RISK AND CAPITAL MANAGEMENT REPORT
JUNE 2021

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1. Introduction

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

1.1. Objectives and Strategies

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

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

1.2. Frequency

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

1.3. Materiality of disclosure

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

1.4. Audit of disclosure

The information presented in this report is extracted from the bank's full set of financial statements which are subject to independent external audit once every year. The full set of financial statements is available on the bank's website. The half year disclosure is based on unaudited financial information as allowed by regulation.

2. Corporate structure

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

CDHIB has the following shareholding structure:

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

3. Capital management

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

Regulatory capital

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

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

The capital ratios of CDHIB as at 30th June 2021, are as shown in the table below: -

	June 2021	June 2020
Tier 1 capital		
Share capital	**1,575,984**	**1,575,984**
Share premium	**3,244,832**	**3,244,832**
Retained earnings	**8,952,273**	**6,228,733**
Less: Investments in unconsolidated banking & financial subsidiary companies	**(140,000)**	**(140,000)**
Deferred tax asset	**(94,814)**	**(46,671)**
	13,538,275	**10,862,878**
Tier 2 capital		
Subordinated debt (limited to 50% of tier 1 capital)	**933,333**	**1,253,333**
Investments in unconsolidated banking & financial subsidiary companies	**(140,000)**	**(140,000)**
Loan loss reserve	–	–
	793,333	**1,433,333**
Total regulatory capital	**14,331,608**	**11,976,212**

	June 2021	June 2020
Risk component		
Credit risk	**16,401,975**	**15,493,207**
Market risk	**1,417,262**	**1,498,018**
Operational	**14,086,978**	**10,795,122**
Total risk weighted assets	**31,906,215**	**27,786,346**
Capital ratios		
Tier 1 capital as a percentage of total risk-weighted assets	**42.43%**	**39.09%**
Total capital as a percentage of total risk weighted assets.	**44.92%**	**43.10%**

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

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

4. Risk management framework

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

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

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

- Risk Management Policy
- Credit Policy
- Investment policy
- Liquidity Risk Management Policy

- Capital Risk Management Policy
- Information and Communication Policy
- Stress Testing Framework

4.1 Key Risks

The Bank is exposed to the following financial risks from financial instruments:
a) Credit risk
b) Liquidity risk
c) Market risk
d) Operational risk
e) Legal and compliance risks
f) Reputational risks

4.2 Risk Governance

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

4.2.1 Board of Directors (BOD)

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

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

The Boards:

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

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

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

Board meetings - meeting attendance

Member		**Date** 26 Mar 2021	**Date** 25 Jun 2021	**Date** 19 Mar 2020	**Date** 25 Jun 2020
Mr. Franklin Kennedy	Chairman	√	√	√	√
Mr. Kofi Sekyere	Director	√	√	√	√
Mr. Robert Abbey	Director	√	√	√	√
Dr Naomi Ngwira	Director	√	√	√	√
Mr. Elias Malion	Director	√	√	√	√
Mr. Sydney Chikoti	Director	√	√	N/A	N/A
Mr. Kingsley Zulu	Director	√	√	√	√
Mr. John McGrath	Director	√	√	√	√
Mr. Charles Asare	Director	√	√	√	√
Mr. Jean R Ngando Moukala	Managing Director	√	√	√	√
In attendance					
Mr. Daniel Mwangwela	Company Secretary				

Key
√ = Attendance
N/A = Not Applicable

4.2.2 Board Audit Committee (BAC)

The Committee comprise of three non-executive directors.

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

4.2.3 Board Risk and Compliance Committee (BRCC)

The Committee comprise of three non-executive directors.

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

4.2.4 Chief Executive Officer/Managing Director (MD)

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

4.2.5 Risk and Compliance Committee (RCC)

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

4.2.6 Asset and Liability Management Committee (ALCO)

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

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

4.2.7 Credit Risk Committee (CRECO)

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

4.2.8 Chief Risk and Compliance Officer (CRCO)

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

4.2.9 Legal Officer (LO)

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

4.2.10 Chief Internal Auditor (CIA)

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

4.2.11 Chief Finance Officer (CFO)

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

4.2.12 Chief Credit Officer (CCO)

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

5. Management of risks

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

5.1 Credit risk

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

Management of credit risk

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

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

Best practices for credit risk

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

Impaired loans and securities

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

Past due but not impaired loans

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

Allowances for impairment

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

Impairment policy

The Bank The bank shall review all credit facilities and debt instruments on a monthly basis for purpose of asset classification and for determining the impairment status of each facility.

When determining whether the credit risk of an asset has increased significantly, management should consider reasonable and supportable best information available without undue cost or effort. This information should include actual and expected changes in external market indicators, internal factors and borrower-specific information.

If the bank establishes a significant change or deterioration in the quality of an individual credit, the bank shall: (i) Promptly assign the credit to a new classification category that accurately reflects the status of the credit and (ii) make applicable provisions under ECLM.

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

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

	Maximum Limit %	**June 2021**	June 2020	**June 2021**	June 2020
Agriculture	**35%**	**8%**	9%	**4,344,098**	3,095,623
Construction	**5%**	**2%**	2%	**979,441**	578,851
Manufacturing	**35%**	**27%**	25%	**13,927,284**	8,738,484
Wholesale and retail	**40%**	**42%**	38%	**21,556,018**	13,259,562
Tourism and leisure	**5%**	**8%**	2%	**4,035,343**	808,397
Transport	**15%**	**1%**	2%	**605,170**	538,800
Community, social and personal services	**11%**	**11%**	15%	**5,797,681**	5,041,935
Others	**43%**	**1%**	7%	**666,329.00**	2,587,639
		100%	100%	**51,911,364**	34,649,291

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

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

The table below shows the asset quality as at 30 June 2021.

	Stage 1	Stage 2	Stage 3	**Total**
1. Mortgage loans	320,293			**320,293**
2. Loans to finance agricultural production and other loans to farmers	4,295,625	96	48,377	**4,344,098**
3. Commercial and industrial loans	23,851,036	1,048,815	136,619	**25,036,470**
4. Loans to individuals for household, family and other personal expenditures	4,486,410	818	–	**4,487,228**
5. Loans to governments & statutory bodies	13,430,835			**13,430,835**
6. Lease financing receivables				–
7. Forex loans	4,292,440			**4,292,440**
8. All other loans				–
9. Loss Provisions	59,260	101,119	184,609	**344,988**
Net classified assets	**50,617,379**	**948,610**	**387**	**51,566,376**

5.1 Credit risk (continued)

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

	At 30th June 2021	
	Carrying amount	**Net exposure to credit risk**
Cash and balances with banks	**3,217,779**	3,217,779
Loans and advances to other banks	**10,533,889**	10,533,889
Loans and advances to customers	**51,566,376**	51,566,376
Financial assets	**88,007,699**	88,007,699
Investment securities	**11,130,300**	11,130,300
	164,456,043	164,456,043

	At 30th June 2020	
	Carrying amount	**Net exposure to credit risk**
Cash and balances with banks	10,252,248	10,252,248
Loans and advances to other banks	3,875,571	3,875,571
Loans and advances to customers	34,534,461	34,534,461
Financial assets	52,902,691	52,902,691
Investment securities	4,205,287	4,205,287
	105,770,258	105,770,258

Loan and advances to corporate customers

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

Disclosure of guarantees and financial instruments

As at 30th June 2021 the value of guarantees were at MWK284Million. In addition, the bank had other financial assets which are Treasury Notes amounting to MWK 10,475.0 Million

Valuation of Security (collateral)

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 is done once every year, but the frequency would depend on the type of collateral and its volatility. Valuation of collateral is updated when the credit risk of a loan significantly deteriorates and the loan is monitored more closely for impaired loans, the Bank obtains appraisals of collateral measurement.

The Table below shows classification of loans according to their stages. This also includes collective impairment provisions as at 30th June 2021.

	Stage **1**	**Stage 2**	**Stage 3**	**Total**
1. Agriculture, forestry, fishing and hunting	4,295,625	96	48,377	**4,344,098**
2. Mining and quarrying	–			–
3. Manufacturing	13,926,962	322		**13,927,284**
4. Electricity, gas, water and energy	46,695	76		**46,771**
5. Construction	897,925	314	81,202	**979,441**
6. Wholesale and retail trade	21,488,415	12,186	55,417	**21,556,018**
7. Restaurants and hotels	2,999,626	1,035,717		**4,035,343**
8. Transport, storage and communications	605,159	11		**605,170**
9. Financial services	220,211	189		**220,400**
10. Community, social and personal services	5,796,863	818		**5,797,681**
11. Real estate	399,158			**399,158**
12. Other sectors				–
13. Less: Loss Provisions	59,260	101,119	184,609	**344,988**
Net classified assets	**50,617,379**	**948,610**	**387**	**51,566,376**

Other types of collateral and credit enhancements

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

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

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

Credit Exposures

As at 30th June 2021, the geographical distribution of credit exposures was as follows:

Concentration by region	**June, 2021**	**June, 2020**
South	21,073,071	15,281,829
Centre	30,838,293	22,991,956
Total	**51,911,364**	**38,273,785**

Counter party type distribution	**June, 2021**	**June, 2020**
Corporate	44,241,918	31,052,644
Retail	7,669,446	7,221,141
Total	**51,911,364**	**38,273,785**

Credit exposures under the standardized approach

The tables below show Risk Weighted Assets for credit risk under the Standardized Approach as at 30th June 2021.

Nature of Item	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Portfolio I: Exposures to Sovereign or Central Banks						
Exposures to the Malawi Government or RBM	11,130,300			11,130,300	**0%**	–
Exposures to Sovereigns rated AAA to AA-.				–	**0%**	–
Exposures to Sovereigns rated A+ to A-.				–	**20%**	–
Exposures to Sovereigns rated BBB+ to BBB-.				–	**50%**	–
Exposures to Sovereigns rated BB+ to B- or unrated.				–	**100%**	–
Past Due Exposures				–	**100%**	–
Sub-total	**11,130,300**	–	–	**11,130,300**		–
Portfolio II: Exposures to Public Sector Entities (PSEs)						
Exposures to Parastatals or Statutory Corporations	13,430,835		13,430,835	–	**100%**	–
Exposures to Central Government Departments e.g. Immigration and MRA	1,299,213			1,299,213	**0%**	–
Exposures to Local Assemblies				–	**100%**	–
Exposures to other Government related entities not included in 11 and 12 above e.g. NAC, SFFRM				–	**100%**	–
Exposures to PSEs rated A+ to A-.				–	**50%**	–
Exposures to PSEs rated BBB+ to BBB-.				–	**100%**	–
Exposures to PSEs rated BB+ to B- or unrated.				–	**100%**	–
Past Due Exposures				–	**100%**	–
Sub-total	**14,730,048**	–	**13,430,835**	**1,299,213**		–
Portfolio III: Exposures to other Banks						
Exposures to local banks with original contractual maturity of less than three months	–			–	**20%**	–
Exposures to local banks with original contractual maturity of more than three months	10,533,889			10,533,889	**50%**	5,266,945
Exposures to banks assigned a Credit Risk Assessment Rating of AAA to AA-.	1,951,205			1,951,205	**20%**	390241
Exposures to banks assigned a Credit Assessment Rating of A+ to A-.				–	**50%**	–
Exposures to banks assigned a Credit Assessment Rating of BBB+ to BBB- or unrated banks.				–	**50%**	–

Exposures to banks assigned a Credit Assessment Rating of BB+ to B-.				–	**100%**	–
Past Due Exposures				–	**100%**	–
Sub-total	**12,485,095**	–	–	**12,485,095**		**5,657,186**
Portfolio IV: Exposures on Corporates						
Claims to local corporates	22,715,982		22,715,982	–	**100%**	–
Exposures in foreign currency	4,292,440		405,974	3,886,466	**100%**	3,886,466
Claims to Corporates assigned a credit assessment rating of AAA to AA-.	1,451,667		19,225	1,432,442	**20%**	286,488
Claims to Corporates assigned a credit assessment rating of A+ to A-.				–	**50%**	–
Claims to corporate assigned a credit assessment rating of BBB+ to BB-	970,579	100,466		870,113	**100%**	870,113
Past Due Exposures	81,202	81,012		190	**100%**	190
Sub-total	**29,511,870**	**181,478**	**23,141,181**	**6,189,211**		**5,043,257**
Portfolio VI: Exposures included in the Retail Portfolio						
Retail exposures (excluding overdrafts) that fully comply with the RBM Credit Risk Guidelines) not exceeding MK30 Million	676,127	10,998	120,772	544,357	**75%**	408,268
Overdrafts and Retail exposures above MK30 Million	6,569,232	48,915	4,753,835	1,766,482	**100%**	1,766,482
Exposures in foreign currency				–	**100%**	–
Past Due Exposures	103,794	103,597		197	**100%**	197
Sub-total	**7,349,153**	**163,510**	**4,874,607**	**2,311,036**		**2,174,947**
Portfolio VII: Residential Mortgages						
Claims fully secured by residential mortgage (whether owner occupied or not)	320,293			320,293	**35%**	112,103
Mortgage where bank is not the holder of the first mortgage bond or portion of mortgage bond that has been consolidated with other facilities.				–	**100%**	–
Past Due Exposures				–	**100%**	–
Sub-total	**320,293**	–	–	**320,293**		**112,103**
Portfolio X: Other Assets						
Cash, gold, coins,bullion, foreign notes & coins, statutory reserves with the Reserve Bank of Malawi	1,259,241			1,259,241	**0%**	–
Cheques in course of collection	–			–	**20%**	–
Other assets	3,085,195			3,085,195	**100%**	3,085,195
Sub-total	**4,344,437**	–	–	**4,344,437**		**3,085,195**

Portfolio XI: Exposures to Higher Risk Categories						
Exposures pertaining to venture (start up) capital or private equity, or project finance as per Guidance Note				–	**150%**	–
Exposures to sovereigns, PSEs, banks, and securities firms rated below B-				–	**150%**	–
Exposures to corporates rated below BB-				–	**150%**	–
Past Due Exposures				–	**150%**	–
Sub-total	–	–	–	–		–
TOTAL ON-BALANCE SHEET RISK-WEIGHTED AMOUNT	**79,871,196**	**344,988**	**41,446,623**	**38,079,584**		**16,072,688**

RISK-WEIGHTED AMOUNTS (OFF-BALANCE SHEET EXPOSURES)							
	Exposure Amounts	**Exposure amount after CRM**	**Credit Conversion Factors (CCF)**	**"Credit Equivalent Amounts "**	**Loss Provisions**	**Risk-weights of Credit Equivalent Amounts**	**Risk-weighted Amounts**
Claims to or Guaranteed by Government	0	0	0%	0		100%	0
Claims with Cash Collateral	76,173	76,173	0%	0		100%	0
Credit substitutes (Guarantees , Letters of credit, Assets pledged as collateral security)	284,560	284,560	100%	284,560		100%	284,560
Transaction Related Contingency (Performance Bonds, Stand by L/Cs etc)	0	0	50%	0		100%	0
Undrawn commitments	89,455	89,455	50%	44,728		100%	44,728
Documentary Credits (Trade related & Self-liquidating)	0	0	20%	0		100%	0
Other Commitments with maturity of over 1 year	0	0	50%	0		100%	0
Similar Commitments of up to 1 year or which can be conditionally cancelled	82,353,416	82,353,416	0%	0		100%	0
Sub-total	**82,803,604**	**82,803,604**		**329,288**	**0**		
TOTAL OFF-BALANCE SHEET RISK-WEIGHTED AMOUNT							**329,287.50**
GRAND TOTAL: ALL EXPOSURES					**344,988**		**16,401,975**

5.2 Liquidity risk

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

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

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

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

Asset and Liability Management Committee (ALCO)

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

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

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

ASSETS 2021	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 6 Years	Over 6 Years	Total
Notes and coin, Malawi currency	468,345							**468,345**
Cheques in the course of collection								–
Balances at Reserve Bank of Malawi	790,896							**790,896**
Balances with other banks in Malawi	7,332							**7,332**
Balances with banks abroad	1,951,205							**1,951,205**
Investments in Securities		21,664,189	–	–	5,654,283		280,000	**27,598,472**
Bills of exchange etc payable abroad								–
Loans and advances	6,260,821	6,416,095	11,268,568	6,770,391	7,870,041	7,936,005	5,389,442	**51,911,364**
Other assets				1,638,263			1,541,746	**3,180,009**
Total assets	**9,478,600**	**28,080,284**	**11,268,568**	**8,408,655**	**13,524,324**	**7,936,005**	**7,211,188**	**85,907,624**
LIABILITIES AND SHAREHOLDERS FUNDS								–
Domestic deposits	17,856,275	5,508,038	31,969,158					**55,333,471**
Foreign currency denominated deposits	2,806,554							**2,806,554**
Balances due to Reserve Bank of Malawi								–
Balances due to other banks in Malawi	8,966,258							**8,966,258**
Balances due to banks abroad								–
Other borrowed funds						1,600,000		**1,600,000**
Other liabilities				2,271,803				**2,271,803**
Shareholders' funds							14,929,537	**14,929,537**
Total liabilities and shareholders funds	**29,629,087**	**5,508,038**	**31,969,158**	**2,271,803**	–	**1,600,000**	**14,929,537**	**85,907,624**
Net Liquidity Gap	**(20,150,487)**	**22,572,246**	**(20,700,591)**	**6,136,851**	**13,524,324**	**6,336,005**	**(7,718,349)**	–
Cumulative Liquidity Gap	**(20,150,487)**	**2,421,760**	**(18,278,831)**	**(12,141,980)**	**1,382,344**	**7,718,349**	–	–

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

Details of the value of public and private traded instruments have been listed below as at 30th June 2021:

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

Asset/Liab	Prod name	Position Nominal	Avg. Tenor	Rate %
A	**Floating Rate Note**	3,000,000	5yrs	12.8%
A	**Interbank Lending**	2,000,000	365days	13%
A	**MWK Structured CP**	38,901,530	5yrs	17.84%
A	**Promissory Note Government**	3,547,511	1.17yrs	20.50%
A	**Treasury Notes**	44,031,505	4yrs	23.75%
L	**Floating Investment Contract**	11,569,961	2yrs	14.54%
L	**Investment Contract**	69,412,126	99days	11.92%
L	**USD Investment Contract**	1,642,928	199days	5.03%

5.2 Liquidity risk (Continued)

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

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

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

Liquidity Ratios 1 and 2 were as specified below:

Consolidated and Separate

	June 2021	June 2020
Liquidity Ratio I	41.13%	44.06%
Liquidity Ratio II	41.13%	44.06%

5.3 Market risk

Market risk management policy

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

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

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

				Specific Risk		General Risk	
	Issuer/ Counterparty	Type of instrument	Position (MK '000)	Weight (%)	Charge	Weight (%)	Charge
Specific Risk					–		
Residual General Risk							–
Time Bands							
less than 1 month				–	–	–	–
1 to 3 months				–	–	–	–
3 to 6 months				–	–	–	–
6 to 12 months				–	–	–	–
1 to 2 years	Treasury Notes	5,654,283		–	–	–	–

5.3.1 Foreign exchange risk

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

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

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

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

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

The Treasury Department is responsible for:-

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

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

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

Ccy	**Positions in foreign currencies**			**Exchange rates**		**Positions in local currency**			**In %**
	Balance sheet net	**Off bal. sheet net**	**Overall net positions**	**Cross rates**	**Local ccy rates**	**Balance sheet, net**	**Off bal. sheet, net**	**Overall net positions**	**of capital**
USD	880,456	(774,040)	106,416	1.0000	798.0000	702,603,566	(617,683,920)	84,919,646	0.66%
GBP	(2,413)	-	(2,413)	1.3857	1170.4772	(2,824,525)	-	(2,824,525)	(0.02%)
EUR	428,075	-	428,075	1.2024	1038.1954	444,425,787	-	444,425,787	3.43%
ZAR	4,079,410	-	4,079,410	14.2923	60.8593	248,270,038	-	248,270,038	1.92%
OTHER	-	-	-	1.2495	638.0937	-	-	-	0.00%
				Net foreign currency positions		**1,392,474,865**	**(617,683,920)**	**774,790,945**	**5.99%**

At 30 June 2021, the Kwacha depreciated by 0.69% against the USD. During the same period, the kwacha also depreciated against the GBP by 1.66%. It, however appreciated against the EUR and ZAR by 1.32% and 0.47% respectively.

5.3.2 Interest rate risk

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

With respect to the total unrealized gains /losses that have not been reflected in the income statement of the bank, and the extent to which these have been included in Tier 1 capital or Tier 2 capital, the bank normally does its revaluation on annual basis. The last valuation was done in Dec 2020 and revealed immaterial unrealized losses/impairment which was not disclosed.

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

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

2021				Fixed Rate Instruments					
Assets subject to interest rate adjustment within the following time horizons		Zero rate	Floating rate	0 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	0ver 12 months	Total
Loans and leases:									
Fixed rate by maturity									–
Floating rate by repricing interval			51,911,364						51,911,364
Scheduled payments due on all other loans									–
Securities:									
Fixed rate by maturity				10,533,889	–	–		5,654,283	16,188,172
Floating rate by repricing									–
Interest-bearing balances									–
Inter-bank loans									–
Other		6,677,788							6,677,788
Total rate sensitive assets (RSA)		6,677,788	51,911,364	10,533,889	–	–	–	5,654,283	74,777,324
Liabilities subject to interest rate adjustment :									
Demand accounts			19,028,319						19,028,319
Savings deposits				1,634,510					1,634,510
Time deposits				5,508,038	31,969,158				37,477,197
Other borrowings				8,966,258					8,966,258
Long-term debt		–						1,600,000	1,600,000
Other		17,201,340							17,201,340
Total rate sensitive liabilities (RSL)		17,201,340	19,028,319	16,108,806	31,969,158	–	–	1,600,000	85,907,624
Asset Liability Gap		**(10,523,552)**	**32,883,045**	**(5,574,917)**	**(31,969,158)**	–	–	**4,054,283**	**(11,130,299)**
Cumulative Gap		**(10,523,552)**	**22,359,493**	**16,784,576**	**)15,184,582)**	**(15,184,582)**	**(15,184,582)**	**(11,130,299)**	**(11,130,299)**
Net position as a percent of total assets		(2)	1	(1)	–	–	–	1	–
RSA as a percent of RSL		–	3	1	–	–	–	4	1
Impact of increase in Interest Rate	5%	(11,049,730)	34,527,198	(5,853,663)	(33,567,616)	–	–	4,256,997	(11,686,814)
	10%	(11,575,907)	36,171,350	(6,132,409)	(35,166,074)	–	–	4,459,711	(12,243,329)
	15%	(12,102,085)	37,815,502	(6,411,154)	(36,764,532)	–	–	4,662,425	(12,799,844)
Impact of decrease in Interest Rate	(5%)	(9,997,375)	31,238,893	(5,296,171)	(30,370,700)	–	–	3,851,568	(10,573,785)
	(10%)	(9,471,197)	29,594,741	(5,017,425)	(28,772,243)	–	–	3,648,854	(10,017,270)
	(15%)	(8,945,019)	27,950,589	(4,738,679)	(27,173,785)	–	–	3,446,140	(9,460,755)

5.3 Market risk (Continued)

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

5.3.3 Interest rate risk

GENERAL RISK CAPITAL CHARGE							
				Specific Risk		General Risk	
	Issuer/ Counterparty	Type of instrument	Position (MK '000)	Weight (%)	Charge	Weight (%)	Charge
1	2	3	4	5	6	7	8
Specific Risk					–		
Residual General Risk							–
Time Bands							
less than 1 month				–	–	–	–
1 to 3 months				–	–	–	–
3 to 6 months				–	–	–	–
6 to 12 months				–	–	–	–
1 to 2 years	Treasury Notes	5,654,283		–	–	–	–
2 to 3 years				–	–	–	–
3 to 4 years				–	–	–	–
4 to 5 years				–	–	–	–
5 to 7 years					–	–	–
7 to 10 years					–	–	–
7 to 10 years					–	–	–

5.3.4 Foreign exchange risk

		Net long (short) position excluding options		
Currency		**On Balance Sheet items**	**Off-Balance sheet items**	**Total net long (short) position**
1. U.S. DOLLAR	**USD**	880	(774)	**106**
2. BRITISH STERLING	**GBP**	(2)	–	- (2.41314)
3. SOUTH AFRICAN RAND	**ZAR**	4,079	–	4,079
4. EURO	**EUR**	428	–	4,288
5. OTHER				–
6. Aggregate net long position				4,614
7. Aggregate net short position				2
8. Larger of sum of net long/short position				4,613.
9. Gold	GOL			
10. Overall net open position(10=8+9)				4,614
11. Risk weight				–
12. Capital charge for foreign exchange risk				369

5.4 Operational risks

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

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

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

- requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures.
- requirements for the yearly assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified by Internal and External auditors
- requirements for the reporting of operational losses and proposed remedial action.
- development of contingency plans
- training and professional development
- risk mitigation, including insurance where it is cost-effective

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

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

The Bank measures operational risk using the Basic Indicator Approach. In using this approach the Bank derives the gross income for 3 years and then multiplies it by a capital charge factor of 10% to determine the total operational risk capital charge.

Operational Risk	**June 2021**	**June 2020**
	MK '000	**MK '000**
Mean Average of Aggregate Capital Charge	1,408,698	1,079,512

5.5 Legal and Compliance risk

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

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

The management of compliance risk has become a distinct discipline within the Bank's overall risk management framework. The ultimate responsibility for this risk lies with the Board of Directors. A combination of key activities is undertaken to manage the risk such as developing compliance management plans, training staff and other stakeholders on relevant regulatory requirements, and monitoring compliance. Compliance with the Know-Your-Customer and anti-money laundering procedures and legislation became an area of major focus for the Bank. The Compliance function consults the country's Financial Intelligence Authority on money laundering and anti-terrorist financing matters. The bank makes a provision for litigation risk based on the cases available. As at 30th June 2021 the provision amount was MWK145Million.

6. Equities

The following were the equity positions as at 30th June 2021

Other investment

		2021	2020
National Switch Limited	8.33 %	30,000	30,000
MAIIC	2.2%	250,000	250,000
		280,000	280,000