2021
Annual Report

CDH
INVESTMENT BANK

Contents 2021

Overview
2021

CDH Investment Bank Limited (CDHIB) is a leading investment bank in Malawi. It opened for business on 2nd April 2012 following the successful conversion from Continental Discount House Limited (CDH) which had operated in the financial sector for 14 years from August 1998.

CDHIB 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 which go beyond the general banking services to meet client's specific needs. Through off-balance sheet financing capabilities, CDHIB takes a leading role in mobilising resources from both local and international capital markets for investment into Malawi's ground breaking projects. The bank is also a significant participant of the financial markets as a market maker in the trading of over-the-counter financial instruments, 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.

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.

Our vision

To be the leading specialist bank in Malawi.

Our values

- **Integrity** - We adhere to principles of honesty, trust and moral judgement.
- **Respect** - We accord our stakeholders the dignity they deserve.
- **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
- **Innovation** - We convert knowledge into solutions creatively

Products and services
2021

Commercial banking services

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
6. Asset finance
7. Value chain financing

Investment banking services

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

Treasury services

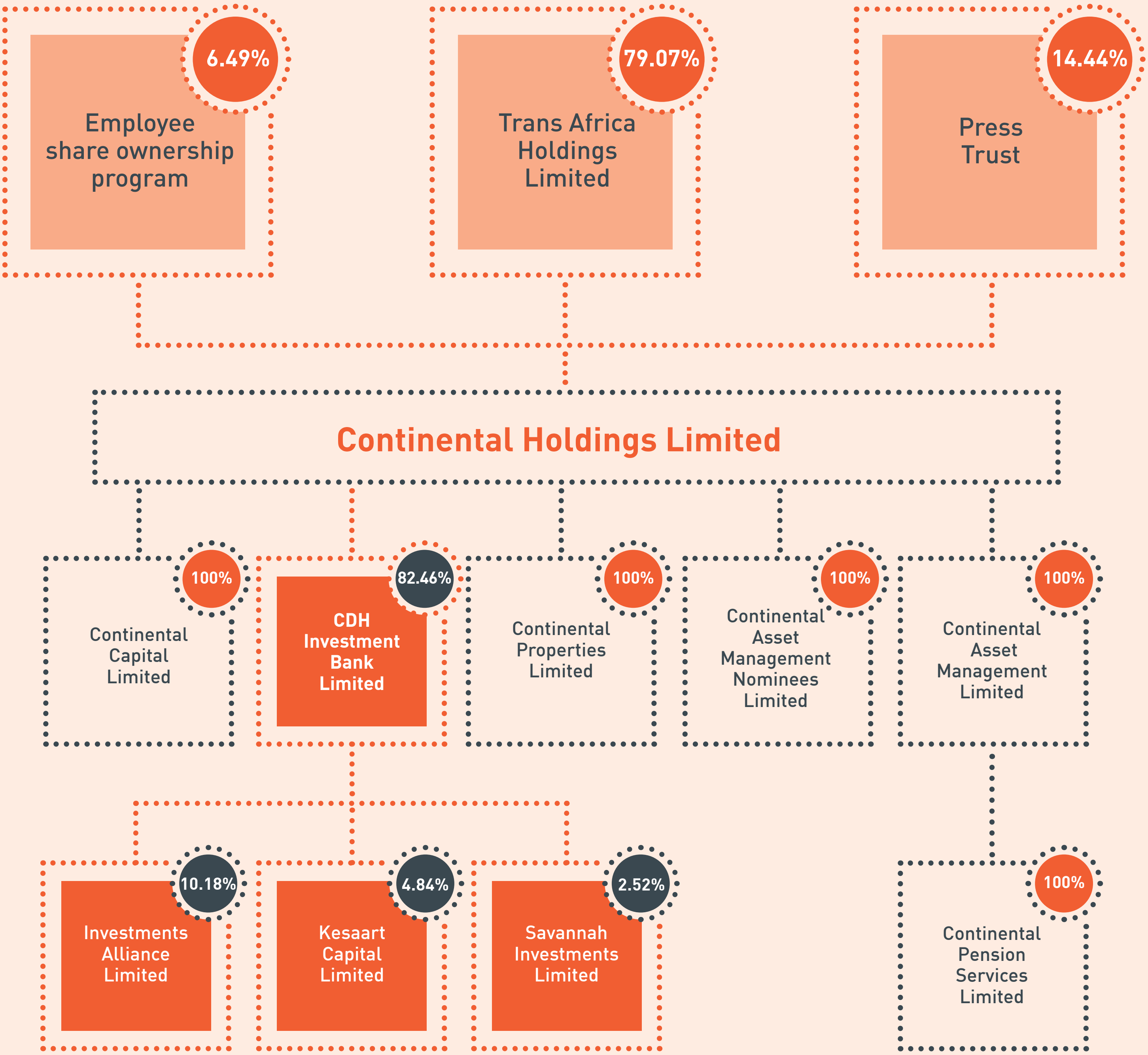
1. Trading of financial instruments
2. Foreign exchange services
3. Spot and forward foreign exchange transactions
4. Fixed income and foreign exchange market specialist advice
5. Trading corporate securities

Target market

The bank serves a select niche market grouping of:

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

CDHIB is a subsidiary of Continental Holdings Limited which is itself 79.07% owned by TransAfrica Holdings Limited (TAH), 14.44% by Press Trust and 6.49% by an Employee Share Ownership Programme (ESOP).



Corporate governance
2021

CDHIB is committed to the highest level of corporate governance and the implementation of effective structures, policies and practices that improve corporate governance and create sustainable value for our shareholders and other stakeholders.

Our corporate governance practices are continually being 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 CEO is responsible for the strategic leadership of the business.

Board of directors

CDHIB's board has a balance of executive, non-executive and independent directors. The board comprises a majority of independent directors (non-executive directors who are independent as defined in King IV). The board of CDHIB comprises the following:

Name	Nationality
Franklin Kennedy (Chairman)	Canadian
Kofi Sekyere (Non-executive)	Ghanaian-American
Robert Abbey (Non-executive)	Ghanaian
Elias Malion (Non-executive)	Malawian
Kingsley Zulu (Non-executive)	Malawian
John McGrath (Non-executive)	Australian
Charles Asare (Non-executive)	Ghanaian
Sydney Chikoti (Non-executive)	Malawian
Joyce Gundani (Non-executive)	Malawian
Jean Rene' Ngando Moukala (Executive)	Cameroonian
Thoko Mkavea - (Executive)	Malawian
Beatrix Mosiwa Ndovi - (Executive)	Malawian

Board sub-committees and members

Name of Sub-Committee of Board	Chairperson of Sub-Committee	Members of the Sub-Committees
Audit Committee	Sydney Chikoti	• Elias Malion • Kingsley Zulu
Risk and Compliance Committee	Charles Asare	• John McGrath • Joyce Gundani
Finance, Business and Information Technology	Kofi Sekyere	• Robert Abbey • Jean Rene' Ngando Moukala
Human Resources and Remuneration (HRR)	John McGrath	• Kofi Sekyere • Robert Abbey

The CDHIB board regards risk management as a key discipline within the bank's operations. The day-to-day responsibility for identifying and managing risks lies with management. Management is accountable to the board for designing, implementing and monitoring the system and process of risk management and compliance. Risk management has become a standard business discipline and is applied consistently throughout the bank's operations. The risk management process is integrated with the strategic business planning process and is embedded through our management reporting and performance management system.

Executive management

CDHIB'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 that are driven to make CDHIB a leading financial institution by prudently managing the assets of the bank to provide adequate return to investors.
The executive management of CDHIB comprises the following:

Name	Designation
Jean Rene' Ngando Moukala	Chief Executive Officer/Managing Director
Thoko Mkavea	Deputy Chief Executive Officer/Executive Director
Beatrix Mosiwa Ndovi	Chief Finance Officer/Executive Director
Benison Jambo	Chief Business Development Officer
Paul Nyachiwowa	Chief Treasury Officer
Chris Chirwa	Chief Information Technology Officer
Daniel Mwangwela	Chief Legal Officer and Company Secretary
Christopher Ngwira	Chief Internal Auditor
James Chikoti	Chief Operating Officer
Ivy Kwatiwani	Chief Human Capital Development Officer
Sungani Mkandawire	Chief Credit Officer
Zondwayo Mafuleka	Chief Risk and Compliance Officer

Our Culture
2021

CDHIB is a dynamic, growing investment bank with a commitment to excellence and innovation. Our line of business requires an investment in intellectual capital and as such, we encourage our team to constantly seek to improve their knowledge and skills both formally through education and informally through interaction with local and international industry peers.

We believe that each team member is important and we attempt to give every employee the opportunity to develop and grow. Our open-door policy encourages sharing of ideas across all levels within the organization. We encourage all team members to ask questions and search for better solutions and in return we reward exceptional performance while identifying and correcting performance that does not meet the bank's standards.

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 efforts from our team in upholding our values and standards of excellence.

Corporate social responsibility

Corporate social responsibility is one of our fundamental values at CDH Investment Bank. We are committed to creating value not only for investors, but also for our employees, clients and the communities we serve. We are therefore impelled to perform with the highest standards of governance and ethics, provide products and services that exceed customer expectations. We are committed to attract and retain quality employees, provide support in our communities and 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.

ADMARC
Commercial paper programme
Lead arranger
2021
CDH Investment Bank

OMIG
Bond issuance programme
Co-lead arranger
2021
CDH Investment Bank

Secured loan programme
Lead arranger
2021
CDH Investment Bank

ADMARC
Commercial paper programme
Lead arranger
2020
CDH Investment Bank

MAIIC
Malawi Agricultural & Industrial Investment Corporation plc
Establishment of a national development finance institution In Malawi
Lead arranger
2019
CDH Investment Bank

AFREXIMBANK
Trade finance intermediary Malawi
2019
CDH Investment Bank

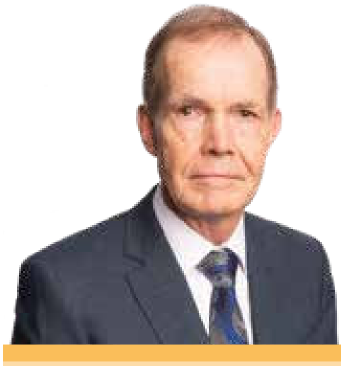
CDH Investment Bank

Our **Performance** **2021**

Financial highlights
2021

57%	Profitability
30%	Return on equity
45%	Asset growth
58%	Investment funds
31%	Customer deposits


Best
Investment
Bank Malawi
2021
11 th year
Global Banking
& Finance
Awards
CDH Investment Bank
GLOBAL BANKING &
Finance
review
CDH
INVESTMENT BANK



Franklin Kennedy
Chairman

Operating environment

The year 2021 saw an improvement in domestic economic activity relative to 2020, a year dominated by economic disruptions caused by the global Coronavirus (COVID-19) pandemic. Real Gross Domestic Product (GDP) of the Malawian economy was estimated to have grown by 3.9% in 2021 from 0.9% recorded in 2020. The COVID-19 pandemic, however, remained a major economic risk. Interest rates were steady during the year, albeit at higher levels compared to 2020, as the Reserve bank of Malawi continued to pursue an accommodative monetary policy aimed at supporting economic recovery. Inflation rates and exchange rates faced significant pressures from rising global prices and a persistent shortage of foreign exchange, as the global and domestic economic activity picked up. The financial industry continued to experience a liquidity squeeze due to the negative impacts of the pandemic.

Bank performance

The bank positioned itself for the challenging operating environment. The Board, Management and staff remained determined and fully committed to identifying opportunities to deliver on the promise of creating value for our stakeholders through offering specialized and innovative financial products and services. I am pleased to report that the bank registered another strong performance in 2021, recording a profit after tax of K4.86 billion which was 57% higher than the prior year and a return on shareholder's equity of 30%.

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

Strategic direction

We anticipate that the difficult economic environment will continue into 2022, nevertheless, CDHIB's long-term growth plans remain steadfast. The bank will continue to focus on executing its long-term strategic priorities underpinned by effective governance, exceptional service to our customers, growing strategic alliances, strong internal controls, technological advancement, enhancing internal business processes, and continuous effective learning and growth of our staff.

The bank will continue to build on its unique proposition of integrating investment banking services with traditional commercial banking services and activities. It will endeavor to continue building on past successes and search for innovative solutions to opportunities in structured finance and advisory services for both the Government of Malawi and the private sector. We will strive to remain the undisputed market leader in providing investment banking services in Malawi and continue to grow our capacity to offer tailored solutions to our clients.

Board and executive management changes

The Board made a few changes to the bank's executive management team. Mr Jean Rene' Ngando Moukala, the bank's Chief Executive Officer (CEO) and Managing Director (MD) retired from the bank after serving the bank for a decade in different capacities. Mr Jean Rene' Ngando Moukala served as Chief Executive Officer/ Managing Director for the past 2 years, was Acting Chief Executive Officer/Managing Director from March 2019 to March 2020 and Deputy Chief Executive Officer from January 2012 to March 2019. Mr Moukala has been instrumental in continuing the work of the preceding Chief Executive Officer, Mr Misheck Esau, in growing the bank's financial and human capital and he leaves the bank in a very strong financial position. The Board appointed Mr Kwame Ahadzi as the new Chief Executive Officer/Managing Director, effective 1st February 2022. Mr Ahadzi is a seasoned banker with broad executive management experience in Africa. Further, the Board appointed the Deputy Chief Executive Officer, Mr Thoko Mkavea, and the Chief Finance Officer, Mrs Beatrix Mosiwa Ndovi, as Executive Directors in recognition of their performance and commitment to the bank. The Board is confident that with support from the executive team and staff, CDH Investment Bank will continue to grow and provide high quality investment and commercial banking services in Malawi.

The changes were not limited to executive management. The bank bid farewell to Dr Naomi Ngwira who resigned as Non-executive Director to take up her appointment as Malawi's Ambassador to the Kingdom of Belgium and the European Union. Dr Ngwira served as Chair of our Board Audit Committee and was committed to all deliberations of the Board. We are sincerely thankful for her contributions. We are also fortunate to welcome two new Non-executive Directors to our Board in 2021. Mr Sydney Chikoti, a seasoned finance professional now chairs our Board Audit Committee and Mrs Joyce Gundani, a former Executive at the Reserve bank of Malawi chairs our Risk and Compliance Committee.

Appreciation

The strong performance recorded in 2021, and indeed in previous years, were possible because of the unwavering commitment of the entire CDHIB team. I am truly grateful to our clients and partners whose loyalty remains one of our strongest assets. To our staff, I say thank you for their relentless drive and commitment to duty and extend the same appreciation to my fellow members of the Board. To all our shareholders, regulatory authorities and all other stakeholders, your continuous commitment and support to CDH Investment Bank mission remains important to us all.

Franklin Kennedy
Board Chairman

CEO'S statement
2021

Jean Rene' Ngando Moukala
Chief Executive Officer

Overall performance

2021 was another successful year for CDH Investment Bank. The team demonstrated great resilience to deliver a solid performance in a very challenging operating period. The bank realized a profit after tax of K4.86 billion against prior year performance of K3.09 billion, representing an increase of 57%. Total assets grew from K125.80 billion to K182.77 billion during the same period and return on assets and return on equity remained strong at 2.7% and 30%, respectively.

Overview of the business units

The three business units of the bank, namely Investment banking, Commercial banking, and Treasury Management, continue to make impressive contribution to the performance of the bank. Our culture of commitment to teamwork, research and excellent service delivery to both our internal and external clients across all three business units is an essential strength that facilitates effective performance. We remain committed to offering innovative and tailored commercial and investment banking solutions and services to our clients.

Investment banking

Investment banking remains the bank's unique service proposition, building mainly on its successes over the last 10 years. The bank continues to play a critical role in Government debt financing, securitizations for Government payables and corporate clients' receivables as well as restructuring of corporate balance sheet to achieve financial efficiency. Going forward, the bank will seek to continue consolidating achievement in these core business areas.

Commercial banking

The negative effects of the COVID-19 pandemic were prevalent in 2021. The bank remained open throughout the period and supported the financial needs of its corporate, retail and small business banking customers. Given the uncertainty in the operating environment, the bank continued with its core strategy of deepening client relationships and leveraging cross selling opportunities within its existing customer base. The client centric strategy enabled the bank to not only maintain a quality asset portfolio, but also maintain a stable deposit base to ensure sustainability of the bank. In the corporate business, we continued to take prudent actions with respect to asset quality and provisioning. We remained focused on offering tailored solutions in our corporate and Government market segments.

While we continued to offer competitive loan products to our clients, we put extra efforts in supporting our clients in their routine business transactions. With improved product and service offerings, coupled with our experienced team of relationship managers, we have made considerable progress in gaining incremental share of clients' businesses. It is in this context that we feel positive about building a sustainable and profitable commercial banking business. We will continue to focus on being customer centric, offer tailor made solutions and thus become the transaction bank of choice. This strategy not only deepens our customer relationships but also ensures that we capture multiple revenue streams from our corporate, retail and business banking market segments.

Treasury management and international trade

The bank's treasury management business grew significantly in 2021. Fixed income turnover volumes increased substantially from the previous year as the bank took a leading role in the trading of fixed income securities on the secondary market. Growth of the corporate account base resulted in the increase in foreign exchange trade volumes in the first half of the year. During the year, the bank secured an additional relationship with a Franco-German bank, ODDO BHF, to ensure seamless international payments. Despite limited availability of foreign exchange, the bank grew the volume and value of transactions for clients in the year. We are optimistic that the bank will continue to grow in these areas.

Human Capital

Our people are our most precious resource. Effective investment and management of our staff is critical to the bank's continued success. The team's resilience has been impressive on what has been a volatile, uncertain, complex and ambiguous environment, caused by the negative effects of the COVID-19 pandemic. The bank continues to support staff capacity building through various online training and wellbeing activities.

Business prospects and outlook

While the operating environment in 2022 is expected to remain challenging, we are optimistic and are committed to building on past successes to strengthen the three business units of the bank. We will continue with our efforts of investing in the continuous development of our people. Innovation and provision of best tailored solutions to our clients will remain our critical goals. To this end, in 2022 we will continue to focus on strengthening the technology framework of the bank by upgrading its existing operating systems and introducing new digital applications. We are positive that these initiatives will enhance our capacity to maintain high-quality services to customers and a safe working environment for our staff. The bank remains alert and proactive in striking the right balance to overcome unforeseen challenges that may come in 2022, including any negative effects of the COVID-19 pandemic.

Corporate social responsibility

Our belief that the communities we serve are our critical stakeholders and significantly contribute to our success became stronger in 2021. Notably, in the field of education, we partnered with the Bankers Association of Malawi to support a community Day Secondary School in Mangochi with desks and other learning materials. In the field of sports, we sponsored the Southern Zone Basketball League (SOZOBAL) tournament to ensure a fit community. The bank donated various medical equipment to the Society of Medical Doctors in Malawi to assist in the fight against the COVID-19 pandemic. We have also engaged in a multi-year partnership program with selected universities on an agreed basis, to assist needy students and finance specific activities that will boost their respective innovation hub.

Appreciation

My most sincere thanks go to our esteemed clients for their continued support, to our staff for their dedication to bank performance, and to our directors and shareholders for the trust placed in the bank's management and the institution. I strongly believe that with their invaluable support, CDH Investment Bank will continue to improve its service delivery to both private and public sector partners and remain competitive in raising investment capital for priority projects in Malawi.

Jean Rene' Ngando Moukala
Chief Executive Officer

Our **Structure 2021**

Board of directors
2021

Franklin Kennedy
Chairman

Kofi Sekyere
Director

Robert Abbey
Director

Charles Asare
Director

John McGrath
Director

Kingsley Zulu
Director

Thoko Mkavea
Director

Sydney Chikoti
Director

Elias Malion
Director

Joyce Gundani
Director

Beatrix Mosiwa Ndovi
Director

Jean R Ngando Moukala
Managing Director

Jean R Ngando Moukala
Chief Executive Officer

Thoko Mkavea
Deputy Chief Executive Officer

Beatrix Mosiwa Ndovi
Chief Finance Officer

Benison Jambo
Chief Business Development Officer

Paul Nyachiwowa
Chief Treasury Officer

James Chikoti
Chief Operating Officer

Daniel Mwangwela
Chief Legal Officer and Company Secretary

Christopher Ngwira
Chief Internal Auditor

Ivy Kwatiwani
Chief Human Capital Development Officer

Chris Chirwa
Chief Information Officer

Zondwayo Mafuleka
Chief Risk and Compliance Officer

Sungani Mkandawire
Chief Credit Officer

CDHIB
Corporate social responsibility

CDH Investment Bank donated essential medical equipment and supplies worth K27.8 million to the Society of Medical Doctors of Malawi to assist in the fight against COVID-19.

CDHIB's Chief Finance Officer, Mrs Beatrix Mosiwa Ndovi (left), presenting the donation

On 24th February 2021, CDHIB donated various essential medical equipment and supplies worth K27.8 million to the Society of Medical Doctors in Malawi (SMD) to assist in the fight against the COVID-19 pandemic. The items donated include oxygen cylinders, oxygen flowmeters and regulators, pulse oximeters and other equipment and materials. The donation is in line with the bank's pillar to give back and support the community through social initiatives that make impact.

This was not the first time CDHIB worked with SMD. In 2020, the bank donated various Personal Protective Equipment (PPE) to hospital personnel at various district hospitals through SMD.

In partnership with the Bankers Association of Malawi, CDHIB supported Nkope Community Day Secondary School in Mangochi

CDHIB's Chief Business Development Officer, Mr Benison Jambo (right), presenting the donation

CDHIB donated K1 million and participated in bankers sports day organized by the Bankers Association of Malawi to raise funds for Nkope Community Day Secondary School in Mangochi. The funds were used to purchase various learning materials for the school.

Three teams from CDHIB participated in the sports day activities.

CDHIB netball team

CDHIB golf team

CDHIB basketball team

CDHIB sponsored a basketball tournament

In an effort to promote sports and wellness in the country, CDHIB sponsored the Southern Zone Basketball League (SOZOBAL) tournament.

CDHIB's Chief Credit officer, Mr Sungani Mkandawire (middle) and Chief Treasury Officer, Mr Paul Nyachiwowa (right), presenting the donation

With the sponsorship of K3 million from CDHIB, SOZOBAL hosted an invitational two-day tournament dubbed 'Money in the bank'. Games were played at Kamuzu University of Health Sciences (KUHES) Sports Complex, Blantyre Youth Centre and Malawi University of Business and Applied Sciences (MUBAS) courts.

The tournament attracted participation of teams from the Southern Zone Basketball (SOZOBAL), Central Zone Basketball (CESOBAL) and Northern Zone Basketball (NOZOBAL). Twelve men's teams participated— namely Bricks, Kamuzu Barracks, Moyale Barracks, Crazy Warriors, Cobbe Barracks, Magang'a, Mikoko, Z Thunders, Malawi University of Science and Technology (Must), Lox 360, Firestorms and CDH Investment Bank. In the women category, some of the teams that participated include Kukoma Eagles, Mikoko Mystics, Must Ladies and Cobbe Barracks Ladies.

Champions in the men's category took home K1 million, runners-up K350,000 and third place K200,000. In the women category, champions received K750,000 while runners-up took home K250,000.

SOSOBAL Chairperson, Raymond Chioko, thanked CDHIB for the support and encouraged other companies to continue supporting the body.

CDHIB made a donation of K2 million to Malawi Red Cross Society to support flood victims

CDHIB's Capital City Banking Centre Manager, Mrs Jennie Madinga (left), presenting the donation

CDH Investment Bank donated K2 million to Malawi Red Cross Society to support people who were affected by Tropical Storm Ana. Presenting the donation, CDHIB's Capital City Banking Centre Manager, Mrs Jennie Madinga, said that it was disheartening to see the devastation that the cyclone caused, including loss of life and property and loss of livelihood, in the affected districts of Chikwawa, Nsanje, Mulanje and Phalombe. Receiving the donation, Red Cross Society's Director of Programs, Ms Prisca Chisala said that the support would go a long way towards providing the affected people with everyday basic needs such as food.

CDH Investment Bank supports the initiatives by the Malawi Red Cross Society of fundraising to support victims of natural disasters.

Annual economic **review 2021**

Annual economic review
2021

1. Executive summary

1.1 The following economic environment prevailed during the period from 1st January to 31st December 2021:

1.1.1 Relatively low liquidity levels on the interbank market.
1.1.2 A shortage of forex and the resultant depreciation of the Kwacha.
1.1.3 Persistent inflationary pressures due to rising utility prices and exchange rate depreciation.
1.1.4 Relatively steady market interest rates on account of a stable policy rate at 12.0%.
1.1.5 An improvement in stock market return, despite decreased traded volume and value.
1.1.6 Opening of the economy and an improvement in economic activity following implementation of various COVID-19 vaccination programs and subsequent easing of restrictions, although the COVID-19 pandemic remained a key economic risk.

1.2 The country's real GDP growth rate for 2021 is estimated at 3.8% compared to 0.9% realised in 2020.

2. Interbank market

2.1 The level of liquidity on the interbank market, indicated by banks' excess reserves held with the Reserve bank of Malawi (RBM), was lower in 2021 relative to 2020, decreasing by 7.76% to an average of K15.08 billion per day in 2021 compared to the average of K16.35 billion per day in 2020. As in the previous year, liquidity levels were highest in the first quarter of 2021 when excess liquidity reserves averaged K18.95 billion per day and were lowest in the third quarter when excess liquidity reserves averaged K12.22 billion per day.

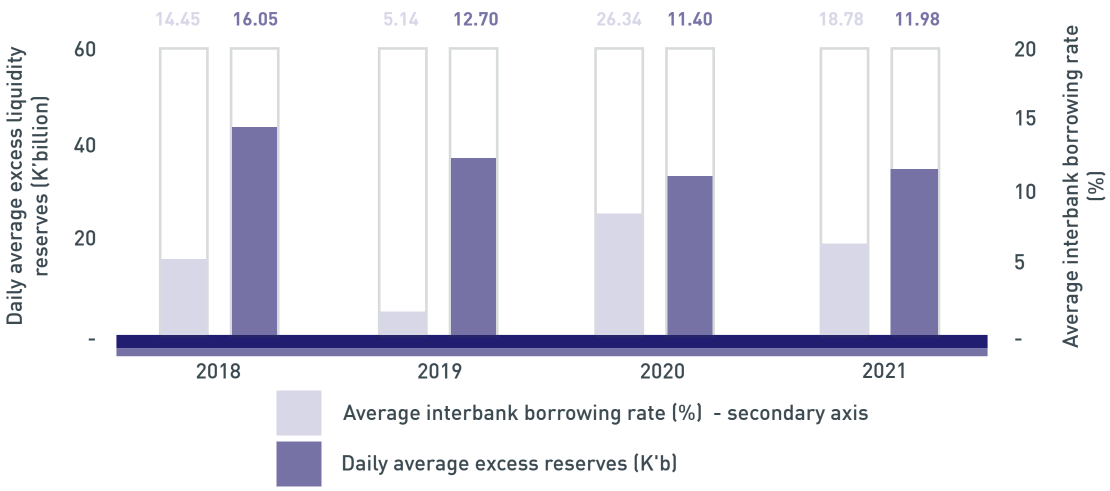
2.2 Due to low liquidity levels, the volume of borrowing among banks on the interbank market increased by 41.38% in nominal terms to a total of K3.22 trillion in 2021 from K2.27 trillion in 2020. However, the interbank borrowing rate was largely stable during the year and averaged 11.74%, down from the average of 13.26% in 2020.

2.3 Funds accessed through the Lombard Facility of the RBM more than doubled to K13.00 trillion in 2021 compared to K6.03 trillion in 2020. The Lombard rate was stable at 12.20% as the Monetary Policy Committee (MPC) kept the rate unchanged throughout the year.

2.4 Further, the RBM issued OMO reverse repos amounting to K700.59 billion (K118.33 billion in 2020) and conducted outright purchases of securities amounting to K72.83 billion during 2021. These were aimed at injecting liquidity in the banking system.

2.5 Chart 1 provides a summary of excess liquidity reserves and overnight interbank rate movements over the immediate past three years. The Chart shows that the interbank borrowing rate was largely stable in 2021 while remaining low, the liquidity levels were generally erratic.

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



(Data source: Reserve bank of Malawi)

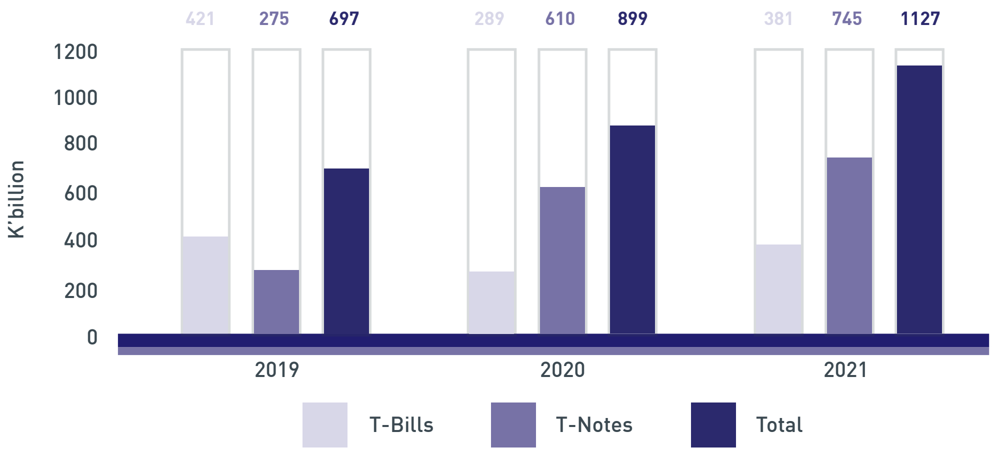
3. Government securities

3.1 The Government raised K381.86 billion in auctions of Treasury Bills (TB) in 2021, representing an increase of 32.12% from K289.03 billion raised in 2020. The rejection rate was at 4.57% in 2021 compared to 40.99% in 2020.

3.2 K745.86 billion was raised in auctions of Treasury Notes (TNs) during 2021, compared to K610.47 billion in 2020, representing a nominal increase of 22.18%. Rejection rate for TNs was at 5.16% in 2021, down from 19.53% in 2020.

3.3 Overall, Government domestic borrowing (TBs and TNs combined) increased in nominal terms in 2021 (K1,127.72 billion) relative to 2020 (K899.50 billion) as shown in Chart 2:

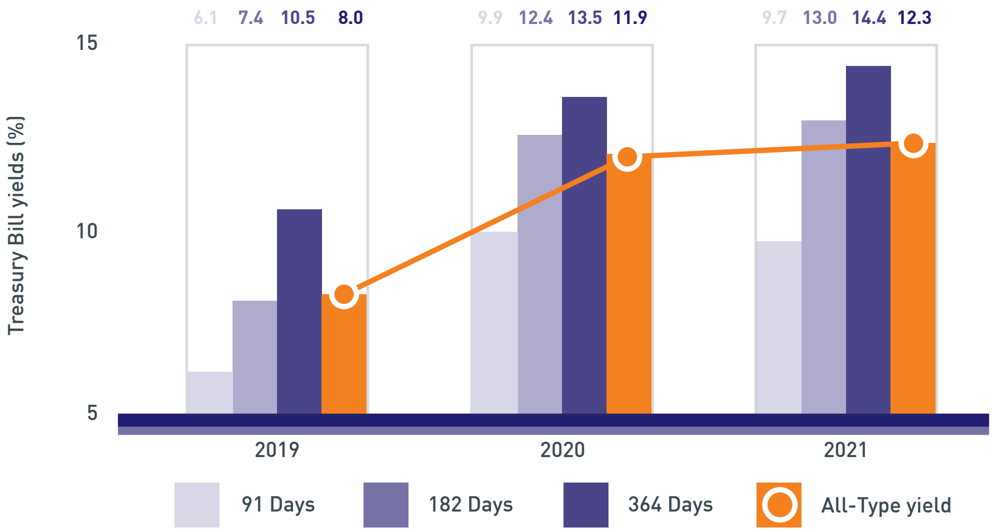
Chart 2. Comparative analysis of amounts raised in treasury securities



(Data source: Reserve bank of Malawi)

3.4 In line with a stable Monetary Policy Rate, yields on Government securities were relatively stable in 2021. However, the yield levels registered in 2021 represent increases from the levels registered in 2020. The 91-day, 182-day and 364-day TB yields averaged 9.73%, 12.87% and 13.98%, respectively, increasing from 8.50%, 10.88% and 12.62% in 2020. The all-type average TB yield, consequently, increased to 12.19% in 2021 from 10.67% in 2020. Average yields for TNs also increased across all tenors. Chart 3 and Table 1 below depict the above trend.

Chart 3: Monthly average Treasury bill yields



(Data source: Reserve bank of Malawi)

Table 1: Quarterly average yields of Treasury Notes

Description	2 years	3 years	5 years	7 years	10 years
2020 average	**16.58%**	**18.87%**	**20.17%**	**20.77%**	**22.57%**
Q4 2021 yield	16.65%	19.03%	20.57%	20.94%	22.50%
Q3 2021 yield	16.63%	18.99%	20.12%	21.36%	23.00%
Q2 2021 yield	16.55%	18.86%	20.01%	20.53%	22.28%
Q1 2021 yield	16.50%	18.61%	19.97%	20.25%	22.50%
2020 average	**15.00%**	**16.29%**	**18.49%**	**19.85%**	**20.95%**
2019 average	**13.23%**	**13.28%**	**15.12%**	**18.43%**	**17.76%**
Annual Percentage point increase 2021 vs 2020	**1.58**	**2.58**	**1.68**	**0.92**	**1.62**

(Data source: Reserve bank of Malawi)

4. Foreign exchange market

4.1 The Kwacha depreciated against most of its major trading currencies during the year 2021, mainly due to a shortage of forex in the domestic market, emanating, among other factors, from weak export proceeds, foreign direct investment (FDI) and inflows from development partners, coupled with expanding import bills for agricultural inputs, fuel and COVID-19 related imports. The scaling back of foreign exchange interventions by the RBM is also a key factor. According to the IMF's Malawi Country Report for December 2021, beginning July 2020 RBM scaled back currency swaps with regional development banks.

4.2 The USD/MWK middle rate averaged 805.89 in 2021, up by 7.59% from the average of 749.02 in 2020. The GBP/MWK average middle exchange rate increased by 20.35% to 1,170.34 from 972.48; the EUR/MWK average rate increased by 18.94% to 1,034.12 from 869.45; and the ZAR/MWK average rate increased by 26.78% to 59.05 from 46.58.

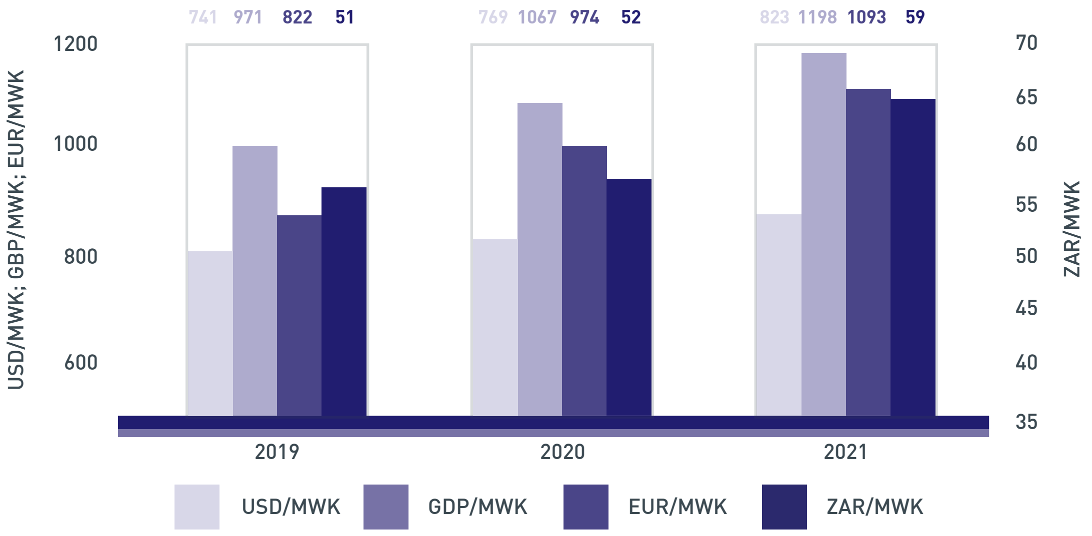
4.3 Table 2 and Chart 4 shows that the Kwacha has significantly depreciated against USD, GBP, EUR and ZAR since the second half of the year 2020. (Note: Downward arrows represents depreciation of the Kwacha).

Table 2a: Exchange rates

	Annual Average			End year		
Currency	**2021**	**2020**	**Change**	**31 Dec 2021**	**31 Dec 2020**	**Change**
USD/MWK	**805.89**	749.02 ▼	7.59%	819.44	776.82 ▼	5.49%
GBP/MWK	**1170.34**	972.48 ▼	20.35%	1208.01	1070.14 ▼	12.88%
EUR/MWK	**1034.12**	869.45 ▼	18.94%	1138.41	987.95 ▼	15.23%
ZAR/MWK	**59.05**	46.58 ▼	26.78%	57.68	56.43 ▼	2.22%

(Data source: Reserve bank of Malawi)

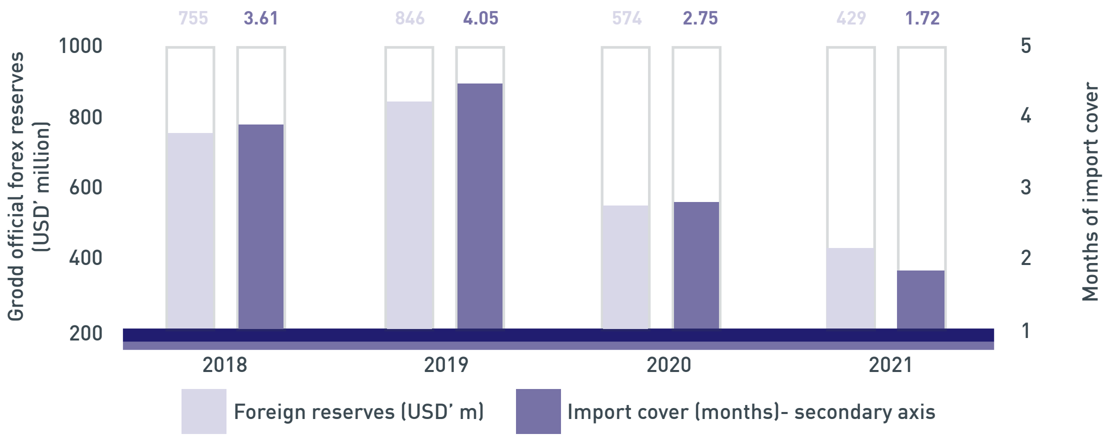
Chart 4b: Monthly average middle exchange rates



(Data source: Reserve bank of Malawi)

4.4 The shortage of forex saw a decline in gross official forex reserves to USD429.17 million (1.72 months of import cover) as at 31st December 2021 from USD574.26 million (2.75 months of import cover) as at 31st December 2020. The reserves have been below the recommended 3 months of import cover since November 2020.

Chart 5: Gross official forex reserves vs Import cover



(Data source: Reserve bank of Malawi)

4.5 The country experienced a shortage of forex despite registering an improvement is tobacco sales during the year. The tobacco market was officially closed on 9th September 2021 after 21 weeks. The country realised USD197.05m during the season, compared to USD174.97m realised in the 2020 season, representing an increase of 12.62%, as shown in Table 2b below:

Table 2b: Cumulative tobacco sales – end of season

	2021	2020	Change
Volume (kg)	**123.65 million**	114.02 million	8.45%
Average price (USD/kg)	**1.59**	1.53	3.92%
Value (USD)	**197.05 million**	174.97 million	12.62%

(Data source: Tobacco Commission (TC))

4.6 On 27th August 2021, RBM announced the re-introduction of mandatory sale of export proceeds by exporters to Authorised Dealer banks (ADBs). Exporters are now required to sell at least 30% of their export proceeds to ADBs within 2 days of receipt of funds, and retain at most 70% in FCDAs. The directive was meant to help improve the forex situation.

4.7 Looking forward, exchange rate pressures are expected to remain elevated in 2022 as far as the shortage of forex situation remains.

4.8 The Economist Intelligence Unit (EIU) projects the following annual USD/MWK exchange rate averages:

Table 2c: Economist Intelligence Unit forecasts

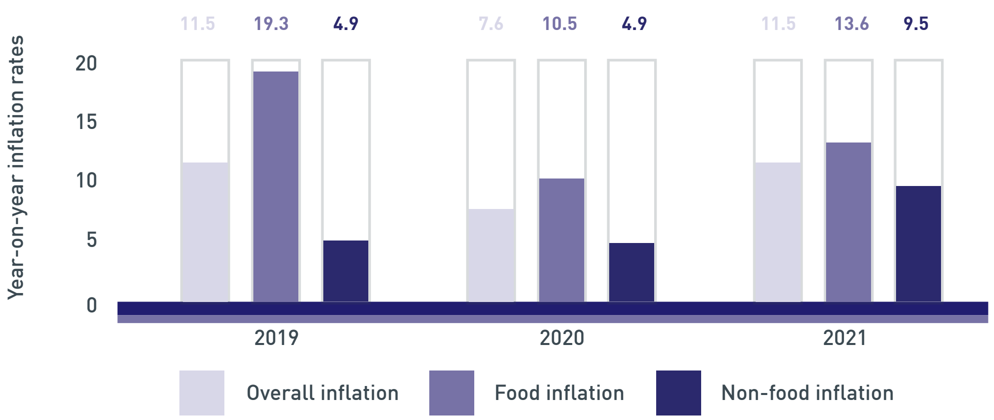
Year	2021	2022	2023	2024	2025	2026
USD/MWK annual average	**804.1%**	836.5%	868.8%	890.8%	911.7%	936.0%

5. Inflation

5.1 The rate of inflation increased in 2021, relative to 2020. Year-on-year headline inflation rate was estimated at 11.5% as at the end of the year from 7.6% as at the end 2020. The rate averaged 9.3% in 2021, up from the average of 8.6% in 2020. The increase in headline inflation rate was largely attributed to an increase in non-food inflation rate to the average of 7.4% in 2021 from 4.7% in 2020. The increase in non-food inflation rate emanated from upward revisions in prices of utilities: water, electricity and fuel, necessitated by rising international oil prices as well as the depreciation of the Kwacha. Food inflation rate, on the other hand, decreased to the average of 11.2% in 2021 from 13.1% in 2020, following a normal harvest during the year.

5.2 Chart 6 depicts the trend of inflation rate in the past four years.

Chart 6: Year-on-year inflation rates



(Data source: National Statistical Office)

5.3 We expect the upward risks to inflation to remain prominent in 2022 as the domestic and the world economies slowly recover from the effects of the Coronavirus pandemic. The RBM projects an annual average inflation rate of 10.4% in 2022, the International Monetary Fund (IMF) forecasts an average of 11.7% while the Economist Intelligence Unit (EIU) forecasts a rate of 10.3% from 9.3% in 2021.

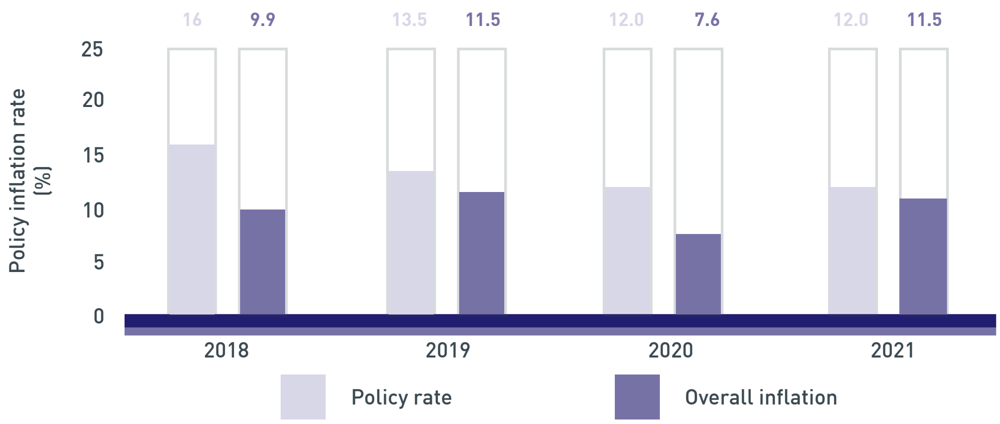
6. Monetary policy

6.1 The RBM continued to pursue an accommodative monetary policy in 2021. Monetary policy decisions focused mainly on containing inflation and supporting economic recovery from the negative effects of COVID-19.

6.2 The Monetary Policy Committee (MPC) met four times during the year: first on 25th and 26th January, second on 29th and 30th April, third on 29th and 30th July and fourth on 2nd and 3rd November 2021. During all the four meetings the MPC maintained the Policy rate at 12.0%, the Lombard rate at 0.2 percentage points above the Policy rate (12.2%) and the Liquidity Reserve Requirement (LRR) ratio at 3.75%.

6.3 Chart 7 depicts the trend of the Policy rate relative to inflation rate over the past five years. The chart shows that the Policy rate has been on a declining trend since 2016 and was last adjusted in November 2020. However, the chart indicates that the rise in inflation in 2021 has left the RBM with little room for further easing or to hold the Policy rate at the current level.

Chart 7: Policy rate versus Inflation rate



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

6.4 The Reference lending rate for banks averaged 12.1% in 2021, down from 13.3% in 2020, and closed the year at 12.2% compared to 12.3% in December 2020. The Reference rate was stable during most part of the year on account of a stable Policy rate.

7. COVID-19 and economic growth

7.1 The COVID-19 pandemic remained a major risk to economic activity across the world in 2021. However, the vaccination programs implemented in many countries improved global economic activity in 2021 from a slump in 2020.

7.2 According to the World Economic Outlook Report for October 2021 by the IMF, global economic growth is estimated to have recovered to 5.9% in 2021 from -3.1% in 2020 and is expected at 4.9% in 2022. The Sub-Saharan African Region is estimated to have grown by 3.7% in 2021 from -1.7% in 2020 and is expected to grow by 3.8% in 2022.

7.3 In the domestic economy, the Government estimates that real economic growth strengthened to 3.8% in 2021 from 0.9% in 2020 and is projected to grow by 5.2% in 2022. The IMF estimates real GDP growth rate of 2.2% in 2021 and projects the growth rate of 3.5% in 2022. The EIU's estimate is at 2.7% for 2021 and 3.1% for 2022.

7.4 Domestic economic growth in 2021 was driven by agricultural production, increased regional trade and domestic economic activity, as well as Government infrastructure development projects in the road, energy and agriculture sectors.

7.5 Key growth sectors in 2021 include Agriculture, Information & Communication, Financial & insurance services, Public administration & defense, Real estate activities, Manufacturing, and Electricity, gas & water supply, among others.

7.6 For 2022, key growth sectors include Agriculture, Education, Transport and storage, Information and communication, Financial and insurance activities, Manufacturing, Accommodation and food services and Public administration and defense, among others.

Table 3a: Annual percentage growth rates

Sector	2018	2019	2020	2021[e]	2022[f]
Agriculture, forestry and fishing	0.3	5.9	4.2	5.5	6.2
Mining and quarrying	8.8	7.4	2.3	1.2	2.1
Manufacturing	6.8	7.6	4.3	3.7	5.8
Electricity, gas and water supply	8.3	7.9	4.6	3.5	4.2
Construction	7.2	7.8	3.6	2.5	4.2
Wholesale and retail trade	3.3	6.0	-1.3	2.0	4.4
Transportation and storage	6.3	8.7	-7.1	3.1	6.9
Accommodation and food services	4.0	3.4	-21.4	1.3	5.8
Information and communication	9.5	9.3	6.1	5.4	6.0
Financial and insurance activities	6.8	5.1	4.6	4.8	6.1
Real estate activities	-2.9	2.8	3.0	3.8	2.7
Professional and support services	8.1	9.5	-3.5	3.2	4.7
Public administration and defense	6.0	6.1	4.1	3.9	5.4
Education	4.6	4.7	-4.5	2.2	7.1
Health and social work activities	5.3	0.8	-3.0	2.5	3.4
Other services	8.0	15.0	-0.7	1.6	3.1
Sum of all industries	4.0	6.1	1.5	3.8	5.3
Plus: Taxes less subsidies on products	**10.3**	**-2.7**	**-8.2**	**4.0**	**6.5**
GDP in constant 2017 prices	**4.4**	**5.6**	**0.9**	**3.8**	**5.4**

Source: Malawi Government Annual Economic Report 2021

e Estimate; f Forecast

Table 3b: Real GDP growth projections

Institution	Region	2018	2019	2020*	2021*	2022*
Government	**Malawi**	**0.9%**	**3.8%**	**5.4%**	**4.0%**	**3.8%**
	World	-3.1%	5.9%	4.9%	2.7%	3.3%
IMF	**Malawi**	**0.9%**	**2.2%**	**3.5%**	**3.3%**	**4.9%**
	Sub-Saharan Africa	-1.7%	3.7%	3.8%	2.7%	3.3%
	World	-3.4%	5.5%	4.1%	2.7%	3.3%
World bank	**Malawi**	**0.8%**	**2.4%**	**3.0%**	**3.3%**	**4.9%**
	Sub-Saharan Africa	-2.0%	3.5%	3.6%	2.7%	3.3%
EIU	**Malawi**	**0.8%**	**2.7%**	**3.1%**	**3.2%**	**3.9%**

e Estimate; f Forecast

Malawi Government: Annual Economic Report 2021

IMF: World Economic Outlook - October 2021; Malawi Economic Monitor – December 2021

World bank: Global Economic Prospects – January 2022

EIU: Country Report Malawi – Fourth quarter 2021

8. Stock market performance

8.1 The Malawi Stock Exchange (MSE) registered a better return in 2021 relative to 2020. The Malawi All Share Index (MASI) registered a return of 40.05% (33.92% in US$ terms) in 2021 compared to a return on index of 7.08% (2.21% in US$ terms) in 2020. The Domestic Share Index (DSI) registered a return of 33.53% (28.56% in US$ terms) in 2021 compared to 17.61% (12.26% in US$ terms) in 2020. The Foreign Share Index (FSI) registered a return of 209.64% (151.46% in US$ terms) in 2021 compared to -66.11% (-68.55% in US$ terms) in 2020.

8.2 However, the market registered a decrease of 20.91% in volume of shares traded to 1,301,122,424 in 2021 from 1,645,194,139 in 2020. The value of shares traded also decreased by 8.26% (34.33% in US$ terms) to K37.69 billion ($43.75 million) in 2021 from K41.09 billion ($54.52 million) in 2020.

8.3 12 counters registered capital gains (9 in 2020) while 4 counters registered losses (7 in 2020).

8.4 During the year, the MSE registered its first two secondary trades on the Debt market. The two trades were on a medium-term note (NFB03) issued by MyBucks Banking Corporation Limited, each with a nominal value of K5,000,000.00 at a price of K100.2026 giving a total value traded of K10,020,260.00.

8.5 The market also listed 26 Government of Malawi Treasury Notes, bringing the total number of listed debt securities to 46.

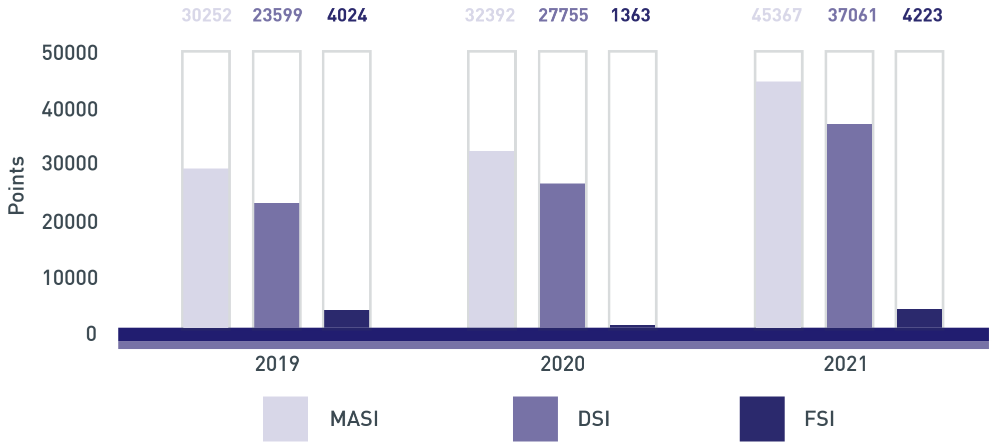
8.6 Table 4 shows performance of individual companies in 2021. Chart 8 shows a graphical analysis of the MASI, DSI and FSI over the past three years.

Table 4: Share trading summary

	2021	2020	Price Change (%)
Market indices			
MASI	45,367.68	32,392.84 ▲	40.05%
DSI	37,061.70	27,755.46 ▲	33.53%
FSI	4,223.15	1,363.88 ▲	209.64%
Gainers			
ILLOVO	300.00	80.48 ▲	272.76%
FMBCH	80.00	22.04 ▲	262.98%
PCL	1900.00	1,309.47 ▲	45.10%
AIRTEL	40.00	27.98 ▲	42.96%
STANDARD	1400.00	1,046.39 ▲	33.79%
NBM	810.12	650.00 ▲	24.63%
TNM	22.92	20.07 ▲	14.20%
FDHB	15.81	14.45 ▲	9.41%
NBS	22.90	21.60 ▲	6.02%
NICO	55.00	52.00 ▲	5.77%
ICON	12.89	12.27 ▲	5.05%
NITL	94.98	94.95 ▲	0.03%
Losers			
MPICO	20.70	21.00 ▼	-1.43%
OMU	2,099.99	2,199.98 ▼	-4.55%
SUNBIRB	90.01	105.00 ▼	-14.28%
BHL	11.01	12.94▼	-14.91%

(Data source: Malawi Stock Exchange)

Chart 8: Malawi Stock Exchange share price indices



(Data source: Malawi Stock Exchange)

9. Political environment

9.1 The political environment was stable throughout the year. However, some groupings conducted demonstrations in the second half of the year in major cities of the country over delayed implementation of some campaign promises of the current administration.

9.2 Malawi assumed chairmanship of the Southern African Development Community (SADC) in August 2021. The development is seen as an opportunity for Malawi to enhance its visibility on the international arena, as well as improve its international trade participation within the SADC region administration.

10. Fiscal policy

10.1 The 2021/2022 financial year will be a nine-month period from 1st July 2021 to 31st March 2022 as Government transitions to a new set of financial year that will begin in April and end in March.

10.2 The budget for the 2021/2022 fiscal year was formulated in line with the country's long-term vision document, the Malawi 2063. Its main objectives include entrenching macroeconomic stability; attainment of a robust, inclusive and resilient economic growth; economic empowerment; infrastructure development; and mitigating the social and economic impact of the Covid-19 pandemic.

10.3 Focus is on programs with impact to achieve permanent food security, create jobs for the youth and create wealth for all.

10.4 The budget was formulated with an expectation that revenue performance will remain subdued in the short term but could rebound as the economy gradually recovers.

10.5 Below is a summary of the budget:

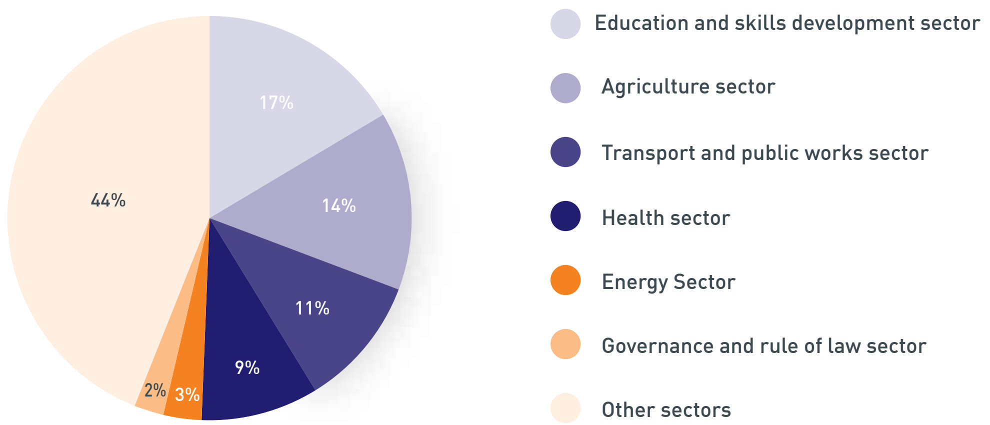
10.5 Below is a summary of the budget:

Table 5: Summary of 2021/2022 national budget

Company	2020/21 approved estimates	2020/21 end of year estimates	2021/22 estimates	% of total budget	% of 2020 GDP
Expenditure	**2,190,180**	**2,332,599**	**1,989,579**	**100.0%**	**27.4%**
Recurrent expenses	1,678,993	1,718,094	1,418,740	71.3%	19.5%
Fixed assets	511,188	614,505	570,838	28.7%	7.9%
Revenue	**1,435,051**	**1,507,343**	**1,271,261**	**63.9%**	**17.5%**
Domestic revenue	1,179,345	1,169,795	1,100,946	55.3%	15.2%
Grants	255,705	337,547	170,314	8.6%	2.3%
Deficit	**-755,130**	**-825,256**	**-718,318**	**36.1%**	**9.9%**
Net foreign financing	224,779	269,401	134,774	6.8%	1.9%
Net domestic borrowing	530,351	555,855	583,544	29.3%	8.0%

10.6 Key sector allocations include Education and skills development, Agriculture, Transport and public works, Health, Energy and Governance and rule of law.

Chart 9: Key sector allocations of 2020/2021 budget



11. Conclusions

11.1 Domestic economic activity improved in the year 2021 relative to 2020, although the Coronavirus pandemic remained a major risk. Real growth of the domestic economy is estimated to have improved to 3.8% in 2021 from 0.9% in 2020.

11.2 The RBM continued to pursue an accommodative monetary policy to support economic recovery. The MPC kept the Policy rate unchanged throughout the year, resulting in largely stable market rates, although the 2021 levels were higher than in 2020.

11.3 As the global and domestic economic activity picked up, however, some domestic fundamental variables showed some instability, including rising inflation rate and exchange rate depreciation.

11.4 In 2022, domestic economic activity is expected to improve further, backed by anticipated good agricultural production, continued improvement in economic and business confidence and ongoing Government infrastructural development projects, among others. However risks in inflation and exchange rates could remain elevated in 2022.

Financial **Statements**

For the year ended 31 December 2021

Directors' report

For the year ended 31 December 2021

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 2021.

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 licensed as a bank under the Financial Services Act, 2010. Its business is to provide private, corporate and investment banking services. Continental Holdings Limited owns 82.46% (2020:82.46%) of the shares of CDH Investment Bank Limited.

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 statements of financial position, statements of profit or loss and other comprehensive income, statements of changes in equity, and statements of cash flows and accompanying accounting policies and notes.

Dividends

The bank paid dividends for the year ended 31 December 2021 amounting to K700 million (interim), 2020: K1,544 million (final dividend).

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.

The following Directors and secretary served during the year:

Mr Franklin Kennedy	Director, Chairman
Mr Kofi Sekyere	Director
Mr Robert Abbey	Director
Dr Naomi Ngwira	Director
Mr Elias Malion	Director
Mr Sydney Chikoti	Director
Mr Kingsley Zulu	Director
Mr John McGrath	Director
Mr Charles Asare	Director
Mr Jean R Ngando Moukala	Managing Director
Mr. Thoko Mkavea (with effect from 14 October 2021)	Executive Director
Mrs. Beatrix Mosiwa Ndovi (with effect from 14 October 2021)	Executive Director

In attendance
Mr Daniel Mwangwela Company Secretary

Percentage Shareholding Analysis

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

A resolution will be proposed at the forthcoming Annual General Meeting to re-appoint Messrs. Grant Thornton Malawi, Chartered Accountants and Business Advisors as auditors in respect of the bank's 31 December 2022 financial statements.

Franklin Kennedy
Chairman

Elias Malion
Director

10th March 2022

The board

The bank has a unitary Board of Directors comprising 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

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

Key: ✓ = Attendance,
N/A = Not Applicable: Dr Naomi Ngwira ceased to be a Director from October 2021.

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 four times in a year. The members of the Committee and their meeting attendance during the year were as follows:

Meeting attendance

Members		Date 22 Mar 2021	18 Jun 2021	16 Sept 2021	6 Dec 2021
Dr Naomi Ngwira	Chairperson	✓	✓	✓	N/A
Mr Elias Malion	Director	✓	✓	✓	✓
Mr Kingsley Zulu	Director	✓	✓	✓	✓
In attendance					
Mr Daniel Mwangwela	Company Secretary	✓	✓	✓	✓

Key: ✓ = Attendance
N/A = Not applicable. Dr Naomi Ngwira ceased to be a Director from October 2021

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 management events.

The Committee comprises three Non-Executive Directors, one of whom acts as Chairman. 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		Date 25 Mar 2021	18 Jun 2021	16 Sept 2021	6 Dec 2021
Mr Charles Asare	Chairman	✓	✓	✓	✓
Mr John McGrath	Director	✓	✓	✓	✓
Mr Sydney Chikoti	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:

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 directives; and

5. Review of non-performing assets and recovery procedures initiated in respect thereof and establishment of appropriate levels of provisioning where required.

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

		Date			
Members		24 Mar 2021	21 Jun 2021	20 Sept 2021	7 Dec 2021
Mr Kofi Sekyere	Chairman	✓	✓	✓	✓
Mr Robert Abbey	Director	✓	✓	✓	✓
Mr Jean R Ngando Moukala	Director	✓	✓	✓	✓
In attendance					
Mr Daniel Mwangwela	Company Secretary	✓	✓	✓	✓

Key: ✓ = Attendance

Human resources and remuneration Committee

Human resources and remuneration committee nominates persons to be appointed as Directors (subject to shareholders' approval) and recommends to the Board, executive and Non-executive directors and senior management remuneration.
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

		Date			
Members		24 Mar 21	21 Jun 2021	20 Sept 2021	7 Dec 2021
Mr John McGrath	Chairman	✓	✓	✓	✓
Mr Kofi Sekyere	Director	✓	✓	✓	✓
Mr Robert Abbey	Director	✓	✓	✓	✓
In attendance					
Mr Daniel Mwangwela	Company Secretary	✓	✓	✓	✓

Key: ✓ = Attendance

Directors responsibility statement

For the year ended 31 December 2021

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 2021, 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 Act 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 Companies Act, 2013 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 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 consolidated and separate financial statements

The financial statements of CDH Investment Bank Limited, as identified in the first paragraph, were approved by the board of Directors on 10 March 2022 and signed on its behalf by:

....	....
Franklin Kennedy	**Elias Malion**
Chairman	Director

Opinion

We have audited the financial statements of CDH Investment Bank Limited (the Company) set out on pages 51 to 110, which comprise the statement of financial position as at 31 December 2021, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of CDH Investment Bank Limited as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2013 of Malawi.

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 and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA code. We believe 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 period. These matters were addressed in the context of our audit of the bank's financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers *Refer to notes 4(b)(i), 5.1.1, and 10 to the financial statements.* A significant proportion of the bank's business involves making loans and advances to customers. When considering whether these loans and advances may be impaired, the bank makes estimations of expected credit losses which are measured using present values of projected cashflows The impairment assessments of loans and advances to customers was a key audit matter due to the following: • The significance of loans and advances to customers in the statements of financial position at year end. • The subjective nature of the impairment calculations, including the high level of judgement and complexity involved in determining the amounts to be impaired.	Our procedures included: We inspected the bank's credit policy that sets out the provisioning processes and evaluated these processes by considering whether the impairment calculation is in compliance with the relevant accounting standards. We also evaluated whether the impairment process is in compliance with the provisions prescribed by the Reserve bank of Malawi. We tested the controls in place over credit risk management, particularly the key controls relating to the granting of loans, monitoring, and recovery of loans. In respect of allowances for impairment: • We challenged the bank's assumptions in assessing whether the credit risk of a facility has increased significantly since initial recognition by selecting a sample of loans and evaluating whether the loans were graded in line with the ageing of the loans as well as well as our knowledge of the industry. • We evaluated the inputs into the assessment of whether a financial instrument is in default for reasonableness.

Key audit matter	How our audit addressed the key audit matter
	• Where impairment had been identified by the bank, we inspected the forecasts of future cash flows prepared by management and challenged their calculations by selecting loan exposures on a sample basis and testing the appropriateness of the loan loss provision as at the year-end by ensuring the cash flows are reasonable based on the customers' repayment history. We also challenged assumptions around future cash flow projections and the valuation of collateral held by evaluating the expected periods to realise the collateral and expected cost to sell. • We evaluated a sample of loans and advances which had not been identified by the bank as potentially impaired and formed our own judgement, based on our knowledge of the client and experience of the industry in which it operates, as to whether the bank's assessment was appropriate. We evaluated the adequacy of the bank's transfer from retained earnings to the loan loss reserve by recalculating the regulatory reserve requirements based on the Reserve bank of Malawi's directive and comparing this recalculated amount to the impairment required in terms of the relevant accounting standards.
Valuation of medium and short-term notes and other assets *See Notes 4(b)(i), 4(d), and 8 the bank's financial statements..* The bank holds medium and short-term notes and other assets for trading as part of their business. These investments are measured at fair value. Since the fair value of these investments is not readily available in the economy as there is no active market, these instruments are classified as Level 3 instruments in accordance with the financial reporting standard. We considered the valuation of these investments to be a key audit matter in our audit of the bank's financial statements due to: • the significance of the carrying amounts of these investments in the financial statements; and • the level of judgement involved in determining their fair values due to an inactive market for these instruments.	We tested the fair value of the medium and short-term notes (particularly on Treasury Bills and Notes) by considering whether the assumptions and calculation methods used are appropriate and consistent with market conditions. We recalculated the fair values of medium and short-term notes and other assets, which included performing the following procedures: • we obtained confirmations from counterparts and matched the maturity dates, the original yield rates and nominal values of the notes to those confirmations. • we challenged management's assumptions used in determining the valuation of these notes by comparing the yield rates used by management in their fair value calculation to the latest Reserve bank of Malawi auction results for similar Treasury Bills and Notes.

Other information
The Directors are responsible for the other information. The other information comprises the Directors' Report, Corporate Governance Report and the Directors' Responsibility Statement, 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 or conclusion thereon.

In connection with our audit of the bank's 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 during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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 bank's 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 in the manner required by the Companies Act, 2013 of Malawi, 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 skepticism 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.
- 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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the bank to express an opinion on the bank financial statements. We are responsible for the direction, supervision and performance of the bank audit. We remain solely responsible for our audit opinion.

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.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Grant Thornton
Chartered Accountants and Business Advisors

Gordon Tembo
Chartered Accountant (Malawi)
Partner
Blantyre, Malawi

29th March 2022

Statements of financial position

For the year ended 31 December 2021

In thousands of Malawi Kwacha

	NOTE	2021	2020
ASSETS			
Cash and cash equivalents	7	**5,113,250**	7,206,052
Financial assets at fair value through profit or loss	8.1	**104,743,581**	71,188,220
Investment securities	8.2	**8,539,620**	4,400,106
Loans and advances to other banks	9	**5,767,051**	1,500,473
Loans and advances to customers	10	**54,974,846**	38,273,785
Other assets	11	**1,844,790**	905,467
Other investments at fair value through other comprehensive income	12	**361,000**	280,000
Equipment	13	**1,304,983**	1,980,888
Intangible assets	14	**15,099**	31,980
Deferred tax asset	20	**103,638**	34,880
Total assets		**182,767,858**	125,801,851
LIABILITIES AND EQUITY			
LIABILITIES			
Balances due to other banks	18	**6,348,768**	500,472
Customers deposits	15	**62,918,327**	48,083,812
Investment funds	16	**93,641,303**	59,406,494
Other liabilities and accruals	19	**1,674,692**	2,027,692
Income tax payable	20	**383,780**	600,183
Subordinated liability	17	**1,600,000**	1,600,000
Total liabilities		**166,566,870**	112,218,653
EQUITY			
Share capital	22.1	**308,326**	275,984
Share premium	22.2	**4,025,247**	3,244,832
Irredeemable non-cumulative preference shares	22.3	**487,243**	1,300,000
Retained earnings		**11,380,172**	8,762,382
Total equity		**16,200,988**	13,583,198
Total equity and liabilities		**182,767,858**	125,801,851

The financial statements were approved for issue by the Board of Directors on 10th March 2022 and were signed on its behalf by:

Franklin Kennedy
Chairman

Elias Malion
Director

Statements of profit or loss and other comprehensive income

For the year ended 31 December 2021

In thousands of Malawi Kwacha

	NOTE	2021	2020
Interest income	22	**22,472,458**	16,273,263
Interest expense – customer deposits and other banks	22	**(5,653,366)**	(2,618,650)
Interest expense – investment funds	22	**(8,933,073)**	(6,644,937)
Net interest income		**7,886,019**	7,009,676
Fees and commissions income	23	**2,121,855**	2,322,189
Trading income	24	**2,146,984**	1,551,219
Other operating income	25.1	**41,422**	73,928
Total operating income		**12,196,280**	10,957,012
Other income	25.2	**-**	574
Impairment recoveries/ (losses) on loans and advances	10	**891,696**	(771,811
Income after impairment losses on loans and advances		**13,087,976**	10,185,775
Personnel expenses	26	**(2,986,819)**	(2,783,795)
Depreciation and amortisation expense	13-14	**(808,765)**	(787,354)
Administration expenses	27	**(2,384,083)**	(2,145,422)
Total operating expenses		**(6,179,667)**	(5,716,571)
Profit before income tax expense		**6,908,309**	4,469,204
Income tax expense	28	**(2,045,737)**	(1,379,642)
Profit and other comprehensive income for the year		**4,862,571**	3,089,562
Earnings per share	29	**15.77**	11.19

Statements of changes in equity

For the year ended 31 December 2021

In thousands of Malawi Kwacha

2021	Share capital	Share premium	Irredeemable Preference shares	Retained earnings	**Total equity**
Balance at 1 January 2021	**275,984**	**3,244,832**	**1,300,000**	**8,762,382**	**13,583,198**
Profit for the year	**-**	**-**	**-**	**4,862,571**	**4,862,571**
Total comprehensive income for the year	**-**	**-**	**-**	**4,862,571**	**4,862,571**
New issue of shares	32,342	(32,342)	-	-	-
Share premium transfers	-	812,757	(812,757)	-	-
Dividends paid	-	-	-	(2,244,781)	(2,244,781)
Total transactions with owners of the bank	**32,342**	**780,415**	**(812,757)**	**(2,244,781)**	(2,244,781)
Balance as 31 December 2021	**308,326**	**4,025,247**	**487,243**	**11,380,172**	**16,200,988**

2020	Share capital	Share premium	Irredeemable Preference shares	Retained earnings	**Total equity**
Balance at 1 January 2020	275,984	3,244,832	1,300,000	5,672,820	10,493,636
Profit for the year	-	-	-	3,089,562	3,089,562
Total comprehensive income for the year	-	-	-	3,089,562	3,089,562
Balance as at 31 December 2020	275,984	3,244,832	1,300,000	8,762,382	13,583,198

Statements of cash flows

For the year ended 31 December 2021

In thousands of Malawi Kwacha

	NOTE	2021	2020
Cash flows from operating activities			
Profit for the year		**4,875,656**	3,089,562
Adjusted for:			
▪ Depreciation and amortisation	13	**808,765**	787,354
▪ Profit on disposal assets		**-**	(574)
▪ Impairment of non-current assets held for sale		**-**	19,006
▪ Net impairment on loans and advances	10	**(891,696)**	771,811
▪ Effects of exchange rate fluctuations on cash		**(697,815)**	(201,196)
▪ Net interest income	22	**(7,886,019)**	(7,009,676)
▪ Tax expense	28	**2,032,653**	1,379,642
		(1,758,456)	(1,164,071)
Changes in:			
Financial asset investments		**(33,555,361)**	(22,272,204)
Investment securities		**(4,139,514)**	(2,966,510)
Loans and advances to related party		**-**	3,012,329
Loans and advances to other banks		**(4,266,578)**	522,779
Loans and advances to customers		**(15,809,365)**	(8,505,232)
Other assets		**(939,323)**	936,633
Investment funds		**34,234,809**	17,769,928
Deposits from banks		**5,848,296**	500,472
Deposits from customers		**14,834,515**	7,761,094
Other liabilities and provisions		**778,999**	771,237
		(4,771,978)	(3,633,545)
Net interest income	22	**7,886,019**	7,009,676
Income tax paid	20	**(2,330,898)**	(1,288,186)
Net cash generated from operating activities		**(1,164,071)**	(2,221,183)
Cash flows from investing activities			
Proceeds from the sale of equipment		**-**	3,945
Acquisition of equity investment		**(81,000)**	-
Non-cash adjustment on IFRS 16 Leases	13	**115,001**	(704,045)
Acquisition of property and equipment and intangible assets	13	**(230,980)**	(106,892)
Net cash used in investing activities		**(196,979)**	(806,992)
Cash flows from financing activities			
Dividends paid		**(2,244,781)**	-
Repayment of lease liabilities - motor vehicles	19	**(821,574)**	(665,407)
Repayment of lease liabilities - property	19	**(310,426)**	(318,927)
Net cash from financing activities		**(3,376,781)**	(984,334)
Net increase in cash and cash equivalents		**(2,790,617)**	296,619
Cash and cash equivalents at the beginning of the year		**7,206,052**	6,708,237
Effect of exchange rate fluctuations on cash and cash equivalents held		**697,815**	201,196
Cash and cash equivalents at the end of the year		**5,113,250**	7,206,052

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 had a wholly owned subsidiary, CDH Forex Bureau Limited which became dormant from June 2016 and was fully disinvested on 30 June 2020 and deregistered during the year therefore no consolidation was done in the 2021 financial statements.

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 following:

- financial instruments at fair value through profit or loss.
- other investments at fair value through other comprehensive income.

(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 4b(i) - 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 4(v) - 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 Financial Officer.

2. Basis of preparation (continued)

(v) 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. New or revised standards and interpretations

Some accounting pronouncements will become effective from 1 January 2022 and will therefore, be adopted with no significant impact on the bank's financial results or position.

Standards, amendments and interpretations to existing Standards that are not yet effective and have not been adopted early by the bank.

At the date of authorisation of these bank financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the bank.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the bank's financial statements.

4. Significant accounting policies

Except for changes in note 3, the accounting policies have been consistently applied by the bank during the year.

(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.
- 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).

4. Significant accounting policies (continued)

(b) Financial assets and liabilities (continued)

Financial instruments (continued)

i) Financial assets (continued)

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 ows 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 ows 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 reassess 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.

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 ows nor held both to collect contractual cash ows 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 ows 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 ows 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 ows 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 ows;
- leverage features;
- prepayment and extension terms;
- terms that limit the bank's claim to cash ows 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).

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
- Loans and advances to other banks.

4. Significant accounting policies (continued)

(b) Financial assets and liabilities (continued)

Financial instruments (continued)

i) Financial assets (continued)

Impairment (continued)
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).

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 EIR (Effective Interest Rate).

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 unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

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.

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.

4. Significant accounting policies (continued)

(b) Financial assets and liabilities (continued)

Financial instruments (continued)

i) Financial assets (continued)

Modification and derecognition of financial assets (continued)

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

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.

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 liability 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.

(c) 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.

4. Significant accounting policies (continued)

(d) Tradable financial assets

Financial asset are those assets that the bank holds as part of a portfolio that is managed together for short-term profit or position taking.

Financial asset investments and Investment funds with the exception of Treasury Bills are recognised initially at fair value (plus any directly attributable transaction costs) and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Treasury Bills are classified as held-for-trading and as such are measured at fair value on initial recognition. Subsequent to initial recognition they are measured at fair value and changes therein, including any interest income, are recognised in profit or loss.

(e) Other financial assets

Other financial assets are measured at amortised cost using the effective interest method less impairment losses.
Other assets comprise inter-branch accounts, interest receivables, prepayments and staff advances.

(f) Other investments

These are recognised at fair value through other comprehensive income.

(g) Property and equipment

(i) Recognition and measurement
Items of property and 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 property and equipment comprises, major components having different useful lives, they are accounted for as separate items of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and 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 property and 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

Property and 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. 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) Non-current assets held for sale

Non-current assets are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets are generally measured at the lower of their carrying amount and fair value less costs to sale. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Once classified as held-for-sale, plant and equipment are no longer amortised or depreciated.

(v) 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 property and 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.

h) 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.

4. Significant accounting policies (continued)

(i) Liabilities to customers and other banks

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.

(j) Other payables

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

(k) 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. See (5)(b) ii.

(l) 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 recognizes 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.

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

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.

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.

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.

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.

(m) 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.

Loan loss reserve

This represents non-distributable reserve required by the Reserve bank of Malawi to account. If impairment charges computed under International Financial Reporting Standard (IFRS) are lower than provisions required under the Financial Asset Classification Directive, the shortfall in provision shall be treated as an appropriation of retained earnings to loan loss reserve.

(n) 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.

4. Significant accounting policies (continued)

(n) Employee benefits (continued)

(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.

(o) 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.

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.

(p) Fees and commissions

IFRS 15 "Revenue with Customers" and the related 'Clarifications to IFRS 15 Revenue from contracts with customers (herein referred to as 'IFRS 15') replaces IAS 18 "Revenue", and several revenue-related interpretations. The new standard has been applied retrospectively without restatement. There were no material effects to the financial statements arising from the adoption of this standard.

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.

(q) Income from investments

Income from investments includes dividend income and is included as part of other income.

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for available for sale securities.

(r) Other operating 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.

(s) 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.

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.

(t) 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.

(u) 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.

(v) 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.

4. Significant accounting policies (continued)

(v) Determination of fair values (continued)

Fair value measurement (continued)

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.

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.

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, and

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 Boards of Directors of the bank have delegated responsibility for the management of credit risk to their Credit Committees to which separate Credit departments report. The Credit Committees 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.

5. Risk management

5.1 Financial risks (continued)

5.1.1 Credit risk (continued)

Exposure to credit risk

The bank's exposure to credit risk principally comprises loans and advances to customers analysed as follows:

Classification of assets	Investment securities		Loans and advances to customers		Loans and advances to related party		Loans and advances to other banks	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Stage 1 (12-month ECL)	**8,539,620**	4,400,106	**54,670,522**	37,241,324	**-**	-	**5,767,051**	1,500,473
Stage 2 (Lifetime ECL)	**-**	-	**864,003**	1,072,258	**-**	-		-
Stage 3 (Lifetime ECL)	**-**	-	**104,059**	1,517,004	**-**	-	**-**	-
Gross exposure to credit risk	**8,539,620**	4,400,106	**55,638,584**	39,830,586	**-**	-	**5,767,051**	1,500,473
Less: Allowance for impairment (note 11)	**-**	-	**(663,738)**	(1,556,801)	**-**	-	**-**	-
	8,539,620	4,400,106	**54,974,846**	38,273,785	**-**	-	**5,767,051**	1,500,473
Net stage 1 (12 month ECL)	**8,539,620**	4,400,106	**54,974,846**	38,273,785	**-**	-	**5,767,051**	1,500,473

Loans and advances in stage 2 and 3 comprise:	2021	2020
30-60 days	**864,003**	1,072,258
61-90 days	**-**	1,514,659
>90 days	**104,059**	2,345
	968,062	2,598,262

The table below shows movements in loss allowance for ECL:

2021	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
Opening balance as at 1 January 2021	**13,699**	**28,443**	**1,514,659**
Movement due to increase in portfolio	**424,984**	**-**	**-**
Movement due to increase/(decrease) in credit risk	**(122,145)**	**215,160**	**(93,015)**
Movement due to write offs	**-**		**61,012**
Movement due to recoveries	**-**	**-**	**(1,379,059)**
Closing balance as at 31 December 2021	**316,538**	**243,603**	**103,597**

2020	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
Opening balance as at 1 January 2020	69,471	726	557,917
Movement due to increase in portfolio	1,448,117	-	-
Movement due to increase/(decrease) in credit risk	(1,503,889)	27,717	1,476,172
Movement due to write offs	-		40,624
Movement due to recoveries	-	-	(560,054)
Closing balance as at 31 December 2020	13,699	28,443	1,514,659

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)	2021	2020
Property	**3,115,751**	2,742,017
Motor vehicles	**163,206**	267,911
Guarantees	**49,175,476**	30,606,155
Cash	**928,939**	1,197,639
Stocks	**971,997**	3,209,325
Debentures	**1,283,215**	1,807,539
	55,638,584	39,830,586

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 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.

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.

5. Risk management

5.1 Financial risks (continued)

5.1.1 Credit risk (continued)

Impairment policy (continued)

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:

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

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

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

The Economical sector classifications were as follows:

2021	Stage 1	Stage 2	Stage 3
Agriculture	**4,720,603**	**1,164**	**48,552**
Construction	**771,083**	**4**	**-**
Manufacturing	**6,868,167**	**3,404**	**-**
Wholesale and retail	**28,526,687**	**5,781**	**55,507**
Tourism and leisure	**3,618,411**	**850,734**	**-**
Transport	**499,937**	**86**	**-**
Community, social and personal services	**8,899,085**	**2,830**	**-**
Others	**766,549**	**-**	**-**
Less: Allowance for impairment	**(316,538)**	**(243,603)**	**(103,597)**
	54,353,984	**620,400**	**462**

2020	Stage 1	Stage 2	Stage 3
Agriculture	3,849,379	1,801	54,023
Construction	409,035	55,633	80,837
Manufacturing	9,828,025	42	-
Wholesale and retail	14,949,437	123,134	-
Tourism and leisure	852,861	888,944	-
Transport	465,538	-	-
Community, social and personal services	4,680,865	384	1,718
Others	2,206,184	2,320	1,380,426
Less: Allowance for impairment	(13,699)	(28,443)	(1,514,659)
	37,227,625	1,043,815	2,345

Credit exposures distribution

The geographic distribution of credit exposures was as follows

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

Concentration by counterparty type	2021	2020
Corporate	**47,687,820**	34,844,011
Retail	**7,950,764**	4,986,575
Total	**55,638,584**	39,830,586

5. Risk management

5.1 Financial risks (continued)

5.1.1 Credit risk (continued)

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.

2021	Note	Stage 1 12-Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Security against impaired loans	Net impairment
Credit quality							
Financial assets at fair value through profit or loss	8.1	**104,743,581**	**-**	-	**104,743,581**	**-**	-
Investment securities	8.2	**8,539,620**	**-**	-	**8,539,620**	**-**	-
Loans and advances to other banks	9	**5,767,051**	**-**	-	**5,767,051**	**-**	-
Loans and advances to customers	10	**54,670,522**	**864,003**	104,059	**55,638,584**	**-**	**663,738**
Total recognised financial instruments		**173,720,774**	**864,003**	104,059	**174,688,836**	**-**	**663,738**

2020	Note	Stage 1 12-Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Security against impaired loans	Net impairment
Credit quality							
Financial assets at fair value through profit or loss	8.1	71,188,220	-	-	71,188,220	-	-
Investment securities	8.2	4,400,106	-	-	4,400,106	-	-
Loans and advances to other banks	9	1,500,473	-	-	1,500,473	-	-
Loans and advances to customers	10	37,241,324	1,072,258	1,517,004	39,830,586	1,783,226	1,556,801
Total recognised financial instruments		114,330,123	1,072,258	1,517,004	116,919,385	1,783,226	1,556,801

Financial assets at fair value through profit and loss include assets designated to be measured at fair value through profit or loss amounting to **K47.6 billion** (2020: K45.1 billion), and those required to be measured at fair value through profit or loss due to the business model of the financial instruments were at **K57.1 billion** (2020: K26.1 billion).

The total expected credit losses for loans and advances as at 31 December 2021 and 31 December 2020 were as follows:

	2021	2020
Expected credit loss rate	**0.2%**	4%
Gross carrying amount	**55,638,584**	39,830,586
Lifetime expected credit loss	**104,059**	1,517,004

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 through the use of master netting and collateral agreements.

Gross maximum exposure	Note	2021	2020
Cash held with the Reserve bank of Malawi	7	**2,363,420**	1,181,212
Cash held with local banks	7	**7,845**	7,066
Cash held with foreign banks	7	**2,359,682**	5,551,323
Cash balances	7	**382,303**	466,450
Financial assets at fair value through profit or loss	8.1	**104,743,581**	71,188,220
Investment securities	8.2	**8,539,620**	4,400,106
Loans and advances to other banks	9	**5,767,051**	1,500,473
Personal and business loans			
▪ Other loans and advances	10	**7,562,918**	4,832,557
Corporate and Investment banking			
▪ Corporate and investment loans	10	**45,361,559**	33,767,798
Total recognised financial instruments		**177,087,979**	122,895,205
Financial guarantees	31	**1,232,360**	576,269
Total unrecognised financial instruments		**1,232,360**	576,269
Total credit risk exposure		**178,320,339**	123,471,474

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 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:

At 31 December 2021

2021	**Note**	**Carrying amount**	**Net exposure to credit risk**
Cash and balances with banks	7	**5,113,250**	**5,113,250**
Loans and advances to other banks	9	**5,767,051**	**5,767,051**
Loans and advances to customers	10	**54,974,846**	**54,974,846**
Financial assets	8.1	**104,743,581**	**104,743,581**
Investment securities	8.2	**8,539,620**	**8,539,620**
Other accounts receivables	11	**205,455**	**205,455**
		179,343,803	**179,343,803**

5. Risk management

5.1 Financial risks (continued)

5.1.1 Credit risk (continued)

At 31 December 2020

2020	Note	Carrying amount	Net exposure to credit risk
Cash and balances with banks	7	7,206,052	7,206,052
Loans and advances to other banks	9	1,500,473	1,500,473
Loans and advances to customers	10	38,273,785	38,273,785
Financial assets	8.1	71,188,220	71,188,220
Investment securities	8.2	4,400,106	4,400,106
Other accounts receivables	11	83,777	83,777
		122,652,413	122,652,413

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	**2021**	2020	Principle type of collateral held
Loans and advances to banks	**%**	%	
▪ Inter-bank placement	**100**	100	Marketable securities
Loans and advances to retail customers			
▪ Personal loans	**14**	12	Cash and property
Loan advances to corporate customers			
▪ Asset Finance	**0.3**	75	Property and equipment
▪ Other	**79**	13	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 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 deteriorates significantly and the loan is monitored more closely for impaired loans, the bank obtains appraisals of collateral measurement. At 31 December 2021, the net carrying amount of impaired loans and advances to corporate customers amounted to **MK104 million** (2020: MK1,517 million) and the value of identifiable collateral held against those loans and advances amounted to **MK55million** (2020:MK1,783 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.

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.

5. Risk management

5.1 Financial risks (continued)

5.1.2 Liquidity risk (continued)

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

2021	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	**5,113,250**	**5,113,250**	**5,113,250**	**-**	**-**	**-**	**-**
Loans and advances to customers	10	**54,974,846**	**55,638,584**	**12,447,974**	**253,534**	**2,339,837**	**16,880,566**	**23,716,673**
Loans and advances to other banks	9	**5,767,051**	**6,813,958**	**2,846,721**	**-**	**3,967,237**	**-**	**-**
Financial assets at fair value through profit or loss	8.1	**104,743,581**	**107,080,690**	**396,399**	**1,198,835**	**14,858,633**	**8,261,494**	**82,365,329**
Investment securities	8.2	**8,539,620**	**9,179,976**	**167,074**	**125,497**	**3,326,757**	**260,758**	**5,299,890**
Other assets	11	**205,455**	**205,455**	**-**	**205,455**	**-**	**-**	**-**
Total assets		**179,343,803**	**184,031,913**	**20,971,418**	**1,783,321**	**24,492,464**	**25,402,818**	**111,381,892**
LIABILITIES								
Current and savings account	15	**17,958,531**	**(19,352,113)**	**(19,352,113)**	**-**	**-**	**-**	**-**
Foreign currency accounts	15	**8,731,554**	**(9,971,221)**	**(9,971,221)**	**-**	**-**	**-**	**-**
Term deposit accounts	15	**36,228,243**	**(37,628,921)**	**(4,192,708)**	**(14,907,918)**	**(9,256,058)**	**(9,272,237)**	**-**
Investment funds	16	**93,641,303**	**(96,290,886)**	**(39,755,864)**	**(39,905,011)**	**(10,643,551)**	**(5,986,460)**	**-**
Balances due from other banks	18	**6,348,768**	**(6,348,768)**	**(600,788)**	**(2,482,688)**	**(3,265,292)**	**-**	**-**
Subordinated debt	17	**1,600,000**	**(1,600,000)**	**-**	**-**	**-**	**-**	**(1,600,000)**
Total liabilities		**164,508,399**	**(171,191,909)**	**(73,872,694)**	**(57,295,617)**	**(23,164,901)**	**15,258,697**	**(1,600,000)**
Net liquidity gap		**14,835,404**	**12,840,004**	**(52,901,276)**	**(55,512,296)**	**1,327,563**	**10,144,121**	**109,781,892**
Cumulative liquidity gap		**-**	**-**	**(52,901,276)**	**(108,413,572)**	**(107,086,009)**	**(96,941,888)**	**12,840,004**

2020	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	7,206,052	7,206,052	7,206,052	-	-	-	-
Loans and advances to customers	10	38,273,785	39,830,586	7,075,303	363,516	4,763,808	12,757,262	14,870,698
Loans and advances to other banks	9	1,500,473	1,500,473	1,500,473	-	-	-	-
Financial assets at fair value through profit or loss	8.1	71,188,220	71,188,220	2,871,019	4,846,902	11,215,767	8,794,354	43,460,177
Investment securities	8.2	4,400,106	4,400,106	-	-	-	1,444,307	2,955,799
Other assets	11	83,777	83,777	-	83,777	-	-	-
Total assets		122,652,413	124,209,214	18,652,847	5,294,195	15,979,575	22,995,923	61,286,674
LIABILITIES								
Current and savings account	15	18,820,701	(20,273,088)	(20,273,088)	-	-	-	-
Foreign currency accounts	15	8,379,979	(9,754,631)	(9,754,631)	-	-	-	-
Term deposit accounts	15	20,883,132	(21,738,033)	(4,058,680)	(13,112,440)	(1,931,640)	(2,627,085)	(8,188)
Investment funds	16	59,406,494	(59,943,225)	(31,477,935)	(21,165,970)	(1,618,230)	(5,681,091)	-
Balances due from other banks	18	500,472	(500,472)	(500,472)	-	-	-	-
Subordinated debt	17	1,600,000	(1,600.000)	-	-	-	-	(1,600,000)
Total liabilities		109,590,778	(113,809,449)	(66,064,806)	(34,278,410)	(3,549,870)	(8,308,176)	(1,608,188)
Net liquidity gap		13,061,635	10,399,764	(47,411,959)	(28,984,215)	12,429,705	14,687,747	59,678,486
Cumulative liquidity gap		-	-	(47,411,959)	(76,396,174)	(63,966,469)	(49,278,722)	10,399,764

The previous table shows the undiscounted cash flows on the bank's financial assets and liabilities on the basis of 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 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 (2019:25 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.

5. Risk management

5.1 Financial risks (continued)

5.1.2 Liquidity risk (continued)

Liquidity Ratios 1 and 2 were as specified below:

CDH Investment Bank Limited	2021	2020
Liquidity Ratio I	**41.23%**	45.53%
Liquidity Ratio II	**41.23%**	45.53%

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.
- 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 Group's foreign exchange exposures at the reporting date were as follows:

2021	Assets	Liabilities	Net	Exchange Rate movement	Impact on profit and equity (net of tax)
USD	11,774	9,946	1,828	0.06%	0.77
GBP	73	1	72	0.10%	0.05
EUR	674	1	673	0.15%	0.69
ZAR	438	117	321	0.02%	0.05
					1.56

At 31 December 2021, 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 **MK0.156 million** (2020: MK 0.301 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currency-denominated financial instruments.

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.

5. Risk management

5.1 Financial risks (continued)

5.1.3.2 Interest rate risk (continued)

				Fixed Rate Instruments					
2021	**Note**	**Zero rate**	**Floating rate**	**0-3 months**	**3-6 months**	**6-9 months**	**9-12 months**	**Over 12 months**	**Total carrying amount**
Assets									
Cash and cash equivalents	7	5,113,250	-	-	-	-	-	-	5,113,250
Loans and advances to customers	10	-	54,974,846	-	-	-	-	-	54,974,846
Loans and advances to other banks	9	-	5,767,051	-	-	-	-	-	5,767,051
Financial assets at fair value through profit or loss	8.1	-	-	1,596,192	14,858,633	-	8,261,494	80,027,262	104,743,581
Investment securities	8.2	-	-	224,672	2,760,979	-	254,079	5,299,890	8,539,620
Total assets		5,113,250	60,741,897	1,820,864	17,619,612	-	8,515,573	85,327,152	179,138,348
Liabilities									
Balances due to other banks	18	-	-	6,348,768	-	-	-	-	6,348,768
Current and savings accounts	15	-	-	17,958,531	-	-	-	-	17,958,531
Foreign currency accounts	15	-	-	8,731,554	-	-	-	-	8,731,554
Term deposit accounts	15	-	-	22,934,030	9,256,058	4,038,155	-	-	36,228,243
Investment funds	16	-	-	80,656,055	8,392,682	4,592,566	-	-	93,641,303
Subordinated liabilities	17	-	-	-	-	-	-	1,600,000	1,600,000
Total liabilities		-	-	136,628,938	17,648,740	8,630,721	-	1,600,000	164,508,399
Interest gap		5,113,250	60,741,897	(134,808,074)	(29,128)	(8,630,721)	8,515,573	83,727,152	14,629,949
Impact on post tax profit or equity of an increase in the interest rate 5%		-	2,125,966	(4,718,283)	(1,019)	(302,075)	298,045	2,930,450	568,048
Impact on post tax profit or equity of a decrease in the interest rate 5%		-	2,125,966)	4,718,283	1,019	(298,045)	(298,045)	(2,930,450)	(568,048)

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.

				Fixed Rate Instruments					
2020	Note	Zero rate	Floating rate	0-3 months	3-6 months	6-9 months	9-12 months	Over 12 months	Total carrying amount
Assets									
Cash and cash equivalents	7	7,206,052	-	-	-	-	-	-	7,206,052
Loans and advances to customers	10	-	38,273,785	-	-	-	-	-	38,273,785
Loans and advances to other banks	9	-	1,500,473	-	-	-	-	-	1,500,473
Financial assets at fair value through profit or loss	8.1	-	-	7,717,921	11,215,767	-	8,794,354	43,460,177	71,188,220
Investment securities	8.2	-	-	-	-	-	1,444,307	2,955,799	4,400,106
Total assets		7,206,052	39,774,258	7,717,921	11,215,767	-	10,238,661	46,415,976	122,568,636
Liabilities									
Balances due to other banks	18	-	-	500,472	-	-	-	-	500,472
Current and savings accounts	15	-	-	18,820,701	-	-	-	-	18,820,701
Foreign currency accounts	15	-	-	8,379,979	-	-	-	-	8,379,979
Term deposit accounts	15	-	-	16,324,407	1,931,640	2,627,085	-	-	20,883,132
Investment funds	16	-	-	52,107,174	1,618,230	5,681,090	-	-	59,406,494
Subordinated liabilities	17	-	-	-	-	-	-	1,600,000	1,600,000
Total liabilities		-	-	96,132,733	3,549,870	8,308,175	-	1,600,000	109,590,778
Interest gap		7,206,052	39,774,258	(88,414,811)	7,665,897	(8,308,175)	10,238,661	44,815,976	12,977,858
Impact on post tax profit or equity of an increase in the interest rate 5%		-	1,392,099	(3,094,518)	268,306	(290,786)	358,353	1,568,559	454,225
Impact on post tax profit or equity of a decrease in the interest rate 5%		-	(1,392,099)	3,094,518	(268,306)	290,786	(358,353)	(1,568,559)	(454,225)

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.

5. Risk management

5.1 Financial risks (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:

	2021	2020
	%	%
ASSETS		
Government securities	**13.00 - 20.50**	10.98 - 18.5
Deposits with banking institutions	**5.0 - 13.90**	4.5 - 13.9
Loans and advances to customers	**8.0 - 23.1**	9.5 - 23.2
LIABILITIES		
Customer deposits	**0.25 - 15.50**	0.25 - 14

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.
- 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** (2020: 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	2021	2020
Tier 1 capital			
Share capital	22.1	**308,326**	275,984
Share premium	22.1	**4,025,247**	3,244,832
Irredeemable preference shares	22.3	**487,243**	1,300,000
Retained earnings		**11,380,172**	8,762,382
Less: Investments in unconsolidated banking & financial subsidiary companies		**(180,500)**	(140,000)
Deferred Tax Asset		**(103,638)**	(34,880)
		15,916,850	13,408,318
Tier 2 capital			
Subordinated debt (limited to 50% of tier 1 capital)		**773,333**	1,093,333
Investments in unconsolidated banking & financial subsidiary companies		**(180,500)**	(140,000)
		592,833	953,333
Total regulatory capital		**16,509,683**	14,361,651
Risk weighted assets		**34,974,700**	27,867,174
Capital ratios			
Tier 1 capital expressed as a percentage of total risk-weighted assets		**45.51%**	48.12%
Total capital expressed as a percentage of total risk weighted assets		**47.20%**	51.54%

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 in order 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.

5. Risk management

5.3 Capital management (continued)

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 Chairman 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 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 bank has a Chief Risk and Compliance Officer who consults the country's Financial Intelligence Authority on money laundering and anti-terrorist financing matters.

6. Classification of financial assets and liabilities

Accounting classifications and fair values

31 December 2021	Note	Fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Carrying amount
Financial assets					
Cash and cash equivalents	7	**-**	**-**	**5,113,250**	**5,113,250**
Financial asset investments	8.1	**104,743,581**	**-**	**-**	**104,743,581**
Investment securities	8.2	**8,539,620**	**-**	**-**	**8,539,620**
Loans and advances to customers	10	**-**	**-**	**54,974,846**	**54,974,846**
Loans and advances to other banks	9	**-**	**-**	**5,767,051**	**5,767,051**
Other investments	12	**-**	**361,000**	**-**	**361,000**
Other assets	11	**-**	**-**	**205,455**	**205,455**
		113,283,201	**361,000**	**66,060,602**	**179,704,803**
Financial liabilities					
Deposits from customers	15	**-**	**-**	**62,918,327**	**62,918,327**
Balances due from other banks	18	**-**	**-**	**6,348,768**	**6,348,768**
Investment funds	16	**93,641,303**	**-**	**-**	**93,641,303**
Other payables	19	**-**	**-**	**1,674,690**	**1,674,690**
Subordinated debt	17	**-**	**-**	**1,600,000**	**1,600,000**
		93,641,303	**-**	**72,541,785**	**166,183,088**
31 December 2020					
Financial assets					
Cash and cash equivalents	7	-	-	7,206,052	7,206,052
Financial asset investments	8.1	71,188,220	-	-	71,188,220
Investment securities	8.2	4,400,106	-	-	4,400,106
Loans and advances to customers	10	-	-	38,273,785	38,273,785
Loans and advances to other banks	9	-	-	1,500,473	1,500,473
Other investments	12(b)	-	280,000	-	280,000
Other assets	11	-	-	83,777	83,777
		75,588,326	280,000	47,064,087	122,932,413
Financial liabilities					
Deposits from customers	15	-	-	48,083,812	48,083,812
Balances due to other banks	18	-	-	500,472	500,472
Investment funds	16	59,406,494	-	-	59,406,494
Other payables	19	-	-	2,027,689	2,027,689
Subordinated debt	17	-	-	1,600,000	1,600,000
		59,406,494	-	52,211,973	111,618,467

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.

6. Classification of financial assets and liabilities (continued)

Accounting classifications and fair values (continued)

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. 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).

(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 2021	Note	Level 1	Level 2	Level 3	Total
Other investments	12	-	-	**361,000**	**361,000**
Medium- and short-term notes	8.1	**46,274,191**	**58,469,390**	-	**104,743,581**
Total		**46,274,191**	**58,469,390**	**361,000**	**105,104,581**

6. Classification of financial assets and liabilities (continued)

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

31 December 2020	Note	Level 1	Level 2	Level 3	Total
Other investments	12	-	-	280,000	280,000
Medium- and short-term notes	8.1	18,556,213	52,632,007	-	71,188,220
Total		18,556,213	52,632,007	280,000	71,468,220

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.

• 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 amortised cost.

31 December 2021	**Note**	**At amortised cost**	**Total carrying amount**
Assets			
Cash and cash equivalents	7	**5,113,250**	**5,113,250**
Loans and advances to customers	10	**54,974,846**	**54,974,846**
Loans and advances to other banks	9	**5,676,051**	**5,676,051**
Other receivables	11	**205,455**	**205,455**
Liabilities			
Deposits from customers	15	**62,918,327**	**62,918,327**
Balances due from other banks	18	**6,348,768**	**6,348,768**
Subordinated debt	17	**1,600,000**	**1,600,000**
Other payables	19	**1,674,690**	**1,674,690**

31 December 2020	Note	At amortised cost	Total carrying amount
Assets			
Cash and cash equivalents	7	7,206,052	7,206,052
Loans and advances to customers	10	38,273,785	38,273,785
Loans and advances to other banks	9	1,500,473	1,500,473
Other receivables	11	104,927	104,927
Liabilities			
Deposits from customers	15	48,083,812	48,083,812
Balances due from other banks	18	500,472	500,472
Subordinated debt	17	1,600,000	1,600,000
Other payables	19	2,027,689	2,027,689

7. Cash and cash equivalents

	2021	2020
See accounting policy note 4 (c)		
Liquidity Reserve Deposits		
• Reserve bank of Malawi	**2,363,420**	1,181,212
Placements with other banks		
• Balances with foreign banks	**2,359,682**	5,551,323
• Balances with local banks	**7,845**	7,066
Cash balances	**382,303**	466,451
	5,113,250	7,206,052

Included in the liquidity reserve deposit with the Reserve bank of Malawi is **MK2,363 million** (2020: MK1,181 million) which is not available for use by the bank. Balances with foreign banks earn interest at Libor **0.29% to 0.59%** (2020: Libor 1.99% to 0.97%) whilst balances with local banks earn interest at bank rate **5% to 13.8%** (2020: 1.5% to 13.9%).

Information on financial risk management is included in note 5.

8. Financial assets

8.1 Financial assets at fair value through profit or loss	2021	2020
See accounting policy note 4 (d)		
Commercial papers	**47,632,621**	45,124,991
Medium- and short-term notes	**57,110,960**	26,063,229
Total investments	**104,743,581**	71,188,220
Analysed as:		
External funding	**93,641,303**	59,406,495
Internal funding	**11,102,278**	11,781,725
	104,743,581	71,188,220
Investments are classified as follows:		
Maturing within 12 months	**24,710,443**	27,728,043
Maturing after 1 year	**80,033,138**	43,460,177
	104,743,581	71,188,220

Financial assets designated to be measured at fair value through profit or loss were **MK47.6 billion** (2020: MK45.1 billion) and the rest were **MK57.1 billion** (2020: K26.1 billion).

8.2 Investment securities at amortized costs	2021	2020
See accounting policy note 4 (d)		
Treasury Notes	**7,665,417**	4,400,106
Promissory Notes	**874,203**	874,203
	8,539,620	4,400,106

The bank holds Reserve bank of Malawi instruments at fair value through profit or loss, although the bank elected to hold investment securities at amortized costs. The interest rates averaged between **13.00% - 20.50% per annum** (2020: 12.54% - 15.67% per annum).

Information on financial risk management is included in note 5.

9. Loans and advances to other banks

See accounting policy note 4 (b)	2021	2020
Loans to other banks (Foreign)	**5,767,051**	-
Loans to other banks (Local)	**-**	1,500,473
	5,767,051	1,500,473

The balance of **MK5.8 billion** is due from Crown Agents, a foreign bank. Loans and advances to other banks include contracts with foreign and local banks and earn **5%-6%** (2020: 1.5%-8.5%%) in foreign currency and **12% to 13.8%** (2020: 12%) in local currency. The Directors consider that the carrying amount of loans and advances to other banks approximates their fair value.
Interest rates for balances from other banks were within the range of **5%-13.8%** (2020: 1.5% - 13.9%) with maturity date ranging from **1-182 days** (2020: 1 – 90 days).

Information on financial risk management is included in note 5.

10. Loans and advances to customers

See accounting policy note 4 (b)	2021	2020
(i) Loans and advances		
Personal and business loans	**7,562,918**	4,832,557
Corporate and investment loans	**45,361,559**	33,767,798
Total gross loans and advances	**52,924,477**	38,600,355
Interest receivable	**2,714,107**	1,230,231
	55,638,584	39,830,586
Allowance for impairment	**(663,738)**	(1,556,801)
Net loans and advances	**54,974,846**	38,273,785
(ii) Loans and advances are receivable as follows:		
Maturing within 3 months	**12,701,509**	7,438,819
Maturing between 3 and 12 months	**19,220,402**	17,521,069
Maturing after 12 months	**23,052,935**	13,313,897
Total net loans and advances	**54,974,846**	38,273,785
(iii) Allowances for impairment:		
Specific allowances for impairment:		
Balance at the beginning of the year	**(1,253,364)**	(495,252)
Charge for the year	**(204,524)**	(1,277,542)
Recoveries on impaired loans	**1,379,059**	560,054
Bad debts written off	**(61,012**	(40,624)
Balance as at 31 December	**(139,841)**	(1,253,364)
Collective allowances for impairment:		
Balance at the beginning of the year	**(303,437)**	(132,862)
Charge for the year	**(221,827)**	(13,699)
Restored to accrual	**1,367**	(156,876)
Balance as at 31 December	**(523,897)**	(303,437)
Total allowances for impairment	**(663,738)**	(1,556,801)
(iv) Impairment (charge)/credit		
Charge for the year - specific	**(204,524)**	(1,277,542)
Charge for the year – collective	**(221,827)**	(13,699)
Recoveries on impaired loans	**1,379,059**	560,054
Bad debts written off	**(61,012)**	(40,624)
Total impairment credit/(charge)	**891,696**	(771,811)

10. Loans and advances to customers (continued)

Loans and advances to customers earn interest at a range of the Malawi reference rate **+0.9% to +10.9%.** (2020 Malawi reference rate : +1% 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 3 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.

Information on financial risk management is included in note 5.

11. Other assets

	2021	2020
See accounting policy note 4 (e)		
Prepayments	**1,639,337**	821,704
Other accounts receivables	**205,453**	83,763
	1,844,790	905,467

12. Other investments (At cost/fair value through other comprehensive income)

See accounting policy note 4 (f)

At fair value through other comprehensive income	**2021**	2020
Other investment		
Malawi Agricultural and Industrial Investment		
Corporation Plc	**250,000**	250,000
National Switch Limited	**111,000**	30,000
	361,000	280,000

The Bank as co-sponsors of the Government of Malawi initiated project to establish a national development financial institution (DFI) in Malawi invested MK250 million into the Malawi Agricultural and Industrial Corporation Plc being part of its committed USD1million capital injection into the ordinary share capital of the company.

The bank also increased its shareholding in Natswitch during the year by acquiring an additional 30,000,000 shares at MK2.70 per share.

Information on financial risk management is included in note 5.

13. Equipment

See accounting policy note 4 (g)	Computers	Right of use Property	Right of use Motor vehicles	Equipment fixture & fittings	Work in progress	Total
2021						
Cost						
Balance at 1 January 2021	**135,597**	**1,447,413**	**1,314,302**	**1,124,033**	**-**	**4,021,345**
Non-cash adjustment for the year	**-**	**(245,447)**	**130,446**	**-**	**-**	**(115,001)**
Additions during the year	**21,391**	**-**	**-**	**115,121**	**94,468**	**230,980**
Disposals during the year	**-**	**-**	**(75,579)**	**-**	**-**	**(75,579)**
Balance at 31 December 2021	**156,988**	**1,201,966**	**1,369,169**	**1,239,154**	**94,468**	**4,061,745**
2020						
Cost						
Balance at 1 January 2020	113,236	1,537,225	791,135	1,190,266	-	3,631,862
Non-cash adjustment for the year	-	(4,494)	708,539	-	-	704,045
Additions during the year	31,310	-	-	75,582	-	106,892
Transfer to non-current assets held-for-sale	-	-	-	(73,976)	-	(73,976)
Disposals during the year	(8,949)	(85,318)	(185,372)	(67,839)	-	(347,478)
Balance at 31 December 2020	135,597	1,447,413	1,314,302	1,124,033	-	4,021,345
2021						
Accumulated depreciation and impairment losses						
Balance at 1 January 2021	**96,962**	**490,543**	**650,834**	**802,118**	**-**	**2,040,457**
Depreciation charge for the year	**22,164**	**218,326**	**451,416**	**99,978**	**-**	**791,884**
Eliminated on disposal	**-**	**-**	**(75,579)**	**-**	**-**	**(75,579)**
Balance at 31 December 2021	**119,126**	**708,869**	**1,026,671**	**902,096**	**-**	**2,756,762**
2020						
Accumulated depreciation and impairment losses						
Balance at 1 January 2020	87,334	338,178	495,974	767,749	-	1,689,235
Transfers to non-current assets held-for-sale	-	-	-	(54,970)	-	(54,970)
Depreciation charge for the year	17,664	237,683	340,232	154,721	-	750,300
Eliminated on disposal	(8,036)	(85,318)	(185,372)	(65,382)	-	(344,108)
Balance at 31 December 2020	96,962	490,543	650,834	802,118	-	2,040,457
Carrying amount						
At 31 December 2021	**37,862**	**493,097**	**342,498**	**337,058**	**94,468**	**1,304,983**
At 31 December 2020	38,635	956,870	663,468	321,915	-	1,980,888

13.Equipment (continued)

The bank has lease arrangement for all motor vehicles and its business premises. The bank leased CDH House under a lease agreement for 5 years with Continental Asset Management Nominees Limited from 1 January 2019 to 31 December 2023, entered a 10-year lease agreement with Churches of Christ in Malawi on Capitial City Gowa House from 1 September 2015 to 31 August 2025. A 3-year motor vehicle operating lease agreement was made between Continental Properties Limited and the bank from 1 January 2019 to 31 December 2021. The new lease will be for 4 years to align with the depreciation for motor vehicles.Lease payments are determined by Malawi Kwacha rate per square metre payable on a quarterly basis. 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 and a lease liability.

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

14. Intangible assets

	Computer software	
See accounting policy note 4 (h)	**2021**	2020
Cost		
Balance at 1 January	**512,497**	512,497
	512,497	512,497
Amortisation		
Balance at 1 January	**480,517**	443,463
Amortisation charge for the year	**16,881**	37,054
Balance at 31 December	**497,398**	480,517
Carrying amount		
At 31 December	**15,099**	31,980

15. Customer deposits

See accounting policy note 4 (i)	**2021**	2020
Current and savings accounts	**17,958,530**	18,820,701
Foreign currency accounts	**8,731,554**	8,379,979
Term deposit accounts	**36,228,243**	20,883,132
	62,918,327	48,083,812
Payable as follows:		
Maturing within 3 months	**49,624,115**	43,525,087
Maturing after 3 months and above	**13,294,212**	4,558,725
	62,918,327	48,083,812

Interest on customer deposit balances ranged from **0.25% to 15.5%** (2020: 0.25 to 13.5%).

Information on financial risk management is included in note 5.

16. Investment funds

	2021	2020
See accounting policy note 4 (d)		
Investment funds	**93,641,303**	59,406,494

This represents customer investments for funding of financial asset investments (note 8). Interest on these funds range from **9% to 16.8%** (2020:9.0% to 15.9%).

Information on financial risk management is included in note 5.

17. Subordinated liability

	2021	2020
See accounting policy note 4 (k)		
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 2020, the carrying amount of the bond approximates the fair value. There were no breaches of agreement or defaults during the year.

Information on financial risk management is included in note 5.

18. Balances due to other banks

	2021	2020
See accounting policy note 4 (i)		
Deposits from other banks	**6,348,768**	500,472

The balance of MK6,348m was due to Reserve bank of Malawi (MK5,712m) and NBS bank (MK600m).

Interest rates on balances due to other banks were within a range of **5% to 13.8%** (2020: 11.2% to 13.45%) with maturity dates ranging from **1** to **182** days (2020: 1 to 9 days).

Information on financial risk management is included in note 6.

19. Other liabilities and accruals

	2021	2020
See accounting policy notes 4 (j)		
Unclaimed customer balances	**10,019**	70,916
Bankers cheques issued but not cleared	**29,976**	25,699
Accruals	**209,503**	184,901
Trade payables	**920,708**	524,193
Lease liabilities	**503,235**	1,208,011
Other	**1,251**	13,972
	1,674,692	2,027,692

Included in other liabilities and accruals are lease liabilities which comprises liabilities on motor vehicles and property. The lease liabilities are discounted at **58.8%** covering up to 3 years lease period for motor vehicles and **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 **MK821.6 million** and **MK310.4 million** on property.

Information on financial risk management is included in note 5.

20. Income tax and deferred tax liabilities

See accounting policy note 4 (s)	2021	2020
Income tax payable		
Balance at 1 January	**(600,183)**	(546,652)
Current year's charge (Note 28)	**(2,114,495)**	(1,341,717)
Tax paid	**2,330,898**	1,288,186
Balance at 31 December	**(383,780)**	(600,183)

		2021	
Deferred tax	**Assets**	**Liabilities**	**Net**
Deferred tax (liabilities) /assets			
Property and equipment	33,168	-	33,168
General provisions	7,628	-	7,628
Unrealized exchange loss	1,535	-	1,535
Leave provision	61,307	-	61,307
	103,638	-	103,638

Movements in temporary differences in 2021	**Opening balance**	**Recognised in profit or loss**	**Closing balance**
Equipment	**41,077**	**(7,909)**	**33,168**
General provisions	**(8,416)**	**16,044**	**7,628**
Unrealized exchange loss	**-**	**1,535**	**1,535**
Leave provision	**2,219**	**59,088**	**61,307**
	34,880	**68,758**	**103,638**

		2020	
	Assets	Liabilities	Net
Deferred tax (liabilities) /assets			
Property and equipment	41,077	-	41,077
General provisions	-	(8,416)	(8,416)
Leave provision	2,219	-	2,219
	43,296	(8,416)	34,880

Movements in temporary differences in 2020	Opening balance	Recognised in profit or loss	Closing balance
Equipment	65,415	(24,338)	41,077
General provisions	7,126	(15,542)	(8,416)
Leave provision	(4,100)	6,319	2,219
Unrealised fair value gain	4,364	(4,364)	-
	72,805	(37,925)	34,880

21. Equity and reserves

See accounting policy note 4 (m)	**2021**	2020
21.1 Share capital		
275,984,380 shares at MK1.00 per share	**275,984**	275,984
32,342,094 issued shares at MK1.00 per share	**32,342**	-
	308,326	275,984
21.2 Share premium		
172,458,155 shares at MK4.33 each	**746,744**	746,744
103,526,225 shares at MK24.13 each	**2,498,088**	2,498,088
32,342,094 shares at MK24.13 each	**780,415**	-
Share premium arose from the issue of 172,458,155 ordinary shares at MK4.33 each, 103,526,225 ordinary shares at MK24.13 each and 32,342,094 shares at K24.13 each.	**4,025,247**	3,244,832

21. Equity and reserves (continued)

21.3 Irredeemable non-cumulative preference shares	2021	2020
51,730,999 shares at MK25.13 per share	**1,300,000**	1,300,000
Conversion of 32,342,094 Irredeemable non-cumulative preference shares into ordinary shares at MK25.13 per share	**(812,757)**	-
	487,243	1,300,000

The bank issued 51,730,999 perpetual, irredeemable non-cumulative preference shares at MK25.13 per share. Dividends on the preference shares are 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 carry no voting rights, however the preference share issue allowed for conversion of these shares into ordinary shares.

22. Interest income

See accounting policy note 4 (o)	2021	2020
Loans and advances to other banks	**525,613**	307,087
Loans and advances to customers and other investment securities	**9,133,434**	5,955,250
Financial asset investments	**12,813,411**	10,010,926
Total interest income before changes in fair value of financial assets	**22,472,458**	16,273,263
Interest expense		
Deposits from customers and other banks	**(5,653,366)**	(2,618,650)
Investment funds	**(8,933,073)**	(6,644,937)
Total interest expense	**(14,586,439)**	(9,263,587)
Net interest income after changes in fair value of financial assets	**7,886,019**	7,009,676

23. Fees and commissions income

	2021	2020
See accounting policy note 4 (p)		
Fees from Investment banking services	**1,726,503**	1,561,824
Other fees and commissions income	**395,352**	760,365
	2,121,855	2,322,189

The fees and commissions income above arise from financial assets and liabilities measured at amortized cost.

24. Trading income

See accounting policy note 4 (q)	**2021**	2020
Income from financial instruments	**969,795**	658,276
Foreign exchange gains	**1,177,189**	892,943
	2,146,984	1,551,219

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

25.1 Other operating income

See accounting policy note 4 (r)	**2021**	2020
Other operating income	**41,422**	73,298

The bank realized rental income from subletting its premises at Capital City Business Centre in Lilongwe.

25.2 Other income

See accounting policy note 4 (r)	**2021**	2020
Profit on disposal of assets	**-**	574

26. Personnel expenses

	2021	2020
Salaries and wages	**1,725,775**	1,526,843
Staff benefits	**267,925**	599,639
Contributions to defined contribution plan	**178,637**	106,869
Bank life insurance premiums	**76,374**	77,718
Recruitment	**17,447**	1,428
Incentive bonus	**690,831**	446,052
Staff allowances:		
• Transport allowances	**6,670**	6,456
• Other allowances	**23,160**	18,790
	2,986,819	2,783,795

27. Administration expenses

	2021	2020
Auditors' remuneration		
- Audit fees	**32,185**	27,000
- VAT and other expenses	**5,822**	5,457
Bank charges	**152,427**	98,897
Business travel expenses	**112,127**	57,382
Communication expenses	**39,992**	44,606
Computer expenses	**526,770**	483,741
Directors fees and expenses	**107,769**	103,083
Finance costs on leases	**375,367**	144,331
Impairment of asset held-for-sale	**-**	19,006
Legal costs	**(7,123)**	257,999
Management technical support fees	**142,449**	129,800
Marketing expenses	**105,889**	63,811
Motor vehicle running costs	**71,228**	55,023
Office expenses	**200,563**	162,147
Office occupancy costs	**214,492**	191,300
Other expenses	**160,488**	204,980
Professional fees	**73,185**	14,331
Supervisory fees	**26,888**	27,899
Training costs	**43,565**	54,629
	2,384,083	2,145,422

The finance costs on leases are calculated on lease payments made for leased property using borrowing rate of **14.9%** (2020: 14.9%) and motor vehicles using implicit lease rate of **58.8%** (2020: 54.9%).

28. Income tax expense

See accounting policy note 4 (s)	**2021**	2020
Recognised in the profit or loss		
Income tax charge	**2,114,495**	1,341,717
Deferred tax charge/(credit)		
Reversal of temporary differences (note 20)	**(68,758)**	37,925
Income tax expense	**2,045,737**	1,379,642
Reconciliation of effective tax rate		
Profit before income tax	**6,908,309**	4,469,204
Income tax using the enacted income tax rate of **30%** (2020: 30%)	**2,072,493**	1,340,761
Income not subject to tax	**(524,839)**	(406,461)
Accelerated capital allowance	**(68,758)**	37,925
Expenses not deductible for tax purposes (Fringe Benefit Tax and Penalties)	**566,841**	407,417
Income tax expense	**2,045,737**	1,379,642
Effective tax rate	**30%**	31%

29. Basic and diluted earnings per share

See accounting policy note 4 (t)	**2021**	2020
Profit attributable to ordinary shareholders	**4,862,571**	3,089,562
Weighted average number of ordinary shares in issue (thousands)	**308,326**	275,984
Basic and diluted earnings per share (MK)	**15.77**	11.19

30. 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:

2021	Directors and their related parties	Executive Management	Other Continental Holdings Subsidiaries	Total
Advances	-	345,208	604	345,812
Deposits	(5,768)	(78,865)	(16,394,232)	(16,478,865)
Net balances	(5,768)	266,343	(16,393,628)	(16,133,053)
Interest received	-	21,355	15	21,370
Interest paid	-	(1,229)	(1,430,053)	(1,431,282)
	-	20,126	(1,430,038)	(1,409,912)
2020				
Advances	-	165,864	426,841	592,705
Deposits	(12,413)	(58,235)	(6,208,491)	(6,279,139)
Net balances	(12,413)	107,629	(5,781,650)	(5,686,434)
Interest received	-	16,972	10,913	27,885
Interest paid	-	(680)	(331,367)	(332,047)
	-	16,292	(320,454)	(304,162)

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 **MK1.7million** (2020: MK5.6 million) of interest free short-term salary advances and **MK343.5 million** (2019: MK160.3 million) of advances which carry interest at about 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.

Key management personnel compensation:	Executive Management		Non-Executive Directors	
	2021	2020	**2021**	2020
Short-term employee benefits salaries	**962,631**	792,382	**-**	-
Post-employment benefits	**96,263**	79,238	**-**	-
Directors' fees	**-**	-	**93,649**	107,361
	1,058,894	871,620	**93,649**	107,361

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 **MK16 million** (2020: MK8 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	2021	2020
Loans advances to other financial institutions			
Continental Asset Management Nominees Limited	Common ownership	**603,711**	426,841
Subordinated liability			
Continental Asset Management Nominees Limited	Common ownership	**1,600,000**	1,600,000

The balance due to Continental Asset Management Nominees Limited includes **MK1.6 billion** (2020: MK1.6 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:

	Relationship	**Type of transaction**	**Value of transactions 2021**	**Balance at year end 2021**	Value of transactions 2020	Balance at year end 2020
Continental Asset Management Nominees Limited	Related company	Deposits	**126,353,986**	**15,600,474**	143,822,517	5,955,095
		Loan	**-**	**604**	426,841	426,841
		Subordinated debt	**-**	**1,600,000**	-	1,600,000
		Subordinated debt interest paid	**185,505**	**185,505**	238,040	76,803
		Interest received	**-**	**-**	10,713	-
		Interest paid	**1,388,968**	**-**	330,491	-
		Shared expenses	**-**	**-**	-	-

30. Related party transactions (continued)

	Relationship	Type of transaction	Value of transactions 2021	Balance at year end 2021	Value of transactions 2020	Balance at year end 2020
Continental Asset Management Limited	Related company	Deposits	**3,284,657**	**18,217**	3,206,745	42,702
		Shared expenses	**-**	**-**	-	-
		Interest received	**973**	**-**	105	-
		Interest paid	**-**	**-**	1	-
Continental Capital Limited	Related company	Deposits	**40,892,014**	**45,398**	13,982,050	136,528
		Shared expenses	**-**	**-**	-	-
		Interest received	**45**	**-**	9	-
		Interest paid	**9,378**	**-**	449	-
Continental Properties Limited	Related company	Deposits	**2,116,945**	**421,396**	1,844,831	19,599
		Operating lease payments	**1,062**	**1,062**	545,950	-
		Interest received	**3**	**-**	-	-
		Interest paid	**84**	**-**	101	-
Continental Pension Services Ltd	Related company	Interest paid	**1,597,252**	**-**	863,909	10,658
		Shared expenses	**-**	**-**	34,781	-
		Interest received	**-**	**-**	25	-
		Interest paid	**88**	**-**	154	-
Continental Holdings Limited	Parent company	Deposits	**11,207,594**	**8,410**	5,804,147	43,909
		Shared expenses	**-**	**-**	6,130	-
		Fees payable	**-**	**104,233**	-	-
		Interest received	**7**	**-**	65	-
		Interest paid	**31,531**	**-**	167	-
Executive Management	Management	Deposits	**1,260,362**	**78,856**	1,185,475	58,235
		Advances	**345,208**	**345,208**	165,864	165,864
		Salaries	**962,631**	**962,631**	792,382	792,382
		Long-term benefits (Pension)	**96,263**	**96,263**	79,238	79,238
		Interest received	**21,355**	**-**	16,972	-
		Interest paid	**1,229**	**-**	680	-
Directors and their related parties	Directors	Deposits	**224,470**	**5,768**	257,638	12,413
		Fees	**93,649**	**93,649**	107,361	107,361

Included in customer deposits in note 15 are the deposit account balances held on behalf of the related parties disclosed above.

31. Capital commitments and contingent liabilities

See accounting policy note 4 (u)

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:

Contingent liabilities	2021	2020
Financial guarantees	**1,232,360**	576,269
	1,232,360	576,269

Contingencies in respect of guarantees and performance bonds issued will only crystalize 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 crystalize 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 **MK100 million** (2020: MK110 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 (2020: Nil).

32. 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 weekly average basis, of not less than **3.75%** of the preceding weeks total deposit liabilities. In the last week of December 2020, the liquidity requirement was **3.75%** (2020: 3.75%) of total customer deposits. (Refer to Note 5.1.2)

(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 2020, the bank's total available capital was **47.21%** (2020: 51.54%) and the core capital was **45.51%** (2019:48.12%) 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:

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.

33. 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	2021	2020
GBP/MWK	**1,184.91**	987.03
ZAR/MWK	**60.40**	47.18
USD/MWK	**805.05**	747.49
EUR/MWK	**1,055.31**	887.67
CAD/MWK	**643.79**	557.24
Inflation rate %	**9.3%**	8.6%

At the time of signing these financial statements the exchange rates and inflation rate had moved to:

GBP/MWK	**1,276.6**	1,161.1
ZAR/MWK	**68.3**	56.4
USD/MWK	**816.9**	783.3
EUR/MWK	**1,239.7**	999.3
Inflation rate %	**13%**	8.3%

34. Events after the reporting date

Subsequent to the reporting date, no events have occurred necessitating adjustments or disclosures to these financial statements.

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