. The Bank assesses evidence of credit-impairment including observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the disappearance of an active market for a security because of financial difficulties; or

The Bank's exposure to credit risk principally comprises, Investment in securities, Interbank placements and loans and advances to customers analysed as follows:

Classification of assets	Investment securities		Loans and advances to customers		Interbank placements	
	2023	2022	2023	2022	2023	2022
Stage 1 (12-month ECL)	28,009,923	20,322,216	79,430,755	60,755,664	32,649,060	25,088,670
Stage 2 (Lifetime ECL)	-	-	-	1,716,507	-	-
Stage 3 (Lifetime ECL)	-	-	6,048,551	252,557	-	-
Gross exposure to credit risk	28,009,923	20,322,216	85,479,306	62,724,728	32,649,060	25,088,670
Less: Allowance for impairment (note 10)	-	-	(1,796,868)	(393,949)	-	-
	28,009,923	20,322,216	83,682,438	62,330,779	32,649,060	25,088,670
Balance	28,009,923	20,322,216	83,682,438	62,330,779	32,649,060	25,088,670
Loans and advances in stage 2 and 3 comprise:						
30-60 days					2023	2022
					-	1,716,507
>90 days					6,048,551	252,557
					6,048,551	1,969,064

The table below shows movements in loss allowance for ECL:

2023	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
Opening balance as at 1 January 2023	335,215	8,830	49,904
Movement due to increase in portfolio	145,474	-	1,316,179
Movement due to write offs	-	-	(49,904)
Movement due to recoveries	-	(8,830)	-
Closing balance as at 31 December 2023	480,689	-	1,316,179

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5. Risk management (continued)

5.1 Financial risks (continued)

5.1.1 Credit risk (continued)

2022	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
Opening balance as at 1 January 2022	316,538	243,603	103,597
Movement due to increase in portfolio	18,677	-	-
Movement due to write offs	-	(234,773)	(37,838)
Movement due to recoveries	-	-	(15,855)
Closing balance as at 31 December 2022	335,215	8,830	49,904

An estimate of the fair value of collateral held against loans and advances to customers is shown below:

Against loans and advances (Stage 1 and 2)	2023	2022
Property	13,542,613	3,273,347
Motor vehicles	2,529,176	126,248
Guarantees	51,155,719	46,511,961
Cash	4,205,804	1,565,062
Stocks	5,080,347	4,883,658
Shares	-	334,358
Debentures	-	2,990,920
	76,513,659	59,685,554

The Bank's policy is to pursue the timely realisation of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations. The Bank has not taken possession of any of the collateral.

Stage 3 - Impaired loans and securities

Impaired loans and securities are those in which there has been a significant increase in credit risk and default has occurred. 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.

Stage 2 - Past due but not impaired loans

These are loans and securities where there has been a significant increase in credit risk to collect contractual interest or principal payments, but the Bank believes that impairment is not appropriate either because there is adequate collateral, or the risk of default is remote.

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Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of expected credit 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.

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 were as follows:

	Maximum Limit %	2023	2022	2023	2022
Agriculture	35%	12%	10%	10,639,705	6,406,295
Construction	5%	2%	1%	1,505,060	928,958
Manufacturing	35%	6%	19%	5,068,594	11,752,055
Wholesale and retail	40%	46%	41%	39,344,913	25,758,993
Tourism and leisure	5%	8%	8%	6,727,916	4,922,370
Transport	15%	1%	1%	634,639	433,078
Community, social and personal services	11%	22%	17%	18,903,330	10,352,201
Others	46%	3%	3%	2,655,149	2,170,778
	100%		100%	85,479,306	62,724,728

The risk that counterparties to trading instruments might default on their obligations is monitored on an on-going basis. When 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.

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5. Risk management (continued)

5.1 Financial risks (continued)

5.1.1 Credit risk (continued)

The Economical sector classifications were as follows:

2023	Stage 1	Stage 2	Stage 3
Agriculture	10,639,705	-	-
Construction	1,505,060	-	-
Manufacturing	5,068,594	-	-
Wholesale and retail	39,344,913	-	-
Tourism and leisure	679,365	-	6,048,551
Transport	634,639	-	-
Community, social and personal services	18,903,330	-	-
Others	2,655,149	-	-
Less: Allowance for impairment	(480,689)	-	(1,316,179)
	78,950,066	-	4,732,372

2022	Stage 1	Stage 2	Stage 3
Agriculture	6,348,841	-	57,454
Construction	928,869	89	-
Manufacturing	11,752,050	5	-
Wholesale and retail	25,758,720	273	-
Tourism and leisure	3,206,293	1,716,077	-
Transport	433,078	-	-
Community, social and personal services	10,350,459	63	1,682
Others	1,977,354	-	193,421
Less: Allowance for impairment	(335,215)	(8,830)	(49,904)
	60,420,449	1,707,677	202,653

The geographic distribution of credit exposures was as follows

Concentration by region	2023	2022
South	40,823,889	28,563,142
Centre	44,655,417	34,161,586
Total	85,479,306	62,724,728

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Concentration by counterparty type	2023	2022
Corporate	65,463,495	52,331,544
Retail	20,015,811	10,393,184
Total	85,479,306	62,724,728

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank. The table below shows the credit quality by class of financial asset for credit risk related items.

2023	Note	Stage 1 12-Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Security against impaired loans	Net impairment
Credit quality							
Investment securities	8.2	28,009,923	-	-	28,009,923	-	-
Interbank placements	9	32,649,060	-	-	32,649,060	-	-
Loans and advances to customers	10	79,430,755	-	6,048,551	85,479,306	7,963,675	1,796,868
Total recognised financial instruments		140,089,738	-	6,048,551	146,138,289	7,963,675	1,796,868

2022	Note	Stage 1 12-Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Security against impaired loans	Net impairment
Credit quality							
Investment securities	8.2	20,322,216	-	-	20,322,216	-	-
Interbank placements	9	25,088,670	-	-	25,088,670	-	-
Loans and advances to customers	10	60,755,664	1,716,507	252,557	62,724,728	3,506,070	393,949
Total recognised financial instruments		106,166,550	1,716,507	252,557	108,135,614	3,506,070	393,949

Financial assets at fair value through profit and loss include assets designated to be measured at fair value through profit or loss amounting to **K135 billion** (2022: K53.8 billion).

The total expected credit losses for loans and advances as at 31 December 2023 and 31 December 2022 were as follows:

	2023	2022
Expected credit loss rate	2.0%	0.4%
Gross carrying amount	85,479,306	62,724,728
Lifetime expected credit loss	1,796,868	252,557

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5. Risk management (continued)

5.1 Financial risks (continued)

5.1.1 Credit risk (continued)

Maximum exposure to credit risk without taking into account any collateral.

The table below shows the maximum exposure to credit risk by class of financial instrument. Financial instruments include financial instruments defined and recognised under IFRS 9 *Financial Instruments* as well as other financial instruments not recognised. The maximum exposure is presented gross, before the effect of mitigation using master netting and collateral agreements.

Gross maximum exposure	Note	2023	2022
Cash held with the Reserve Bank of Malawi	7	10,352,486	4,855,507
Cash held with local banks	7	49,453	5,329
Cash held with foreign banks	7	8,805,263	5,378,971
Cash balances	7	656,669	628,448
Financial assets at fair value through profit or loss	8.1	135,090,181	96,563,517
Investment securities	8.2	28,009,923	20,322,216
Interbank placements	9	32,649,060	25,088,670
Personal and business loans			
▪ Other loans and advances	10	16,889,491	8,703,172
Corporate and Investment banking:			
▪ Corporate and investment loans	10	66,398,095	52,174,018
Total recognised financial instruments		298,900,621	213,719,848
Financial guarantees	31	749,428	725,864
Total unrecognised financial instruments		749,428	725,864
Total credit risk exposure		299,941,898	214,445,712

Net exposure to credit risk without taking into account any collateral or other credit enhancements

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 the 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 as follows:

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2023	Note	At 31 December 2023	
		Carrying amount	Net exposure to credit risk
Cash and balances with banks	7	19,863,871	19,863,871
Interbank placements	9	32,649,060	32,649,060
Loans and advances to customers	10	83,682,438	83,682,438
Financial assets	8.1	135,090,181	135,090,181
Investment securities	8.2	28,009,923	28,009,923
Other accounts receivables	11	358,113	358,113
		299,653,586	299,653,586

2022	Note	At 31 December 2022	
		Carrying amount	Net exposure to credit risk
Cash and balances with banks	7	10,868,255	10,868,255
Interbank placements	9	25,088,670	25,088,670
Loans and advances to customers	10	62,330,779	62,330,779
Financial assets	8.1	96,563,517	96,563,517
Investment securities	8.2	20,322,216	20,322,216
Other accounts receivables	11	209,692	209,692
		215,383,129	215,383,129

Collateral held and other credit enhancements and their financial effect

The Bank hold collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principal types of collateral held against the distinct types of financial assets.

Type of credit exposure	2023	2022	Principle type of collateral held
Loans and advances to banks	%	%	
▪ Interbank placement	100	100	Marketable securities
Loans and advances to retail customers			
▪ Personal loans	2	14	Cash and property
Loan advances to corporate customers			
▪ Asset Finance	1	5.7	Property and equipment
▪ Other	87	94	Commercial property floating charges over corporate assets

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.

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5. Risk management (continued)

5.1 Financial risks (continued)

5.1.1 Credit risk (continued)

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 2023, the net carrying amount of impaired loans and advances to corporate customers amounted to **MK6.0 billion** (2022: MK253 million) and the value of identifiable collateral held against those loans and advances amounted to **MK7.9 billion** (2022: MK8 million).

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.

5.1.2 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 unrecognised 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 and 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. These are management committees which meet once a month or more often if necessary. 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.

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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 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 Bank's customer placement patterns are different from the contractual maturities resulting in different liquidity gaps with those that are arrived at using the contractual terms, and those based on the actual customer placement patterns. The Bank therefore developed a customer placement patterns model to monitor the actual liquidity risk. The model was developed by establishing past customer placement patterns and adding an element of concentration risk under each category of deposits. The Bank monitors the customer placement patterns gaps through its monthly ALCO committee meetings. The customer placement patterns model shows that the actual liquidity risk, based on the customer placement patterns, is lower than the liquidity risk based on contractual maturities.

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

2023	Note	Carrying amount	Cash inflow / (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years
ASSETS								
Cash and cash equivalents	7	19,863,871	19,863,871	19,863,871	-	-	-	-
Loans and advances to customers	10	83,682,438	88,364,427	21,815,439	375,297	3,463,581	11,910,759	50,799,351
Interbank placements	9	32,649,060	32,649,060	32,649,060	-	-	-	-
Financial assets at fair value through profit or loss	8.1	135,090,181	138,753,795	21,983,832	5,794,734	21,729,240	31,678,310	57,567,679
Investment securities	8.2	28,009,923	29,410,419	6,579,969	1,236,832	134,018	8,923,025	12,536,575
Other assets	11	358,113	358,113	358,113	-	-	-	-
Total assets		299,653,586	309,399,685	103,250,284	7,406,863	25,326,839	52,512,094	120,903,605

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5. Risk management (continued)

5.1 Financial risks (continued)

5.1.2 Liquidity risk (continued)

2023	Note	Carrying amount	Cash inflow / (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years
LIABILITIES								
Current and savings account	15	(32,081,872)	(32,081,872)	(32,081,872)	-	-	-	-
Foreign currency accounts	15	(29,087,861)	(29,087,861)	(29,087,861)	-	-	-	-
Term deposit accounts	15	(72,294,563)	(73,234,391)	(3,995,435)	(16,384,669)	(31,217,115)	(18,557,358)	(3,079,814)
Investment funds	16	(120,257,083)	(121,700,168)	(4,205,569)	(30,838,427)	(51,876,286)	(27,227,877)	(7,552,009)
Interbank takings	18	(20,353,052)	(20,353,052)	(20,353,052)	-	-	-	-
Subordinated debt	17	(1,600,000)	(1,600,000)	-	-	-	-	(1,600,000)
Total liabilities		(275,674,431)	(278,057,344)	(89,723,789)	(47,223,096)	(83,093,401)	(45,785,235)	(12,231,823)
Net liquidity gap		23,979,155	31,342,341	13,526,495	(39,816,233)	(57,766,562)	6,726,859	108,671,782
Cumulative liquidity gap		-	-	13,526,495	(26,289,738)	(84,056,300)	(77,329,441)	31,342,341

2022	Note	Carrying amount	Cash inflow / (outflow)	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years
ASSETS								
Cash and cash equivalents	7	10,868,255	10,868,255	10,868,255	-	-	-	-
Loans and advances to customers	10	62,330,779	62,980,876	14,090,659	286,991	2,648,611	9,108,194	36,846,421
Interbank placements	9	25,088,670	26,564,330	26,564,330	-	-	-	-
Financial assets at fair value through profit or loss	8.1	96,563,517	98,633,832	1,914,300	4,119,216	15,446,339	22,518,686	54,635,291
Investment securities	8.2	20,322,216	22,906,146	5,124,773	963,300	104,379	6,949,650	9,764,044
Other assets	11	209,692	209,692	209,692	-	-	-	-
Total assets		215,383,129	222,163,131	58,772,009	5,369,507	18,199,329	38,576,530	101,245,756

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LIABILITIES	Note	Carrying amount	Cash inflow /outflow	Up to 1 month	1-3 months	3-6 months	6-12 months	1-3 years
Current and savings account	15	(24,346,996)	(25,394,432)	(25,394,432)	-	-	-	-
Foreign currency accounts	15	(14,289,981)	(15,049,612)	(15,049,612)	-	-	-	-
Term deposit accounts	15	(55,243,693)	(55,941,201)	(3,051,974)	(12,515,678)	(23,845,667)	(14,175,319)	(2,352,563)
Investment funds	16	(84,688,396)	(86,043,001)	(2,973,371)	(21,803,017)	(36,676,953)	(19,250,329)	(5,339,331)
Interbank takings	18	(13,060,741)	(13,807,693)	(477,150)	(3,498,825)	(5,885,708)	(3,089,184)	(856,826)
Subordinated debt	17	(1,600,000)	(1,600,000)	-	-	-	-	(1,600,000)
Total liabilities		(193,229,807)	(197,835,939)	(46,946,539)	(37,817,520)	(66,408,328)	(36,514,832)	(10,148,720)
Net liquidity gap		22,153,322	24,327,192	11,825,470	(32,448,013)	(48,208,999)	2,061,698	91,097,036
Cumulative liquidity gap		-	-	11,825,470	(20,622,543)	(68,831,542)	(66,769,844)	24,327,192

The previous table shows the undiscounted cash flows on the Bank's financial assets and liabilities based on their earliest possible contractual maturity. Out of these, 20% are demand deposits and overdrafts, and are classified in the up to one-month category with the balance in the 1-3 years category as the Bank's expected cash flows on these instruments varies significantly from their contractual maturity profile.

The Bank's asset liability committee manages liquidity gaps by setting guidelines and limits for anticipated liquidity gaps and monitors these gaps daily. The committee reviews product and customer behavioral assumptions when there is indication that there is a shift in one or more variables such as changes in maturity dates and expected residual balances to maturity.

The Bank developed a model that assesses the liquidity gaps based on the actual customer placement patterns which are different from the contractual patterns. The Asset and Liability Committee reviews the liquidity gaps based on the customers' placement patterns on a monthly basis.

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** (2022:25 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 20 percent.

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5. Risk management (continued)

5.1 Financial risks (continued)

5.1.2 Liquidity risk (continued)

Liquidity Ratios 1 and 2 were as specified below:

CDH Investment Bank Limited	2023	2022
Liquidity Ratio I	56.03%	60.74%
Liquidity Ratio II	56.03%	60.74%

5.1.3 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.

5.1.3.1 Foreign exchange risk

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

Foreign currency transactions and positions are monitored by Treasury department and ALCO whose responsibilities are described below.

Foreign exchange rate risk management

The responsibilities of the 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.

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- 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:

2023	Assets	Liabilities	Net	Exchange Rate movement	Impact on profit and equity (net of tax)
USD	23,356	23,684	(328)	(64%)	(147.94)
GBP	554	343	191	(72%)	96.26
EUR	274	185	89	(69%)	42.99
ZAR	507	318	189	(51%)	67.47
				Net effect	58.78

At 31 December 2023, if the Malawi Kwacha had weakened/strengthened by the above exchange rate movements against the US dollar, Great British Pound, Euro and the South African Rand with all other variables held constant, post-tax profit for the year would have been **K58.78 million** (2022: K123.3 million) higher/(lower), mainly as a result of foreign exchange gains/losses on translation of foreign currency-denominated financial instruments. The exchange rate movement is based on actual exchange rate movement in the period between 1 January and 31 December 2023. The net position is based on the actual assets and liabilities holding as at 31 December 2023.

5.1.3.2 Interest rate risk

Interest rate risk is the exposure of Bank's financial condition to adverse movements in interest rates. It 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.

The Bank uses two techniques to manage interest rate gap. The first technique employed by the Bank is by migrating more assets into the floating rate category and more liabilities into the fixed rate category in times of increasing interest rates. This brings more flexibility on the re-pricing of the assets. The second approach is to ensure that there is a proper match between asset and liability maturity tenors. The Bank also determines an appropriate asset and liability mix to manage its margins.

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

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5. Risk management (continued)

5.1 Financial risks (continued)

5.1.3 Market risk (continued)

5.1.3.2 Interest rate risk (continued)

2023	Note	Zero rate	Floating rate	Fixed Rate Instruments					Over 12 months	Total carrying amount
				0-3 months	3-6 months	6-9 months	9-12 months			
Assets										
Cash and cash equivalents	7	19,863,871	-	-	-	-	-	-	-	19,863,871
Loans and advances to customers	10	-	83,682,438	-	-	-	-	-	-	83,682,438
Interbank placements	9	-	-	32,649,060	-	-	-	-	-	32,649,060
Financial assets at fair value through profit or loss	8.1	-	27,773,327	4,213,696	5,896,669	2,591,348	2,974,683	91,640,458	135,090,181	
Investment securities	8.2	-	-	317,216	3,315,246	2,885,423	19,395,000	2,097,038	28,009,923	
Total assets		19,863,871	111,455,765	37,179,972	9,211,915	5,476,771	22,369,683	93,737,496	299,295,473	
Liabilities										
Interbank takings	18	-	-	20,353,052	-	-	-	-	-	20,353,052
Current and savings accounts	15	-	-	32,081,872	-	-	-	-	-	32,081,872
Foreign currency accounts	15	-	-	29,087,861	-	-	-	-	-	29,087,861
Term deposit accounts	15	-	-	56,952,416	7,311,394	5,248,754	2,781,999	-	-	72,294,563
Investment funds	16	-	-	120,257,083	-	-	-	-	-	120,257,083
Subordinated liabilities	17	-	-	-	-	-	-	1,600,000	1,600,000	
Total liabilities		-	-	258,732,284	7,311,394	5,248,754	2,781,999	1,600,000	275,674,431	
Interest gap		19,863,871	111,455,765	(221,552,312)	1,900,521	228,017	19,587,684	92,137,496	23,621,042	
Impact on post tax profit or equity of an increase in the interest rate by 5%		-	3,900,952	(7,754,331)	66,518	7,981	685,569	3,224,812	826,736	
Impact on post tax profit or equity of a decrease in the interest rate by 5%		-	(3,900,952)	7,754,331	(66,518)	(7,981)	(685,569)	(3,224,812)	(826,736)	

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Variable rate instruments expose the Bank to interest rate risk whereas fixed rate instruments expose the Bank to fair value interest rate risk. The sensitivity impact is calculated at 70% of 5% of the interest rate gap. The 70% is applied to take into account tax effects. A sensitivity of a 5% is adopted as the most reasonable potential change in interest rates in the short-term.

2022	Note	Fixed Rate Instruments									Total carrying amount
		Zero rate	Floating rate	0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months			
Assets											
Cash and cash equivalents	7	10,868,255	-	-	-	-	-	-	-	10,868,255	
Loans and advances to customers	10	-	62,330,779	-	-	-	-	-	-	62,330,779	
Interbank placements	9	-	-	25,088,670	-	-	-	-	-	25,088,670	
Financial assets at fair value through profit or loss	8.1	-	-	2,622,760	21,201,001	7,053,178	11,051,287	54,635,291	96,563,517		
Investment securities	8.2	-	-	366,142	354,808	333,657	7,613,649	11,653,960	20,322,216		
Total assets		10,868,255	62,330,779	28,077,572	21,555,809	7,386,835	18,664,936	66,289,251	215,173,437		
Liabilities											
Interbank takings	18	-	-	13,060,741	-	-	-	-	-	13,060,741	
Current and savings accounts	15	-	-	24,346,996	-	-	-	-	-	24,346,996	
Foreign currency accounts	15	-	-	14,289,981	-	-	-	-	-	14,289,981	
Term deposit accounts	15	-	-	52,631,136	2,489,334	123,223	-	-	-	55,243,693	
Investment funds	16	-	-	73,273,514	3,977,424	-	7,437,458	-	-	84,688,396	
Subordinated liabilities	17	-	-	-	-	-	-	-	1,600,000	1,600,000	
Total liabilities		-	-	177,602,368	6,466,758	123,223	7,437,458	1,600,000	193,229,807		
Interest gap		10,868,255	62,330,779	(149,524,795)	15,089,051	7,263,612	11,227,478	64,689,251	21,943,631		
Impact on post tax profit or equity of an increase in the interest rate by 5%		-	2,181,577	(5,233,368)	528,117	254,226	392,692	2,264,124	768,027		
Impact on post tax profit or equity of a decrease in the interest rate by 5%		-	[2,181,577]	5,233,368	[528,117]	[254,226]	[392,692]	[2,264,124]	[768,027]		

Variable rate instruments expose the Bank to interest rate risk whereas fixed rate instruments expose the Bank to fair value interest rate risk. The sensitivity impact is calculated at 70% of 5% of the interest rate gap. 70% is applied to take into account tax effects.

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5. Risk management (continued)

5.1 Financial risks (continued)

5.1.3 Market risk (continued)

5.1.3.2 Interest rate risk (continued)

Effective interest rates of financial assets and liabilities

The effective interest rates for the principal financial assets and liabilities at 31 December were in the following ranges:

	2023	2022
Assets	%	%
Government securities	22.5-33.0	18.75-26.0
Interbank takings	5.0-23.0	5.0-15.0
Loans and advances to customers	13.1-34.5	6.1-28.2
Liabilities:		
Customer deposits	0.25-23.5	0.25-16

5.2 Operational risks

Operational risk is the risk 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 of the Bank's operations.

The objective of the Bank is to manage operational risks so as to balance the avoidance of financial losses and damages to the Bank's reputation with 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 Risk and Compliance Committee of the board 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 authorisation 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
- requirements for the reporting of operational losses and proposed remedial action.

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- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where it is cost effective
- implementation of anonymous hotline for reporting fraud and other inappropriate conduct as per fraud risk policy.

Compliance with Bank's standards is supported by a programme of yearly reviews undertaken by the Bank's 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 management function also assesses operational risks and discusses the results with senior management and the risk committee.

5.3 Capital management

Reserve Bank of Malawi sets and monitors the capital requirements for the Bank and requires the Bank to maintain a minimum of **10 percent** and **15 percent** (2022: 10 percent and 15 percent) for core (tier 1) and total (tier 2) capital respectively. The Company'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 limited to 50% of the Tier I capital and net of an annual haircut of 20%.

The calculation of both the above ratios is given below:

	Note	2023	2022
Tier 1 capital			
Share capital	21.1	327,715	327,715
Share premium	21.2	4,493,101	4,493,101
Retained earnings		19,350,215	13,419,213
Less: Investments in banking & financial subsidiary companies		(838,250)	(180,500)
Deferred tax asset		(353,059)	(12,551)
		22,979,722	18,046,978
Tier 2 capital			
Subordinated debt (limited to 50% of tier 1 capital)		186,667	506,667
Investments in banking & financial subsidiary companies		-	(180,500)
		186,667	326,167
Total regulatory capital		23,166,389	18,373,145
Risk weighted assets		85,034,765	45,203,420
Capital ratios			
Tier 1 capital expressed as a percentage of total risk-weighted assets		27.02%	39.92%
Total capital expressed as a percentage of total risk weighted assets		27.24%	40.65%

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5. Risk management (continued)

5.3 Capital management (continued)

Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by the reciprocal of the minimum capital ratio of 10% and adding the resulting figures to the sum of risk weighted assets for credit risk. A scaling factor is applied to broadly maintain the aggregate level of minimum capital requirements, while also providing incentives to adopt the more advanced risk-sensitive approaches to the framework. The scaling factor is applied to the risk-weighted asset amounts for credit risk assessment under the IRB approach. The total risk-weighted assets comprise capital requirements for market, operational and credit risks.

In its capital planning, the Bank considers the impact of economic downturns/recession and the impact this would have on its capital and earnings. This is covered under the budgeting process where the statement of financial position and statement of profit or loss and other comprehensive income are projected in line with the Bank's interest rate view.

In the event that actual performance is deviating from projected performance, the budget is revised to reflect the current economic situation and submitted to the board for approval with details of the measures to be taken and the revised targets.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements for tier 1 and tier 2 capital as stipulated above.

5.4 Compliance risk

The office of the Chief Risk and Compliance Officer is an independent risk management unit, which also has unrestricted access to the Managing Director and the Chairperson of Board, Audit, Risk and Compliance Committees. 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. 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 Bank has a Chief Legal and Compliance Officer who consults the country's Financial Intelligence Authority on money laundering and anti-terrorist financing matters.

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6. Classification of financial assets and liabilities

Accounting classifications and fair values

31 December 2023	Note	Fair value through profit and loss	Amortised cost	Carrying amount
Financial assets				
Cash and cash equivalents	7	-	19,863,871	19,863,871
Financial asset investments	8.1	135,090,181	-	135,090,181
Investment securities	8.2	-	28,009,923	28,009,923
Loans and advances to customers	10	-	83,682,438	83,682,438
Interbank placements	9	-	32,649,060	32,649,060
Other investments	12	-	838,250	838,250
Other assets	11	-	358,113	358,113
		135,090,181	165,401,655	300,491,836
Financial liabilities				
Deposits from customers	15	-	133,464,295	133,464,295
Interbank takings	18	-	20,353,052	20,353,052
Investment funds	16	120,257,083	-	120,257,083
Other payables	19	-	4,799,943	4,799,943
Subordinated debt	17	-	1,600,000	1,600,000
		120,257,083	160,217,290	280,474,373
31 December 2022				
Financial assets				
Cash and cash equivalents	7	-	10,868,255	10,868,255
Financial asset investments	8.1	96,563,517	-	96,563,517
Investment securities	8.2	-	20,322,216	20,322,216
Loans and advances to customers	10	-	62,330,779	62,330,779
Interbank placements	9	-	25,088,670	25,088,670
Other investments	12	-	361,000	361,000
Other assets	11	-	209,692	209,692
		96,563,517	119,180,612	215,744,129
Financial liabilities				
Deposits from customers	15	-	93,880,670	93,880,670
Interbank takings	18	-	13,060,741	13,060,741
Investment funds	16	84,688,396	-	84,688,396
Other payables	19	-	2,927,129	2,927,129
Subordinated debt	17	-	1,600,000	1,600,000
		84,688,396	111,468,540	196,156,936

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6. Classification of financial assets and liabilities (continued)

Fair values of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques. A fair value disclosure is not required for financial instruments whose carrying amounts approximate its fair value.

Other investments

These are equity instruments the Bank is holding in National Switch Company Limited and Malawi Agricultural and Industrial Investments Corporation (MAIIC) Plc and are not listed companies.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity and concentration.

(a) Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices and foreign currency exchange rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values.

Notes to the financial statements

For the year ended 31 December 2023

Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes that a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty where appropriate. For measuring derivatives that might change classification from being an asset to a liability or vice versa such as interest rate swaps, fair values take into account both credit valuation adjustment (CVA) and debit valuation adjustment (DVA) when market participants take this into consideration in pricing the derivatives.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes. This calibration process is inherently subjective, and it yields ranges of possible inputs and estimates of fair value, and management judgement is required to select the most appropriate point in the range.

During the current year, low trading volumes continued and there has not been sufficient trading volume to establish an active market for certain asset-backed securities and so the Bank has determined the fair value for these asset-backed securities using other valuation techniques.

These securities are backed primarily by static pools of residential mortgages and enjoy a senior claim on cash flows.

The Bank's valuation methodology for valuing these asset-backed securities uses a discounted cash flow methodology that takes into account original underwriting criteria, borrower attributes (such as age and credit scores), LTV (Loan to Value) ratios, expected house price movements and expected prepayment rates. These features are used to estimate expected cash flows, which are then allocated using the 'waterfall' applicable to the security and discounted at a risk-adjusted rate.

The discounted cash flow technique is often used by market participants to price asset-backed securities. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.

As part of its trading activities, the Bank enters into over the counter (OTC) structured derivatives – primarily options indexed to credit spreads, equity prices, foreign exchange rates and interest rates – with customers and other banks. Some of these instruments are valued using models with significant unobservable inputs, principally expected long-term volatilities and expected correlations between different underlying factors.

If the Bank measures portfolios of financial assets and financial liabilities on the basis of net exposures to market risks, then it applies judgement in determining appropriate portfolio-level adjustments such as bid-ask spreads. Such adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio. Similarly, when the Bank measures portfolios of financial assets and financial liabilities on the basis of net exposure to the credit risk of a particular counterparty, then it takes into account any existing arrangements that mitigate the credit risk exposure (e.g. master netting agreements with the counterparty).

Notes to the financial statements

For the year ended 31 December 2023

In thousands of Malawi Kwacha

6. Classification of financial assets and liabilities (continued)

(b) Valuation framework

The Bank has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Chief Finance Officer, and which has overall responsibility for independently verifying the results of investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- re-performance of model valuations;
- analysis and investigation of significant daily valuation movements; and
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared with the previous month, by senior personnel in the Finance and Treasury departments.

Significant valuation issues are reported to the Board Audit and Risk and Compliance Committees.

(c) Financial instruments measured at fair value – fair value hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statements of financial position. The fair values include any deferred differences between the transaction price and the fair value on initial recognition when the fair value is based on a valuation technique that uses un-observable inputs.

31 December 2023	Note	Level 1	Level 2	Total
Medium- and short-term notes	8.1	82,940,452	52,149,729	135,090,181
Total		82,940,452	52,149,729	135,090,181

31 December 2022	Note	Level 1	Level 2	Total
Medium- and short-term notes	8.1	41,014,739	55,548,778	96,563,517
Total		41,014,739	55,548,778	96,563,517

The following valuation techniques are used for instruments under level 2 and 3:

• Medium and short-term notes (Level 1 and 2)

The medium- and short-term notes under Level 1 are treasury notes and their fair valuation is estimated by use of yield curves available on the active market, interpolated over the tenor of the instruments. For level 2 medium- and short-term notes, the fair valuation is estimated by use of observable yield curves for either treasury notes or treasury bills, and the reference rates as provided by the Reserve Bank of Malawi.

Notes to the financial statements

For the year ended 31 December 2023

In thousands of Malawi Kwacha

Sensitivity analysis

For the fair values of the treasury notes, reasonable possible changes at the reporting date to one of the inputs, holding other inputs constant would have the following effects.

Effects in millions of Malawi Kwacha

	Profit or loss	
	Increase	Decrease
31 December 2022		
Yield curve movement by 200 basis points	(2,860)	2,860

The 200 basis points was selected based on an analysis of prior movements in the past 3 years.

• Other investments (Level 3)

These are equity instruments the Bank is holding in National Switch Company Limited and Malawi Agricultural and Industrial Investments Corporation (MAIIC) Plc and are not listed companies. The valuation model is determined using the net asset value method that takes into consideration illiquidity discount as well as the country risk adjustment.

(d) Financial instruments not measured at fair value

The following table sets out financial instruments and at their amortised cost where the Directors believe that the carrying amounts approximate their fairvalues.

31 December 2023	Note	At amortised cost	Total carrying amount
Assets			
Cash and cash equivalents	7	19,863,871	19,863,871
Loans and advances to customers	10	83,682,438	83,682,438
Investment in securities	8.2	28,009,923	28,009,923
Interbank placements	9	32,649,060	32,649,060
Other receivables	11	358,113	358,113
Liabilities			
Deposits from customers	15	133,464,295	133,464,295
Interbank takings	18	20,353,052	20,353,052
Subordinated debt	17	1,600,000	1,600,000
Other payables	19	4,799,943	4,799,943

Notes to the financial statements

For the year ended 31 December 2023

In thousands of Malawi Kwacha

6. Classification of financial assets and liabilities (continued)

(d) Financial instruments not measured at fair value (continued)

31 December 2022	Note	At amortised cost	Total carrying amount
Assets			
Cash and cash equivalents	7	10,868,255	10,868,255
Loans and advances to customers	10	62,330,779	62,330,779
Interbank placements	9	25,088,670	25,088,670
Other assets	11	209,692	209,692
Liabilities			
Deposits from customers	15	93,880,670	93,880,670
Interbank takings	18	13,060,741	13,060,741
Subordinated debt	17	1,600,000	1,600,000
Other payables	19	2,927,129	2,927,129

7. Cash and cash equivalents

	2023	2022
<i>See accounting policy note 4 (b)</i>		
<i>Liquidity Reserve Deposits</i>		
• Reserve bank of Malawi	10,352,486	4,855,507
<i>Placements with other banks</i>		
• Balances with foreign banks	8,805,263	5,378,971
• Balances with local banks	49,453	5,329
Cash balances	656,669	628,448
	19,863,871	10,868,255

The funds with Reserve Bank of Malawi includes funds held to meet the minimum Liquidity Reserve Requirement (LRR) of 7.75% (2022: 3.75%) of deposits. These funds are available for operations but they are monitored on a weekly basis to ensure that the balances do not fall below the LRR. Balances with foreign banks earn interest at Libor **+4% to +5%** (2022: Libor +3% to +5%) whilst balances with local banks earn interest at bank rate of **+6% to +23%** (2022: +5% to +15%).

Information on financial risk management is included in note 5.

Notes to the financial statements

For the year ended 31 December 2023

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8. Financial assets

8.1 Financial assets at fair value through profit or loss	2023	2022
<i>See accounting policy note 4 (b)</i>		
Commercial papers	23,382,374	42,041,889
Medium-and short-term notes	111,707,807	54,521,628
Total investments	135,090,181	96,563,517
Analysed as:		
External funding	120,257,083	84,688,395
Internal funding	14,833,098	11,875,122
	135,090,181	96,563,517
Investments are classified as follows:		
Maturing within 12 months	51,297,803	41,743,625
Maturing after 1 year	83,792,378	54,819,892
	135,090,181	96,563,517

Financial assets designated to be measured at fair value through profit or loss were **K135.09 billion** (2022: K96.6 billion).

8.2 Investment securities at amortized costs	2023	2022
<i>See accounting policy note 4 (b)</i>		
Treasury Notes	28,009,923	20,322,216
	28,009,923	20,322,216
Investment in securities at amortised cost are classified as follows:		
Maturing within 12 months	25,003,784	8,668,256
Maturing after 1 year	3,006,139	11,653,960
	28,009,923	20,322,216

The Bank holds the above Government of Malawi financial securities at amortized cost. The interest rates averaged between **22.5% - 33.0%** per annum (2022: 18.75% - 26.03% per annum).

Information on financial risk management is included in note 5.

Notes to the financial statements

For the year ended 31 December 2023

In thousands of Malawi Kwacha

9. Interbank placements

	2023	2022
<i>See accounting policy note 4 (b)</i>		
Interbank placements (Foreign)	32,649,060	13,088,670
Interbank placements (Local)	-	12,000,000
	32,649,060	25,088,670

Interbank placements include contracts with foreign and local banks and earn **+5% to +7%** (2022: +5% to +6%) in foreign currency and **+6% to +23%** (2022: +12% to +19%) in local currency. The Directors consider that the carrying amount of interbank placements approximates their fair value. The balance of **K15.6 billion** is due from the Reserve Bank of Malawi. **K17 billion** is due from Ecobank Limited.

Information on financial risk management is included in note 5.

10. Loans and advances to customers

<i>See accounting policy note 4 (b)</i>	2023	2022
(i) Loans and advances		
Personal and business loans	16,889,491	8,703,172
Corporate and investment loans	66,398,095	52,174,018
Total gross loans and advances	83,287,586	60,877,190
Interest receivable	2,191,720	1,847,538
	85,479,306	62,724,728
Allowance for impairment	(1,796,868)	(393,949)
Net loans and advances	83,682,438	62,330,779

(ii) Loans and advances are receivable as follows:

Maturing within 3 months	7,590,007	5,300,082
Maturing between 3 and 12 months	29,218,780	25,934,298
Maturing after 12 months	46,873,651	31,096,399
Total net loans and advances	83,682,438	62,330,779

Notes to the financial statements

For the year ended 31 December 2023

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<i>See accounting policy note 4 (b)</i>	2023	2022
(iii) Allowances for impairment		
Specific allowances for impairment:		
Balance at the beginning of the year	(49,904)	(139,841)
Charge for the year	(1,316,786)	(1,682)
Recoveries on impaired loans	-	15,855
Bad debts written off	49,904	(202,748)
Restored to accrual	-	278,512
Balance as at 31 December	(1,316,786)	(49,904)
Collective allowances for impairment:		
Balance at the beginning of the year	(344,045)	(523,897)
Charge for the year	(136,342)	(205,101)
Restored to accrual	305	384,953
Balance as at 31 December	(480,082)	(344,045)
Total allowances for impairment	(1,796,868)	(393,949)
(iv) Impairment (charge)/credit		
Charge for the year – specific	(1,316,786)	1,682
Charge for the year – collective	(136,342)	205,101
Recoveries on impaired loans	-	(15,855)
Bad debts written off	-	-
Recoveries on non-loan receivables	80,000	(202,748)
Total impairment credit/(charge)	(1,373,128)	(11,820)

The increase in the loss allowance was due to a significant increase in credit risk during the year on a MK6 Bn loan held by one of the customers of the bank which necessitated the movement of the loan to stage 3 from stage 1.

Loans and advances to customers earn interest at a range of the Malawi Reference Rate **+0.9% to +10.9%**. (2022 Malawi Reference Rate: +0.9% to +10.9%). The net carrying value of loans and advances is considered a reasonable approximation of fair value. Note 5.1.1 includes disclosures relating to the allowances for expected credit losses.

The Malawi Reference Rate was introduced by the Reserve Bank of Malawi on 3rd May 2019 requiring all banks in Malawi to use it as the lending rate. The Rate is calculated based on the weighted average rates of Lombard, 91-day Treasury Bill, interbank and savings accounts rates, and is published by all banks monthly

Information on financial risk management is included in note 5.

Notes to the financial statements

For the year ended 31 December 2023

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11. Other assets

<i>See accounting policy note 4 (b)</i>	2023	2022
Prepayments	1,646,980	122,953
Other accounts receivable	358,113	209,692
	2,005,093	1,432,645

Other assets are subjected to expected credit loss. During the year, the related expected credit loss assessment results were immaterial.

12. Other investments

<i>See accounting policy note 4 (b)</i>	2023	2022
Other investment		
Malawi Agricultural and Industrial Investment Corporation Plc	727,250	250,000
National Switch Limited	111,000	111,000
	838,250	361,000

The Bank as co-sponsor of the Government of Malawi initiated project to establish a national Development Financial Institution (DFI) in Malawi invested MK 727 million into the Malawi Agricultural and Industrial Corporation Plc (MAIIC) being its committed USD1million capital injection into the ordinary share capital of MAIIC. During the year ended 31 December 2023, the Bank made an additional investment amounting to K477 million to achieve its committed capital injection of K727 million.

Information on financial risk management is included in note 5.

Notes to the financial statements

For the year ended 31 December 2023

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13. Equipment

See accounting policy note 4 (c)	Computers	Right of use Property	Right of use Motor vehicles	Equipment fixture & fittings	Work in progress	Land and buildings	Total
2023							
<i>Cost</i>							
Balance at 1 January 2023	183,214	961,410	1,567,406	1,131,726	109,520	-	3,953,276
Lease additions and adjustments for the year	-	329,820	923,532	-	-	-	1,253,352
Additions during the year	175,956	-	-	244,304	653,755	5,088,310	6,162,325
Disposals during the year	(68,899)	(890,564)	(120,114)	(47,985)	-	-	(1,127,562)
Balance at 31 Dec 2023	290,271	400,666	2,370,824	1,328,045	763,275	5,088,310	10,241,391
2022							
<i>Cost</i>							
Balance at 1 January 2022	156,988	1,201,966	1,369,169	1,239,154	94,468	-	4,061,745
Non-cash adjustment for the year	-	200,479	1,199,558	-	-	-	1,400,037
Additions during the year	84,426	-	-	65,539	15,052	-	165,017
Disposals during the year	(58,200)	(441,035)	(1,001,321)	(172,967)	-	-	(1,673,523)
Balance at 31 Dec 2022	183,214	961,410	1,567,406	1,131,726	109,520	-	3,953,276
2023							
<i>Accumulated depreciation and impairment losses</i>							
Balance at 1 January 2023	95,789	576,763	440,012	834,054	-	-	1,946,618
Lease additions and adjustments for the year	-	197,745	(440,008)	-	-	-	(242,263)
Depreciation charge for the year	66,844	320,686	900,557	138,335	-	21,201	1,447,623
Eliminated on disposal	(57,233)	(962,534)	(58,157)	(47,304)	-	-	(1,125,228)
Balance at 31 Dec 2023	105,400	132,660	842,404	925,085	-	21,201	2,026,750
2022							
<i>Accumulated depreciation and impairment losses</i>							
Balance at 1 January 2022	119,127	708,869	1,026,671	902,096	-	-	2,756,763
Depreciation charge for the year	31,093	308,929	414,662	105,048	-	-	859,732
Eliminated on disposal	(54,431)	(441,035)	(1,001,321)	(173,090)	-	-	(1,669,877)
Balance at 31 Dec 2022	95,789	576,763	440,012	834,054	-	-	1,946,618
<i>Carrying amount</i>							
At 31 December 2023	184,871	268,006	1,528,420	402,960	763,275	5,067,109	8,214,641
At 31 December 2022	87,426	384,647	1,127,394	297,672	109,520	-	2,006,659

Included in work in progress is **K654 million** for new core banking system which will be implemented in 2024 and **K109 million** relating to internet and mobile banking project.

The Bank has lease arrangement for all motor vehicles and its business premises.

In the year ended the Bank purchases CDH House from Continental Asset Management Nominees Limited in the month of December 2023 at a price of **K5.1 billion**.

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13. Equipment (continued)

The Bank entered a 10-year lease agreement with Churches of Christ in Malawi on Capital City Gowa House from 1st September 2015 to 31st August 2025. Lease payments on properties are determined by Malawi Kwacha rate per square metre payable on a quarterly basis.

A 3-year motor vehicle operating lease agreement was made between Continental Properties Limited and the Bank from 1st January 2019 to 31st December 2023. The new lease will be for 5 years to align with the depreciation for motor vehicles. Lease payments on motor vehicles are determined by the rate implicit in the lease agreement which incorporates average rate of 182 days Treasury Bill plus 350 basis points, and a margin comprising operating and funding costs, payable on half yearly basis. Details of the payments during the period were as follows:

Description	Interest paid	Principle paid	Total paid
Lease payments 2023	893,988	891,439	1,785,427
Lease payments 2022	963,404	439,654	1,403,058

With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset under equipment and right of use assets and a lease liability included in other liabilities.

There were no encumbrances on the equipment as at year end.

14. Intangible assets – computer software

See accounting policy note 4 (d)	2023	2022
<i>Cost</i>		
Balance at 1 January	512,497	512,497
	512,497	512,497
<i>Amortisation</i>		
Balance at 1 January	499,506	486,515
Amortisation charge for the year	12,990	12,991
Balance at 31 December	512,496	499,506
<i>Carrying amount</i>		
At 31 December	1	12,991

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15. Customer deposits

See accounting policy note 4 (b)	2023	2022
Current and savings accounts	32,081,871	24,346,996
Foreign currency accounts	29,087,861	14,289,981
Term deposit accounts	72,294,563	55,243,693
	133,464,295	93,880,670
<u>Payable as follows:</u>		
Maturing within 3 months	80,135,303	85,660,875
Maturing after 3 months	53,328,992	8,219,795
	133,464,295	93,880,670

Interest on customer deposit balances ranged from **+0.25% to +23.5%** (2022: +0.25 to +16%).

Information on financial risk management is included in note 5.

16. Investment funds

See accounting policy note 4 (b)	2023	2022
Investment funds	120,257,083	84,688,396
This represents customer investments for funding of financial asset investments (note 8). Interest on these funds range from +1% to +24% (2022: +4.0% to +20.3%).		
Maturing within 12 months	120,257,083	79,349,065
Maturing after 12 months and above	-	5,339,331
	120,257,083	84,688,396

Information on financial risk management is included in note 5.

17. Subordinated liability

See accounting policy note 4 (b)	2023	2022
Corporate bond	1,600,000	1,600,000

This debt represents a corporate bond issued by the Bank at a rate of the 365-day Treasury Bill rate plus 300 basis points. This loan is subordinated to the claims of depositors and all other secured creditors of the Bank. The debt matures on 30 April 2024. At 31 December 2023, the carrying amount of the bond approximates the fair value. There were no breaches of agreement or defaults during the year. Accrued interest on the bond as at 31 December 2023 was **K246 million**.

Information on financial risk management is included in note 5.

Notes to the financial statements

For the year ended 31 December 2023

In thousands of Malawi Kwacha

18. Interbank takings

See accounting policy note 4 (b)	2023	2022
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Corporate bond

20,353,052 13,060,741

The balance of **K3.3 billion** was due to Reserve Bank of Malawi and **K17.1 billion** was due to Ecobank Limited with maturity dates ranging from 4 to 17 January 2024.

Interest rates on interbank takings were within a range of **6% to 23%** (2022: 6% to 15%) with maturity dates ranging from **1 to 181 days** (2022: 1 to 182 days).

Information on financial risk management is included in note 6.

19. Other liabilities and accruals

See accounting policy notes 4 (b)	2023	2022
Unclaimed customer balances	8,565	8,307
Bankers' cheques issued but not cleared	634,004	18,797
Accruals	395,675	221,969
Trade payables	1,486,358	1,410,648
Other	407,546	3,789
	2,932,148	1,663,510
Lease liabilities	1,867,794	1,263,619
	4,799,942	2,927,129

Description	Opening balance	Interest charge	Additions and adjustments	Repayments	Closing balance
Leases liabilities	1,263,619	893,988	1,495,614	(1,785,427)	1,867,794

Included in lease adjustments and additions are adjustments of **MK628 million** due to changes in discount rates over the year and **MK750 million** for new motor vehicles.

Included in other liabilities and accruals are lease liabilities which comprise liabilities on motor vehicles and property. The lease liabilities are discounted at **50.9%** (2022: 62.7%) covering up to 4 years lease period for motor vehicles and **14.9%** (2022: 14.9%) for 10 years lease period for property. The Bank does not recognize lease liabilities for short term leases or those of low valued assets, and there were no such leases at the reporting date. The lease rentals paid for motor vehicles were **K1,261 million** and **K407 million** on property (2022: K985 million and K418 million).

Information on financial risk management is included in note 5

Notes to the financial statements

For the year ended 31 December 2023

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20. Income tax and deferred tax liabilities

<i>See accounting policy note 4 (b)</i>	2023	2022
Income tax payable		
Balance at 1 January	(1,588,768)	[383,780]
Current year's charge (Note 27)	(6,387,535)	[3,851,668]
Tax paid	6,371,447	2,646,680
Balance at 31 December	(1,604,856)	[1,588,768]

				2023
Deferred tax (liabilities) /assets	Assets	Liabilities	Net	
Equipment	-	(49,191)	(49,191)	
General provisions	144,025	-	144,025	
Unrealised Income/(loss) on fair value adjustments	34,218	-	34,218	
Leave provisions	4,324	-	4,324	
Leases	219,683	-	219,683	
	402,250	(49,191)	353,059	

Movements in temporary differences in 2023	Opening balance	Recognised in profit or loss	Closing balance
Equipment	(52,521)	3,330	(49,191)
General provisions	103,213	40,811	144,025
Unrealised Income/(loss) on fair value adjustments	(122,158)	156,376	34,218
Leave provisions	(1,112)	5,435	4,324
Leases	85,129	134,554	219,683
	12,551	340,506	353,059

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20. Income tax and deferred tax liabilities (continued)

			2022
	Assets	Liabilities	Net
Equipment		(52,521)	(52,521)
General provisions	103,213	-	103,213
Unrealised exchanged loss	-	-	-
Unrealised Income/(loss) on fair value adjustments	(122,158)	-	(122,158)
Leave provisions	-	(1,112)	(1,112)
Leases	85,129	-	85,129
	<u>66,184</u>	<u>(53,633)</u>	<u>12,551</u>

Movements in temporary differences in 2022	Opening balance	Recognised in profit or loss	Closing balance
Equipment	33,168	(85,689)	(52,521)
General provisions	7,628	95,585	103,213
Unrealized exchange loss	1,535	(1,535)	-
Unrealised Income/(loss) on fair value adjustments	-	(122,158)	(122,158)
Leave provisions	61,307	(62,419)	(1,112)
Leases	-	85,129	85,129
	<u>103,638</u>	<u>(91,087)</u>	<u>12,551</u>

21. Equity and reserves

See accounting policy note 4 (f)	2023	2022
21.1 Share capital		
327,715,474 shares at MK1.00 per share (2022: 308 326,474)	327,715	308,326
19,388,905 converted during the year at MK1.00 per share	-	19,389
	327,715	327,715
21.2 Share premium		
172,458,155 shares at MK4.33 each	4,493,101	4,025,247
19,388,905 shares at MK24.13 each	-	467,854
	4,493,101	4,493,101

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	2023	2022
21.3 Irredeemable non-cumulative preference shares		
51,730,999 shares at MK25.13 per share	-	487,243
Conversion of 19,388,905 Irredeemable non-cumulative preference shares into ordinary shares at MK25.13 per share	-	(487,243)
	<hr/>	<hr/>
	-	-

The Bank issued 51,730,999 perpetual, irredeemable non-cumulative preference shares at K25.13 per share. Dividends on the preference shares were payable based on the Government of Malawi 365-Treasury Bill rate plus 3% set at the beginning of the year. The Bank pays non-cumulative dividends subject to the financial performance of the Bank, regulatory restrictions of the Registrar of Financial Institutions and other factors that may come to the attention of Directors from time to time. The shares carried no voting rights.

22. Interest income

<i>See accounting policy note 4 (h)</i>	2023	2022
Interest income on:		
Interbank placements	5,804,089	1,051,101
Loans and advances to customers and other investment securities	18,480,674	13,218,023
Financial asset investments	25,600,845	18,183,084
Fair value adjustments on financial assets at FVTPL	(114,059)	407,193
Total interest income before changes in fair value of financial assets	<hr/>	<hr/>
	49,771,550	32,859,401
Interest expense on:		
Deposits from customers and interbank takings	(14,570,524)	(7,300,274)
Investment funds	(16,690,597)	(11,575,276)
Total interest expense	<hr/>	<hr/>
Net interest income after changes in fair value of financial assets	<hr/>	<hr/>
	18,510,429	13,983,851

23. Fees and commissions income

<i>See accounting policy note 4 (h)</i>	2023	2022
Fees from Investment Banking Services	2,002,232	1,871,755
Other fees and commissions income	1,848,409	698,598
	<hr/>	<hr/>
	3,850,641	2,570,353

The fees and commissions income above arise from financial assets and liabilities measured at amortized cost and does not include interest income.

Notes to the financial statements

For the year ended 31 December 2023

In thousands of Malawi Kwacha

24. Trading and other income

<i>See accounting policy note 4 (i)</i>	2023	2022
Income from financial instruments	2,181,265	2,562,171
Foreign exchange gains – forex trading and others	2,067,530	1,008,411
Foreign exchange gains – revaluation of nostros accounts	3,480,901	395,530
	7,729,696	3,966,112

Income from financial instruments represents trading gains on outright sales of Promissory Notes, Treasury Notes and Bills, medium term and short-term notes.

24.1 Other operating income

<i>See accounting policy note 4 (i)</i>	2023	2022
Other operating income	34,262	39,420
The Bank realized rental income from subletting its premises at Capital City Business Centre in Lilongwe.		

24.2 Other expenses

<i>See accounting policy note 4 (i)</i>	2023	2022
Gain/(loss) on disposal of assets	3,721	(2,740)

25. Personnel expenses

	2023	2022
Salaries and wages	3,128,335	2,286,138
Staff benefits	516,262	310,605
Contributions to defined contribution plan	292,475	211,916
Bank life insurance premiums	68,225	98,839
Recruitment	12,307	12,952
Incentive bonus	1,718,768	1,147,663
Staff allowances :		
▪ Transport allowances	22,906	17,806
▪ Other allowances	13,935	18,904
	5,773,213	4,104,823

Notes to the financial statements

For the year ended 31 December 2023

In thousands of Malawi Kwacha

26. Administration expenses

	2023	2022
Auditors' remuneration		
- Audit fees	60,375	40,000
- VAT and other expenses	9,962	8,732
Bank charges	190,020	146,698
Business travel expenses	166,031	150,427
Communication expenses	44,430	45,933
Computer expenses	1,190,463	624,312
Director's fees and expenses	199,183	296,087
Finance costs on leases	893,988	963,404
Legal costs	57,223	298,260
Marketing expenses	314,498	269,295
Motor vehicle running costs	151,415	119,997
Office expenses	282,749	403,091
Office occupancy costs	333,059	230,806
Other expenses	266,872	274,164
Professional fees	25,232	14,824
Supervisory fees	24,518	71,959
Training costs	124,104	143,893
	4,334,122	4,101,882

The finance costs on leases are calculated on lease payments made for leased property using borrowing rate of **14.9%** (2022: 14.9%) and motor vehicles using implicit lease rate of **50.9%** (2022: 62.7 %).

Notes to the financial statements

For the year ended 31 December 2023

In thousands of Malawi Kwacha

27. Income tax expense

<i>See accounting policy note 4 (j)</i>	2023	2022
Recognised in the profit or loss		
Income tax charge	6,387,534	3,851,668
Deferred tax credit		
Reversal of temporary differences (note 20)	(340,506)	91,087
Income tax expense	6,047,027	3,942,755
Reconciliation of effective tax rate		
Profit before income tax	17,187,672	11,476,631
Income tax using the enacted income tax rate of 30% for the first K10 Billion and 40% on excess above K10 Billion (2022: 30%)	5,875,069	3,442,989
Income not subject to tax	(543,598)	(689,626)
Accelerated capital allowance	(340,506)	91,086
Expenses not deductible for tax purposes (Fringe Benefit tax, penalties, depreciation, provisions)	1,056,062	1,098,306
Income tax expense	6,047,027	3,942,755
Effective tax rate	35%	34%

28. Basic and diluted earnings per share

<i>See accounting policy note 4 (k)</i>	2023	2022
Profit attributable to ordinary shareholders	11,140,646	7,533,876
Weighted average number of ordinary shares in issue (thousands)	327,715	327,715
Basic and diluted earnings per share (MK)	33.99	22.99

Notes to the financial statements

For the year ended 31 December 2023

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29. Related party transactions

The Bank transacts part of its business with related parties including Directors and parties related to or under the control of the Directors. Details of related party transactions of the Bank are set out below:

2023	Directors and their related parties	Executive Management	Other Continental Holdings Subsidiaries	Total
Advances	-	790,391	10,000	800,391
Deposits	(51,412)	(50,555)	(1,438,823)	(1,540,789)
Net balances	(51,412)	739,836	(1,428,823)	(740,398)
Interest received	13,429	52,957	6,157	72,543
Interest paid	(488)	(1,425)	(819,292)	(821,205)
	12,941	51,532	(813,135)	(748,662)
2022				
Advances	93,281	488,143	-	665,453
Deposits	(12,805)	(59,349)	(608,126)	(680,280)
Net balances	(80,476)	428,794	(608,126)	(14,827)
Interest received	14,410	11,384	538,593	564,387
Interest paid	(670)	(1,829)	(2,453,814)	(2,456,313)
	13,740	9,555	(1,915,221)	(1,891,926)

Advances to Directors and parties related thereto are in the normal course of business and considered to be adequately secured.

Advances to executive management include **K NIL million** (2022: K NIL million) of interest free short-term salary advances and **K790.4 million** (2022: K488.1 million) of advances which carry interest at about **50%** (2022: 50%) of the prevailing prime lending rate of the bank and therefore is assessable to Fringe Benefit Tax. All other transactions with related parties are carried out on an arm's length basis on normal commercial terms.

Other Continental Holdings Limited subsidiaries comprise Continental Asset Management Limited, Continental Capital Limited, Continental Properties Limited, Continental Pension Services Limited and CDH Commodities Limited.

Notes to the financial statements

For the year ended 31 December 2023

In thousands of Malawi Kwacha

29. Related party transactions (continued)

Key management personnel compensation:

	Executive Management	Non-Executive Directors		
	2023	2022	2023	2022
Short-term employee benefits salaries	1,585,895	1,136,752	-	-
Post-employment benefits	158,390	113,675	-	-
Directors' fees	-	-	133,456	146,017
	1,744,285	1,250,427	133,456	146,017

In addition to their salaries, the Bank also provides non-cash benefits to Executive Directors. The estimated value of total non-cash benefits to the non-executive director amounts to **K66 million** (2022: K72 million).

The Bank is controlled by Continental Holdings Limited, a Group incorporated in Malawi which holds **82.46%** of the total shareholding of the Bank.

Other companies which are related to CDH Investment Bank Limited through common shareholdings are shown below and in the normal course of business, a number of transactions are entered into with related parties at arm's length and these include loans, deposits, foreign currency transactions, provision of professional and technical consultancy services charged at market rates.

The outstanding balances due to/from related parties as separately disclosed at year end are as follows:

Loans and advances to related party

Related party	Relationship	2023	2022
<i>Loans advances to other financial institutions</i>			
Continental Asset Management Nominees Limited	Common ownership	-	2,000,000
<i>Subordinated liability</i>			
Continental Asset Management Nominees Limited	Common ownership	1,600,000	1,600,000

The balance due to Continental Asset Management Nominees Limited includes **K1.6 billion** (2022: K1.6 billion) relating to subordinated debt presented in Note 17. The debt has tenure of 6 years with maturity date of 30 April 2024 and secured by all current and future assets of the Bank but ranking subordinate or behind all existing debentures, secured creditors and depositors.

The outstanding balances due from/to related parties at year end disclosed as part of loans and deposits and the value of transactions during the year are as follows:

Notes to the financial statements

For the year ended 31 December 2023

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Name of related party	Relationship	Type of transaction	Value of transactions 2023	Balance at year end 2023	Value of transactions 2022	Balance at year end 2022
Continental Asset Management Nominees Limited	Related company	Deposits	261,179,523	1,252,434	202,953,215	2,277,789
		Loan	-	-	-	-
		Subordinated debt	-	1,600,000	-	1,600,000
		Subordinated debt interest paid	-	245,589	-	197,260
		Interest received	-	-	-	-
		Interest paid	-	734,490,643	-	470,022,900
		Shared expenses	-	-	-	-
Continental Capital Limited	Related company	Deposits	58,619,250	129,974	26,086,270	137,506
		Shared expenses	-	-	-	-
		Interest received	41	-	535,860	-
		Interest paid	10,650	-	2,449,131	-
Continental Properties Limited	Related company	Deposits	2,987,219	-	2,274,049	-
		Operating lease payments	1,549,411	1,248	1,248	1,248
		Interest received	13	4	4	4
		Interest paid	127	94	94	94
Continental Pension Services Ltd	Related company	Deposits	1,410,538	26,449	1,490,160	22,352
		Shared expenses	-	-	-	-
		Interest received	-	-	524	524
		Interest paid	146	146	7	7
Continental Holdings Limited	Parent company	Deposits	17,415,584	10,913	19,408,765	435,732
		Shared expenses	-	-	-	-
		Fees payable	-	-	-	-
		Interest received	-	-	2,115	-
		Interest paid	73,881	-	-	-
Executive Management	Management	Deposits	2,552,060	50,555	1,593,050	59,349
		Advances	790,391	790,391	581,424	581,424
		Salaries	1,583,895	-	1,136,752	-
		Long-term benefits (Pension)	158,390	-	113,675	-
		Interest received	52,957	-	11,384	-
		Interest paid	1,425	-	1,829	-
Directors and their related parties	Directors	Fees	133,456	133,456	146,017	146,017

Notes to the financial statements

For the year ended 31 December 2023

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30. Capital commitments and contingent liabilities

The Bank conducts business involving acceptances, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

The contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers are as follows:

	2023	2022
Contingent liabilities		
Financial guarantees	749,428	725,864
	749,428	725,864

Contingencies in respect of guarantees and performance bonds issued will only crystallize into an asset and a liability in the event of default by the relevant counterparty.

Contingencies in respect of civil litigation and labor matters will crystallize into a liability only in the unlikely event of an unfavorable judgement in which case it is estimated that claims and litigation costs could amount to **MK185 million** (2022: MK148 million).

Capital commitments

The Bank is not committed to incur any capital expenditure nor has it entered into any capital commitment contracts during the year (2022: Nil).

31. Statutory requirements

In accordance with Section 27 of the Banking Act 2010, the Reserve Bank of Malawi has established the following requirements as at the financial reporting date:

(i) Liquidity Reserve Requirement

The Bank is required to maintain a liquidity reserve as defined by the Reserve Bank of Malawi, calculated on a fortnight average basis, of not less than **7.75%** of the preceding two weeks total deposit liabilities. In the last week of December 2023, the liquidity requirement was **7.75%** (2022: 3.75%) of total customer deposits.

(ii) Capital Adequacy Requirement

The Bank's available capital is required to be a minimum of 10% of its risk bearing assets and contingent liabilities. At 31 December 2022, the Bank's total available capital was **27.02%** (2022: 47.31%) and the core capital was **27.24** (2022: 46.59%) of its risk bearing assets and contingent liabilities.

In accordance with Section 16(1) of the Financial Assets Classification Directive (2018), the Reserve Bank Malawi established the following requirement on the accounting treatment for provisioning of loan losses:

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For the year ended 31 December 2023

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(iii) Loan loss reserve

If impairment charges computed under International Financial Reporting Standards (IFRS) are lower than provisions required under the Directive, the shortfall in provisions shall be treated as an appropriation of retained earnings to loan loss reserve.

32. Exchange rates and inflation

The average of the year-end buying and selling rates of the major foreign currencies most affecting the performance of the Bank are stated below, together with the decrease in the closing National Consumer Price Index, which represent an official measure of inflation.

Exchange rates	2023	2022
GBP/MWK	2,214.51	1,274.25
ZAR/MWK	93.64	62.38
USD/MWK	1,683.34	1,026.41
EUR/MWK	1,919.25	1,125.60
CAD/MWK	1,274.81	758.48
Average Inflation rate	28.7%	21.0%

33. Dividend

The following dividends were declared and paid by the company during the year:

	2023	2022
Interim dividend	750,000	750,000
Final dividend	3,016,936	1,731,285
Total	3,766,936	2,481,285

Final dividend paid in 2023 relating to the year ended 31 December 2022 of **K3,017 million** was issued at **K9.21 tambala** per share (2022: K1,731 million for the year ended 31 December 2021 at K5.01 tambala per share).

Interim dividend paid in 2023 of **K750 million** was issued at **K2.29 tambala** per share (2022: K700 million at 2.27 tambala per share).

34. Events after the reporting date

Subsequent to the reporting date, at the Monetary Policy Committee meeting held on 26th January 2024, the Reserve Bank of Malawi raised the policy rate by 200 basis points from 24% to 26%. This did not necessitate adjustments to the financial statements. No other events have occurred necessitating adjustments or disclosures to the financial statements.



Notes

For the year ended 31 December 2023

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