RISK AND CAPITAL MANAGEMENT REPORT
FOR 2019

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1. Introduction

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

2. Corporate structure

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

CDHIB has the following shareholding structure: -

Shareholder	**2019**	**2018**
Continental Holdings Limited	74.45%	74.45%
Investments Alliance Limited	12.65%	12.65%
Kesaart Capital Limited	7.61%	7.61%
Unity Investments Limited	2.81%	2.81%
Savannah Investments Limited	2.48%	2.48%
Total	**100.00%**	**100.00%**

3. Capital management

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

Regulatory capital

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

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

The capital ratios of CDHIB as at 30th June 2019, are as shown in the table below: -

	2019	2018
Tier 1 capital		
Share capital	172,458	172,458
Share premium	746,744	746,744
Retained earnings	3,918,524	3,368,108
Less: Investments in unconsolidated banking & financial subsidiary companies	(140,000)	(15,000)
Deferred tax asset	(61,511)	(30,928)
	4,636,215	4,241,377
Tier 2 capital		
Subordinated debt (limited to 50% of tier 1 capital)	1,573,333	1,600,000
Investments in unconsolidated banking & financial subsidiary companies	(140,000)	(15,000)
Loan loss reserve	-	334,368
	1,433,333	1,919,368
Total regulatory capital	6,069,548	6,160,745
Risk component		
Credit risk	14, 449,054	14,876,529
Market risk	1,729,200	1,167,229
Operational	8,954,719	7,410,004
Total risk weighted assets	25,132,973	23,453,762
Capital ratios		
Tier 1 capital as a percentage of total risk-weighted assets	18.45%	18.08%
Total capital as a percentage of total risk weighted assets.	24.15%	26.27%

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. The Bank does not have any restrictions or impediments on the transfer of funds or regulatory capital.

4. Risk management framework

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

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

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

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

4.1 Key Risk

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

a) Credit risk;
b) Liquidity risk
c) Market risk
d) Foreign exchange risk; and
e) Operational risks
f) Legal and compliance risks
g) Reputational risks

4.2 Risk Governance

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

4.2.1 Board of Directors (BOD)

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

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

The Board shall:

a) Manage the overall responsibility of risk management
b) Define clearly risk limits and approve those set by Senior Management
c) Review various policies of the Bank and make appropriate changes as and when deemed necessary.
d) Re-evaluate these guidelines

The Bank has a unitary Board of Directors comprising a chairman, seven non-executive directors and one executive director. The Board has adopted without modification, the major principles of modern corporate governance as contained in the reports of Cadbury and King II, and the Basel Committee on Banking Supervision.

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

Board meetings - meeting attendance

Member		**Date** 29 March 2019	**Date** 13 June 2019	**Date** 23 March 2018	**Date** 22 June 2018
Mr Franklin Kennedy	Chairman	√	√	√	√
Mr Kofi Sekyere	Director	√	√	√	√
Mr Robert Abbey	Director	√	√	√	√
Mr Gibson Ngalamila	Director (Up to June 2018)	N/A	N/A	√	√
Dr Naomi Ngwira	Director(From September 2018)	√	√	√	√
Mr Ted Sauti-Phiri	Director	√	√	√	√
Mr Kingsley Zulu	Director	√	√	√	√
Mr John McGrath	Director	√	√	√	√
Mr Charles Asare	Director	√	√	√	√
Mr Elias Malion	Director(From December 2018)	√	√	N/A	N/A
Mr Misheck Esau	Managing Director	-	-	√	√

Mr Dan Mwangwela	Company Secretary	√	√	√	√

Key

√ = Attendance

N/A = Not a director at the time.

4.2.2 Board Audit Committee (BAC)

The Committee comprise of three non-executive directors.

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

4.2.3 Board Risk and Compliance Committee (BRCC)

The Committee comprise of three non-executive directors.

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

4.2.4 Chief Executive Officer/Managing Director (MD)

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

4.2.5 Risk and Compliance Committee (RCC)

This is a management risk committee responsible to identify emerging enterprise risks, prioritize identified enterprise risks, direct and approve risk treatments, ensure that sufficient resources are allocated to implement treatment, monitor the results, review and update the risk register in preparation of the quarterly board report. The Committee meets on a monthly basis and on an ad-hoc basis.

4.2.6 Asset and Liability Management Committee (ALCO)

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

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

4.2.7 Credit Risk Committee (CRECO)

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

4.2.8 Risk Manager (RM)

The Risk Manager is responsible for managing the Bank's Enterprise Risk Framework. This involves working with risk owners and executive management to analyse operational and enterprise risks, develop effective risk treatments, monitoring and ensuring that risks tolerance limits are maintained within the bank policy. He shall also coordinate risk management training and education, continuous improvement of ERM framework and associated policies and procedures.

4.2.9 Legal and Compliance Officer (LCO)

The Officer is tasked to understand and advocate the rules and regulations and effective management of and proactively work and advise the Bank to manage legal and compliance risk in order to meet stakeholder expectations. The Legal and Compliance Officer shall carry regular reviews and assessment of legal and compliance risks in the bank's activities including new products.

4.2.10 Chief Internal Auditor (CIA)

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

4.2.11 Chief Finance Officer (CFO)

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

5 Management of risks

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

5.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a counterparty to a financial instrument fails to meet their contractual obligations and arises principally from the Bank's loans and advances to customers and other banks and its investment in securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

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

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

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

	2019
Against past due but not impaired	
Property	**79,979**
Against neither past due nor impaired	
Property	**2,467,197**
Motor vehicles	**97,396**
Others	**18,519,463**
	21,084,056

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.

Impaired loans and securities

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

Past due but not impaired loans

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

Allowances for impairment

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

Impairment policy

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

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:
Economic sector risk concentrations within the customer loan portfolio was as follows:

	2019	2018
Agriculture	**1,267,274**	1,189,750
Construction	**663,219**	294,426
Manufacturing	**7,472,940**	8,441,018
Wholesale and retail	**10,223,214**	6,195,328
Tourism and leisure	**1,099,238**	2,592,397
Transport	**438,381**	534,283
Others	**1,811,796**	2,965,234
	22,976,062	22,212,436

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

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

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

	Stage 1	**Stage 2**	**Stage 3**	**Total**
1. Mortgage loans	236,945			**236,945**
2. Loans to finance agricultural production and other loans to farmers	1,256,494	10,225	555	**1,267,274**
3. Commercial and industrial loans	2,537,048	803,167	1,845,214	**5,185,429**
4. Loans to individuals for household, family and other personal expenditures	639,954	3,797	16,443	**660,194**
5. Loans to governments & statutory bodies	12,383,777			**12,383,777**
6. Lease financing receivables				**0**
7. Forex loans	3,213,710			**3,213,710**
8. All other loans	27,018	1,715		**28,733**
9. Loss Provisions	37,013	19	552,671	**589,703**

Net classified assets	**20,257,933**	**818,885**	**1,309,541**	**22,386,359**

5.1 Credit risk (continued)

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

	At 30th June 2019	
Consolidated	**Carrying amount**	**Net exposure to credit risk**
Cash and balances with banks	4,022,343	4,022,343
Loans and advances to related party	3,016,274	3,016,274
Loans and advances to other banks	2,360,216	2,360,216
Loans and advances to customers	21,689,167	21689167
Financial assets	54,129,125	54,129,125
	85,217,125	85,217,125

	At 30th June 2018	
Consolidated	**Carrying amount**	**Net exposure to credit risk**
Cash and balances with banks	5,077,998	5,077,998
Loans and advances to related party	1,831,078	1,831,078
Loans and advances to other banks	18,562,513	18,562,513
Loans and advances to customers	19,998,002	19,998,002
Financial assets	39,808,364	39,808,364
	85,277,955	**85,277,955**

Collateral held and other credit enhancements and their financial effect

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principle types of collateral held against different types of financial assets.

Type of credit exposure	Percentage	Principle type of collateral held
Loans and advances to banks		
- Personal loans	**59**	Cash and property
Loan advances to corporate customers		
- Asset Finance	**10**	Property and equipment
- Other	**85**	Commercial property floating charges over corporate assets

Loan and advances to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of the 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 change over real estate, floating charges over all corporate assets and other liens and guarantees.

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

Other types of collateral and credit enhancements

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

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

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

5.2 Liquidity risk

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

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

The daily liquidity position is monitored. It is assumed that under normal circumstances customer demand deposits will remain stable or increase in value and 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.

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

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

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

INVESTMENT BANK

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2019	ASSETS	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 6 Years	Over 6 Years	Total
a.	Notes and coin, Malawi currency	360,072							**360,072**
b.	Cheques in the course of collection								**0**
c.	Balances at Reserve Bank of Malawi	1,505,755							**1,505,755**
d.	Balances with other banks in Malawi	88,567							**88,567**
e.	Balances with banks abroad	2,067,949							**2,067,949**
f.	Investments in Securities		5,376,600	1,724,382	0	6,363,284		280,000	**13,744,266**
g.	Bills of exchange etc. payable abroad								**0**
h.	Loans and advances	6,521,677	12,641	2,274,431	3,424,529	7,292,540	30,266	3,419,978	**22,976,062**
I.	Other assets				2,546,702			2,394,463	**4,941,165**
	Total assets	**10,544,020**	**5,389,241**	**3,998,813**	**5,971,231**	**13,655,824**	**30,266**	**6,094,441**	**45,683,836**
	LIABILITIES AND SHAREHOLDERS FUNDS								**0**
a.	Domestic deposits	19,239,522	2,061,103	10,517,714					**31,818,340**
b.	Foreign currency denominated deposits	1,341,058							**1,341,058**
c.	Balances due to Reserve Bank of Malawi								**0**
d.	Balances due to other banks in Malawi	2,601,828							**2,601,828**
e.	Balances due to banks abroad								**0**
f.	Other borrowed funds						1,600,000		**1,600,000**
g.	Other liabilities				3,484,885				**3,484,885**
h.	Shareholders' funds							4,837,726	**4,837,726**
	Total liabilities and shareholders' funds	**23,182,408**	**2,061,103**	**10,517,714**	**3,484,885**	**0**	**1,600,000**	**4,837,726**	**45,683,836**
	Net Liquidity Gap	**-12,638,388**	**3,328,137**	**-6,518,901**	**2,486,346**	**13,655,824**	**-1,569,734**	**1,256,716**	**0**
	Cumulative Liquidity Gap	**-12,638,388**	**-9,310,250**	**-15,829,151**	**-13,342,806**	**313,019**	**-1,256,715**	**0**	**0**

2018	ASSETS	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 6 Years	Over 6 Years	Total
a.	Notes and coin, Malawi currency	317,137							**317,137**
b.	Cheques in the course of collection	0							**0**
c.	Balances at Reserve Bank of Malawi	2,209,726							**2,209,726**
d.	Balances with other banks in Malawi	5,544							**5,544**
e.	Balances with banks abroad	2,545,591							**2,545,591**
f.	Investments in Securities		1,849,742	4,834,117		3,284,429		30,000	**9,998,288**
g.	Bills of exchange etc. payable abroad								**0**
h.	Loans and advances	9,047,329	1,593,712.56	3,133,964.21	3,381,508.84	4,823,824.93	124,930.72	187,909.32	**22,293,180**
I.	Other assets				1,883,611			710,153	**2,593,764**
	Total assets	**14,125,327**	**3,443,455**	**7,968,081**	**5,265,119**	**8,108,254**	**124,931**	**928,063**	**39,963,230**
	LIABILITIES AND SHAREHOLDERS FUNDS								**0**
a.	Domestic deposits	6,905,453	4,157,953	13,936,249					**24,999,656**
b.	Foreign currency denominated deposits	3,130,524							**3,130,524**
c.	Balances due to Reserve Bank of Malawi								**0**
d.	Balances due to other banks in Malawi	3,029,775							**3,029,775**
e.	Balances due to banks abroad								**0**
f.	Other borrowed funds	0					1,600,000		**1,600,000**
g.	Other liabilities				3,152,495				**3,152,495**
h.	Shareholders’ funds							4,050,782	**4,050,782**
	Total liabilities and shareholders’ funds	**13,065,751**	**4,157,953**	**13,936,249**	**3,152,495**	**0**	**1,600,000**	**4,050,782**	**39,963,230**
	Net Liquidity Gap	**1,059,576**	**-714,499**	**-5,968,168**	**2,112,625**	**8,108,254**	**-1,475,069**	**-3,122,719**	**0**
	Cumulative Liquidity Gap	**1,059,576**	**345,078**	**-5,623,091**	**-3,510,466**	**4,597,788**	**3,122,719**	**0**	**0**

5.2 Liquidity risk

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

- Liquidity Ratio 1: Net liquidity (total liquid assets less suspense accounts in foreign currency) divided by total deposits must be at least 25 percent.

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

Liquidity Ratios 1 and 2 were as specified below:

Consolidated and Separate

	June 2019	**June 2018**
Liquidity Ratio I	44.46%	31.44%
Liquidity Ratio II	44.46 %	31.44%

5.3 Market risk

Market risk management policy

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

5.3.1 Foreign exchange risk

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

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

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

- Trading in foreign currencies through spot, forward and option transactions as a market maker or position taker, including the unhedged position arising from customer driven foreign exchange transactions.

- Holding foreign currency position in the bank books (e.g. in the form of loans, deposits, cross border investments, etc.).

The Treasury Department is responsible for:-

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

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

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

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

	Assets	Liabilities	Net	Exchange Rate movement	Impact on profit and equity (net of tax)
USD	**12,734**	**12,013**	**(721)**	**0.062%**	**(0.31)**
GBP	**51**	**58**	**7**	**0.061%**	**0.00**
EUR	**54**	**60**	**7**	**0.057%**	**0.00**
ZAR	**203**	**69**	**(134)**	**0.078%**	**(0.07)**
Other	**-**	**-**	**-**		

At 31 December 2018, 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 **K0.023 million** (2017: K 0.098 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currency-denominated financial instruments.

5.3.2 Interest rate risk

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

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

Variable rate instruments expose the Bank to cash flow interest rate risk whereas fixed rate instruments expose the Bank to fair value interest rate risk.

	June - 2019 Assets subject to interest rate adjustment within the following time horizons	**Zero rate**	**Floating rate**	**Fixed Rate Instruments** 0 - 3 months	**3 - 6 months**	**6 - 9 months**	**9 - 12 months**	**0ver 12 months**	**Total**
1	Loans and leases:								
a.	Fixed rate by maturity								0
b.	Floating rate by repricing interval		22,976,062						22,976,062
c.	Scheduled payments due on all other loans								0
2	Securities:								
a.	Fixed rate by maturity			5,376,600	1,724,382	0		6,363,284	13,464,266
b.	Floating rate by repricing								0
c.	Interest-bearing balances								0
d.	Inter-bank loans								0
e.	Other	6,895,559							6,895,559
3	Total rate sensitive assets (RSA)	6,895,559	22,976,062	5,376,600	1,724,382	0	0	6,363,284	43,335,887
4	Liabilities subject to interest rate adjustment :								
a.	Demand accounts		19,209,827						19,209,827
b.	Savings deposits			1,370,754					1,370,754
c.	Time deposits			2,061,103	10,517,714				12,578,817
d.	Other borrowings			2,601,828					2,601,828
e.	Long-term debt		1,600,000						1,600,000
f.	Other	8,322,611							8,322,611

5	Total rate sensitive liabilities (RSL)		8,322,611	20,809,827	6,033,685	10,517,714	0	0	0	45,683,836
6	**Asset Liability Gap**		**-1,427,051**	**2,166,235**	**-657,085**	**-8,793,332**	**0**	**0**	**6,363,284**	**-2,347,949**
7	**Cumulative Gap**		**-1,427,051**	**739,184**	**82,099**	**-8,711,233**	**-8,711,233**	**-8,711,233**	**-2,347,949**	**-2,347,949**
8	Net position as a percent of total assets		0	0	0	-5	0	0	1	0
9	RSA as a percent of RSL		1	1	1	0	0	0	0	1
10	Impact of increase in Interest Rate	5%	-1,498,404	2,274,547	-689,939	-9,232,998	0	0	6,681,448	-2,465,346
		10%	-1,569,757	2,382,859	-722,794	-9,672,665	0	0	6,999,612	-2,582,744
		15%	-1,641,109	2,491,171	-755,648	-10,112,332	0	0	7,317,777	-2,700,141
11	Impact of decrease in Interest Rate	-5%	-1,355,699	2,057,924	-624,231	-8,353,665	0	0	6,045,120	-2,230,552
		-10%	-1,284,346	1,949,612	-591,377	-7,913,999	0	0	5,726,956	-2,113,154
		-15%	-1,212,994	1,841,300	-558,522	-7,474,332	0	0	5,408,791	-1,995,757

5.4 Operational risks

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

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 an overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

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

- requirements for appropriate segregation of duties, including the independent 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 by Internal and External auditors
- requirements for the reporting of operational losses and proposed remedial action.
- development of contingency plans
- training and professional development
- risk mitigation, including insurance where it is cost-effective

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

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

5.5 Legal and Compliance risk

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

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

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

6. Equities

The following were the equity position as at: 30th June 2019

Other investment

		2019	2018
National Switch Limited	**8.3 %**	**30,000**	30,000
MAIIC	**2.2%**	**250,000**	