

Risk and capital management report

December 2024



INVESTMENT BANK



Banking innovations that help your business **grow**

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1. Introduction

The Reserve Bank of Malawi ("RBM") 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 Guidelines on Market Disclosures under Basel II 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 ("CDHIB") is regulated and supervised by RBM.

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 Pillar 3 disclosures are made semi-annually and more frequently should management determine that significant events justify such disclosures. This is in-line with the Basel II 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 annual external audit. The banks financial statements are available on the website.

2. Corporate structure

CDHIB 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 shareholding is as follows: -

Shareholder	December 2024	December 2023
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.

1.5 Regulatory capital

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

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

The capital ratios of CDHIB as at 31st December 2024, are as shown in the table below: -

	December 2024	December 2023
Tier 1 capital		
Share capital	327,715	327,715
Share premium	4,493,101	4,493,101
Retained earnings	41,224,274	23,806,473
Less: Investments in unconsolidated banking & financial subsidiary companies	(838,250)	(838,250)
Deferred tax asset	-	(353,059)
	45,206,840	27,435,980
Tier 2 capital		
Subordinated debt (limited to 50% of tier 1 capital)	-	186,667
Investments in unconsolidated banking & financial subsidiary companies	-	-
	-	186,667
Total regulatory capital	45,206,840	27,622,647
Risk component		
Credit risk	37,990,860	51,726,501
Market risk	16,666,897	26,259,515
Operational risk	45,605,132	7,048,749
Total risk weighted assets	100,262,889	85,034,765
Capital ratios		
Tier 1 capital as a percentage of total risk-weighted assets	45.09%	32.26%

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 within specified guidelines.

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 of 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: -

- a. identify current and emerging risks.
- b. develop risk assessment and measurement systems.
- c. establish policies, practices, and other control mechanisms to manage risks.
- d. develop risk tolerance limits for senior management and board approval.
- e. monitor positions against approved risk tolerance limits and
- f. 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:

- a. Enterprise risk management policy
- b. Credit policy
- c. Investment policy
- d. Liquidity risk management policy
- e. Information and communication policy
- f. 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

CDH Investment Bank risk management approach is directed through compliance with legislation, policies and procedures and alignment with standards and best practices. Heads of departments take the lead in managing risk. Therefore, everyone in the bank is responsible and accountable for risk management.

4.2.1 Board of directors

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 of directors 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 Board of directors:

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



- d) Re-evaluates these guidelines

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

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

Board meetings – meeting attendance					
Members	Position	Date	Date	Date	Date
		22-Mar-24	28-Jun-24	2-Oct-24	13-Dec-24
Mr Franklin Kennedy	Chairperson	✓	✓	✓	✓
Mr Kofi Sekyere	Director	✓	✓	✓	✓
Mr Robert Abbey	Director	✓	✓	✓	✓
Mr Charles Asare	Director	✓	✓	✓	✓
Mr Elias Malion	Director	✓	✓	✓	✓
Mr Sydney Chikoti	Director	X	✓	✓	✓
Mr Kingsley Zulu	Director	✓	✓	✓	✓
Mr John McGrath	Director	✓	✓	✓	✓
Mrs Joyce Gundani	Director	✓	✓	✓	✓
Mr Thoko Mkavea	Director	✓	✓	✓	✓
Ms Beatrix Mosiwa	Director	✓	✓	✓	✓
In attendance					
Mr Daniel Mwangwela	Company Secretary	✓	✓	✓	✓

Key

□ - Attendance X - Apology

4.2.2 Board Audit Committee

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 controls 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

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 is also responsible for the design and implementation of the bank's compliance program. It provides risk management advice to the executive management.

4.2.4 Chief Executive Officer/Managing Director

The Chief Executive Officer/Managing Director 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 Management Risk and Compliance Committee

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 Management Asset and Liability Management Committee

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 Management Credit Risk Committee

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

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 Chief Legal Officer

The Chief Legal 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

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

4.2.11 Chief Finance Officer

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

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 Chief Credit Officer manages the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. The Officer also considers 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

CDH Investment Bank 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 arising principally from the bank's loans and advances to customers, loans and advances to 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: -

- a. Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- b. 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.
- c. Reviewing and assessing credit risk. The Credit Department assesses all credit exposures more than 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.
- d. 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).
- e. 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 based on the collateral provided. All credit facilities are granted based on the credit standing, source of repayment and debt servicing ability of the borrower. Furthermore, the bank uses Credit Reference Bureaus to obtain credit history of all new loan applications and renewals. The main reference agencies the bank uses are Credit Data and TransUnion Reference Bureau.

Impairment

The bank monitors all financial assets to assess whether there has been significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the bank measures the loss allowance based on lifetime rather than 12-month ECL. The Bank recognises loss allowances for ECLs (Expected Credit Loss) on the following financial instruments that are not measured at FVTPL:

- a. Loans and advances to customers.
- b. Loans and advances to related party; and
- c. Interbank placements.
- d. Contingent or off-balance sheet assets

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:

- a. the remaining lifetime PD at the reporting date; with
- b. 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 bank uses both historical and forward-looking information 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 when assessing the significant increases in credit risk.

As a backstop, when an asset becomes 30 days past due, the bank considers that as significant increase in credit risk and the asset is classified into stage 2, with the loss allowance measured as the lifetime ECL.

Impairment policy

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

In addition, the assets in the trading book are passed on to investors. However, this awaits confirmation in respect to successfully achieving a transfers of credit risk to external entities.

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

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

	Maximum Limit %	2024	2023	2024	2023
Agriculture	20%	15%	12%	16,478,205	10,639,705
Construction	5%	2%	2%	1,882,909	1,505,060
Manufacturing	30%	13%	6%	14,691,177	5,068,594
Wholesale and retail	55%	34%	46%	38,514,398	39,344,913
Tourism and leisure	10%	5%	8%	5,793,604	6,727,916
Transport	10%	0%	1%	164,092	634,639
Community, social and personal services	30%	9%	22%	9,752,157	18,903,330
Electricity, Gas, Water and Energy	35%	17%	-	19,947,973	-
Others	10%	5%	3%	6,091,886	2,655,149
		100%	100%	113,316,401	85,479,306

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 31st December 2024.

2024	Stage 1	Stage 2	Stage 3
Agriculture	16,478,205	-	-
Construction	1,882,739	170	-
Manufacturing	3,635,672	11,055,505	-



Wholesale and retail	38,513,697	701	-
Tourism and leisure	-	270	5,793,364
Transport	164,043	49	-
Community, social and personal services	9,707,751	3,519	40,887
Electricity, Gas, Water and Energy	19,947,973	-	-
Others	6,086,285	5,571	-
Less: Allowance for impairment	(412,738)	(9,582)	(5,828,957)
	96,003,627	11,056,203	5,294

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:

As at 31 December 2024		
2024	Carrying amount	Next exposure to risk
Cash and balances with banks	11,135,180	11,135,180
Interbank Placements	11,624,477	11,624,477
Loans and advances to customers	107,065,124	107,065,124
Financial assets	350,666,373	350,666,373
Investment securities	40,368,931	40,368,931
Other accounts receivables	2,004,204	2,004,204
	522,864,289	522,864,289

As at 31 December 2023		
2023	Carrying amount	Net exposure to credit risk
Cash and balances with banks	19,863,871	19,863,871
Interbank Placements	32,649,060	32,649,060
Loans and advances to customers	83,682,438	83,682,438
Financial assets	135,090,181	135,090,181
Investment securities	28,009,923	28,009,923
Other accounts receivables	358,113	358,113
	299,653,586	299,653,586

Loan and advances to corporate customers.

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

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

Other types of collateral and credit enhancements

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

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

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

Credit Exposures

As at 31st December 2024, the geographical distribution of credit exposures was as follows:

Concentration by region	2024	2023
South	49,486,063	40,823,889
Centre	63,830,338	44,655,417
Total	113,316,401	85,479,306
Concentration by counterparty type		
Corporate	95,557,614	65,463,495
Retail	17,758,787	20,015,811
Total	113,316,401	85,479,306

Credit exposures under the standardized approach.

The tables below show risk weighted assets for credit risk under the Standardized Approach as at 31st December 2024.

Portfolio I: Exposures to Sovereign or Central Banks	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Exposures to the Malawi Government or RBM	51,993,408			51,993,408	0%	0
Exposures to Sovereigns rated AAA to AA-.				0	0%	0
Exposures to Sovereigns rated A+ to A-.				0	20%	0
Exposures to Sovereigns rated BBB+ to BBB-.				0	50%	0
Exposures to Sovereigns rated BB+ to B- or unrated.				0	100%	0
Past Due Exposures				0	100%	0
Sub-total	51,993,408	0	0	51,993,408		0

Portfolio II: Exposures to Public Sector Entities (PSEs)	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Exposures to Parastatals or Statutory Corporations	21,638,737		21,638,737	0	100%	0
Exposures to Central Government Departments E.g. Immigration and MRA	19,347,486			19,347,486	0%	0



Exposures to Local Assemblies				0	100%	0
Exposures to other Government-related entities not included in 11 and 12 above e.g. NAC, SFFRM				0	100%	0
Exposures to PSEs rated A+ to A-.				0	50%	0
Exposures to PSEs rated BBB+ to BBB-.				0	100%	0
Exposures to PSEs rated BB+ to B- or unrated.				0	100%	0
Past Due Exposures			0		100%	0
Sub-total	40,986,223	0	21,638,737	19,347,486		0

Portfolio III: Exposures to Multilateral Development Banks (MDBs)	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Exposures to MDBs that meet eligibility criteria specified in RBM Credit Risk Guidelines				0	0%	0
Exposure to MDB assigned a Credit Assessment Rating of AAA to AA-.				0	20%	0
Exposure to MDB assigned a Credit Assessment Rating of A+ to A-.				0	50%	0
Exposure to MDB assigned a Credit Assessment Rating of BBB+ to BBB- or unrated MDBs				0	50%	0
Exposure to MDBs assigned a credit assessment rating of BB+ to B-.				0	100%	0
Past Due Exposures			0	0	100%	0
Sub-total	0	0	0	0		0

Portfolio IV: Exposures to other Banks	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Exposures to local banks with original contractual maturity of less than three months				0	20%	0



Exposures to local banks with original contractual maturity of more than three months				0	50%	0
Exposures to banks assigned a Credit Risk Assessment Rating of AAA to AA-.	3,215,967			3,215,967	20%	643,193
Exposures to banks assigned a Credit Assessment Rating of A+ to A-.				0	50%	0
Exposures to banks assigned a Credit Assessment Rating of BBB+ to BBB- or unrated banks.				0	50%	0
Exposures to banks assigned a Credit Assessment Rating of BB+ to B-.				0	100%	0
Past Due Exposures				0	100%	0
Sub-total	3,215,967	0	0	3,215,967		643,193

Portfolio V: Exposures to Security Firms	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Claims on locally prudentially regulated Securities Firms as provided in the RBM guidance note				0	50%	0
Claims on Securities Firms assigned a credit assessment rating of AAA to AA-.				0	20%	0
Claims on Securities Firms assigned a credit assessment rating of A+ to A-.				0	50%	0
Claims on Securities Firms assigned a credit assessment rating of BBB+ to BBB- or unrated securities firms.				0	50%	0
Claims to Securities Firms assigned a credit assessment rating of BB+ to B-.				0	100%	0
Past Due Exposures				0	100%	0
Sub-total	0	0	0	0		0



Portfolio VI: Exposures on Corporates	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Claims to local corporates	34,077,966		34,067,515	10,451	100%	10,451
Exposures in foreign currency			0	0	100%	0
Claims to Corporates assigned a credit assessment rating of AAA to AA-.			0	0	20%	0
Claims to Corporates assigned a credit assessment rating of A+ to A-.			0	0	50%	0
Claims to corporate assigned a credit assessment rating of BBB+ to BB-	14,710,512	5,405	200,000	14,505,107	100%	14,505,107
Past Due Exposures	5,793,364	5,793,364	0	0	100%	0
Sub-total	54,581,842	5,798,769	34,267,515	14,515,558		14,515,558

Portfolio VII: Exposures included in the Retail Portfolio	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Retail exposures (excluding overdrafts) that fully comply with the RBM Credit Risk Guidelines not exceeding MK30 Million	11,140,977	315,473	4,359,005	6,466,499	75%	4,849,874
Overdrafts and Retail exposures above MK30 Million	5,797,357	110,375	3,371,542	2,315,440	100%	2,315,440
Exposures in foreign currency				0	100%	0
Past Due Exposures	40,887	3,942		36,945	100%	36,945
Sub-total	16,979,221	429,790	7,730,547	8,818,884		7,202,259

Portfolio VIII: Residential Mortgages	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Claims fully secured by residential mortgage (whether owner occupied or not)	769,116	22,718		746,398	35%	261,239
Mortgage where bank is not the holder of the first mortgage bond or portion of mortgage bond that has been consolidated with other facilities.				0	100%	0

Past Due Exposures	0	0		0	100%	0
Sub-total	769,116	22,718	0	746,398		261,239

Portfolio IX: Commercial Real Estate (lending to finance commercial real estate)	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Claims fully secured by mortgage on commercial real estate.				0	100%	0
Past Due Exposures				0	100%	0
Sub-total	0	0	0	0		0

Portfolio X: Other Assets	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Cash, gold, coins, bullion, foreign notes & coins, statutory reserves with the Reserve Bank of Malawi	7,921,878			7,921,878	0%	0
Cheques in course of collection	0			0	20%	0
Other assets	14,068,022			14,068,022	100%	14,068,022
Sub-total	21,989,901	0	0	21,989,901		14,068,022

Portfolio XI: Exposures to Higher Risk Categories	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Exposures pertaining to venture (start-up) capital or private equity, or project finance as per Guidance Note				0	150%	0
Exposures to sovereigns, PSEs, banks, and securities firms rated below B-				0	150%	0
Exposures to corporates rated below BB-				0	150%	0
Past Due Exposures				0	150%	0
Sub-total	0	0	0	0		0
Total on-balance sheet risk-weighted amount	190,515,677	6,251,277	63,636,799	120,627,601		36,690,272



Risk-weighted amounts (off-balance sheet exposures)	Exposure Amounts	CRM	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	13,601,982		13,601,982	0%	0		100%	0
Credit substitutes (Guarantees, Letters of credit, Assets pledged as collateral security)	486,000		486,000	100%	486,000		100%	486,000
Transaction Related Contingency (Performance Bonds, Stand by L/Cs etc.)	0		0	50%	0		100%	0
Undrawn commitments	1,629,177		1,629,177	50%	814,589		100%	814,589
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	314,344,540		314,344,540	0%	0		100%	0
Sub-total	330,061,699	0	330,061,699		1,300,589	0		
Total off-balance sheet risk-weighted amounts								1,300,588.50
Grand total: all exposures						6,251,277		37,990,860

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

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

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

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

31 st December 2024 Assets	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	849,502							849,502
Cheques in the course of collection								0
Balances at Reserve Bank of Malawi	7,165,583							7,165,583
Balances with other banks in Malawi								0
Balances with banks abroad	3,210,637							3,210,637
Investments in Securities		51,993,408	0	0	36,335,704		838,250	89,167,362
Bills of exchange etc. payable abroad								0
Loans and advances	7,183,940	22,083,042	15,915,293	6,062,329	38,114,612	23,219,116	727,619	113,305,951
Other assets				5,728,315			9,303,010	15,031,325
Total assets	18,409,662	74,076,450	15,915,293	11,790,644	74,450,316	23,219,116	10,868,879	228,730,360



Liabilities and shareholders' funds									0
Domestic deposits	110,928,582	18,877,965	4,626,947	1,732,800	11,603	0	0	136,177,897	
Foreign currency denominated deposits	14,391,819	9,407,858	3,273,813	3,952,394	0	0	0	31,025,884	
Balances due to Reserve Bank of Malawi									0
Balances due to other banks in Malawi		249,796							249,796
Balances due to banks abroad									0
Other borrowed funds						0			0
Other liabilities				14,824,531					14,824,531
Shareholders' funds							46,452,252		46,452,252
Total liabilities and shareholders' funds	125,570,197	28,285,823	7,900,760	20,509,725	11,603	0	46,452,252	228,730,360	
Net liquidity gap	-107,160,535	45,790,627	8,014,533	-8,719,081	74,438,713	23,219,116	-35,583,373	0	
Cumulative liquidity gap	-107,160,535	-61,369,908	-53,355,375	-62,074,456	12,364,257	35,583,373	0	0	

31 st December 2023 Assets	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	704,380							704,380
Cheques in the course of collection								0
Balances at Reserve bank of Malawi	10,352,486							10,352,486
Balances with other banks in Malawi	-51,899							-51,899
Balances with banks abroad	8,805,263							8,805,263
Investments in Securities		60,658,984	0	0			838,250	61,497,234
Bills of exchange etc. payable abroad								0
Loans and advances	7,055,908	534,099	10,301,170	18,917,611	19,069,337	28,060,174	832,857	84,771,155
Other assets							12,071,500	12,071,500
Total assets	26,866,139	61,193,083	10,301,170	18,917,611	19,069,337	28,060,174	13,742,607	178,150,119
LIABILITIES AND SHAREHOLDERS FUNDS								0



Domestic deposits	78,029,658	22,391,261	2,403,889	181,951	29,000	0	0	103,035,758
Foreign currency denominated deposits	17,320,679	3,558,559	4,570,164	3,343,511	0	0	0	28,792,913
Balances due to Reserve Bank of Malawi								0
Balances due to other banks in Malawi								20,353,052
Balances due to banks abroad								0
Other borrowed funds						0		0
Other liabilities								0
Shareholders' funds							25,572,692	25,572,692
Total liabilities and shareholders' funds	115,703,389	25,949,819	6,974,053	3,525,462	29,000	0	25,572,692	177,754,415
Net liquidity gap	88,837,251	35,243,263	3,327,116	15,392,149	19,040,337	28,060,174	11,830,085	395,704
Cumulative liquidity gap	88,837,251	53,593,987	50,266,871	34,874,722	15,834,385	12,225,789	395,704	395,704

Details of the value of public and private traded instruments have been listed below as at 31st December 2024:

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

Asset/ Liability	Product Name	Book Value	Accrued Interest	Present Value	Interest Income (Day)	Rate
A	Corporate placements	73,476,076,097.16	11,202,921,380.89	84,678,997,478.05	50,485,799.75	25.07934
A	MWK Structured CP	63,836,899,777.54	10,308,474,519.57	74,145,374,297.11	56,869,428.40	32.51621
A	Promissory Note Government	652,135,072.36	236,823,298.20	888,958,370.56	491,334.64	27.50000
A	Treasury Notes	141,755,247,620.61	4,793,753,753.08	146,549,001,373.69	144,126,388.91	29.79265
L	Floating Investment Contract	5,681,090,695.95	22,429,442.79	5,703,520,138.74	4,498,178.66	28.90000
L	Investment Contract	275,783,427,126.63	8,614,646,586.38	284,398,073,713.01	181,277,438.54	23.99211
L	USD Investment Contract	24,051,843,332.53	98,190,888.96	24,150,034,221.49	5,474,082.72	8.19343
L	GBP Investment Contract	6,631,585.01	100,969.17	6,732,554.17	181.69	1.00000



5.3 Liquidity risk (Continued)

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

- 5.3.1 Liquidity ratio 1 - Net liquidity (total liquid assets less suspense accounts in foreign currency) divided by total deposits must be at least 25 percent.
- 5.3.2 Liquidity ratio 2- Net liquidity (total liquid assets less suspense account in foreign currency and cheques during collection) divided by total deposits must be at least 25 percent.
- 5.3.3 Liquidity ratios 1 and 2 were as specified below:

	2024	2023
Liquidity ratio I	49.50%	56.03%
Liquidity ratio II	49.50%	56.03%

5.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the banks 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.

5.4.1 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:

- 5.4.1.1 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.
- 5.4.1.2 Holding foreign currency position in the bank books (e.g. in the form of loans, deposits, cross border investments, etc.).
- 5.4.1.3 The Treasury Department is responsible for: -
 - 5.4.1.3.1 Setting the foreign exchange risk management strategy and tolerance levels.
 - 5.4.1.3.2 Ensuring that effective risk management systems and internal controls are in place.
 - 5.4.1.3.3 Monitoring significant foreign exchange exposure.
 - 5.4.1.3.4 Ensuring that foreign exchange operations are supported by adequate management information systems which complement the risk management strategy.
 - 5.4.1.3.5 Reviewing the policies, procedures, and currency limits regularly in line with changes in the economic environment.
- 5.4.1.4 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:

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	154	-107	46
2. BRITISH STERLING	GBP	24	23	46.65528
3. SOUTH AFRICAN RAND	ZAR	546	-441	105.75221
4. EURO	EUR	98	15	112.81484
5. OTHER				0
6. Aggregate net long position				311
7. Aggregate net short position				0
8. Larger sum of net long/short position				311.46193
9. Gold	GOL			
10. Overall net open position(10=8+9)				311
11. Risk weight				0
12. Capital charge for foreign exchange risk				25

5.5 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.

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

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.

31-December-2024										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	Over 12 months	Total		
Loans and leases:											
Fixed rate by maturity									0		
Floating rate by repricing interval			113,316,401						113,316,401		
Scheduled payments due on all other loans									0		
Securities:											
Fixed rate by maturity				11,624,477					40,368,931	51,993,408	
Floating rate by repricing									0		
Interest-bearing balances									0		



Inter-bank loans									0
Other		63,431,001							63,431,001
Total rate sensitive assets (RSA)		63,431,001	113,316,401	11,624,477	0	0	0	40,368,931	228,740,811
Liabilities subject to interest rate adjustment :									
Demand accounts			45,095,075						45,095,075
Savings deposits				8,186,929					8,186,929
Time deposits				72,096,316	42,028,140				114,124,456
Other borrowings									0
Long-term debt									0
Other		61,526,579							61,526,579
Total rate sensitive liabilities (RSL)		61,526,579	45,095,075	80,283,245	42,028,140	0	0	0	228,933,039
Asset Liability Gap		1,904,422	68,221,327	-68,658,768	-42,028,140	0	0	40,368,931	-192,228
Cumulative Gap		1,904,422	70,125,749	1,466,981	-40,561,159	-40,561,159	-40,561,159	-192,228	-192,228
Net position as a percent of total assets		0	1	-6	0	0	0	1	0
RSA as a percent of RSL		1	3	0	0	0	0	0	1
Impact of increase in Interest Rate	5%	1,999,643	71,632,393	-72,091,706	-44,129,547	0	0	42,387,377	-201,840
	10%	2,094,864	75,043,459	-75,524,645	-46,230,954	0	0	44,405,824	-211,451
	15%	2,190,085	78,454,526	-78,957,583	-48,332,361	0	0	46,424,271	-221,062
Impact of decrease in Interest Rate	-5%	1,809,201	64,810,260	-65,225,830	-39,926,733	0	0	38,350,484	-182,617
	-10%	1,713,980	61,399,194	-61,792,891	-37,825,326	0	0	36,332,038	-173,005
	-15%	1,618,759	57,988,128	-58,359,953	-35,723,919	0	0	34,313,591	-163,394

5.6 Operational risk

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: -

- a. requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- b. requirements for the reconciliation and monitoring of transactions
- c. compliance with regulatory and other legal requirements
- d. documentation of controls and procedures.
- e. 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.
- f. requirements for the reporting of operational losses and proposed remedial action.
- g. development of contingency plans
- h. training and professional development
- i. risk mitigation, including insurance where it is cost-effective.

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

Operational risk	MK '000	
	December 2024	December 2023
Mean average of aggregate capital charge	45,605,132	7,048,749

5.7 Legal and Compliance risk

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

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

The management of compliance risk has become a distinct discipline within the bank's overall risk management framework. The ultimate responsibility for this risk lies with the Board of Directors. A combination of key activities is undertaken to manage the risk such as developing compliance management plans, training staff and other stakeholders on relevant regulatory requirements, and monitoring compliance. Compliance with the Know-Your-Customer and anti-money laundering procedures and legislation became an area of major focus for the Bank. The Compliance function consults the country's Financial Intelligence Authority on money laundering and anti-terrorist financing matters. The bank makes a provision for litigation risk based on the cases available. As at 31st December 2024 the provision amount was MWK 79 million.

6. Equities

The following were the equity positions as at 31st December 2024

	2024 MK '000	2023 MK '000
Malawi Agricultural and Industrial Investment Corporation Plc	727,250	727,250
National Switch Limited	111,000	111,000
	838,250	838,250





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