

Risk and capital management report

December 2025



INVESTMENT BANK

Contents

Pillar 3: Risk and capital management report	2
1. Introduction	3
1.1 Objectives and strategies	3
1.2 Frequency	3
1.3 Materiality of disclosure	3
1.4 Audit of disclosure	3
2. Corporate structure	3
3. Capital management	3
4. Risk management framework	4
4.1 Key risks	4
4.2 Risk Governance	4
5. Management of risks	7
5.1 Credit risk	7
5.2 Liquidity risk	17
5.3 Market risk	19
5.4 Operational risk	22
5.5 Legal and compliance risk	23
6. Equities	23

1. Introduction

The Reserve Bank of Malawi "RBM" issued the Guidelines on Market Disclosures (2013) in line with the Basel framework, which is structured around three complementary pillars of banking regulation. These are: Minimum Capital Requirements (Pillar 1), Supervisory Review (Pillar 2), and Market Discipline (Pillar 3).

This framework is supported by Section 96 of the Financial Services Act 2010 and aims to strengthen the stability and transparency of the banking sector. Pillar 1 establishes the minimum capital a bank must hold against its risk exposures; Pillar 2 provides for regulatory oversight and internal assessment of capital adequacy, while Pillar 3 promotes market discipline through enhanced public disclosures.

The Pillar 3 disclosure requirements, as outlined in the RBM Guidelines, enable market participants to assess key information on a bank's risk profile, capital structure, risk management practices, and overall capital adequacy.

CDH Investment Bank ("CDHIB") is regulated and supervised by the RBM and complies with all three pillars of the Basel framework in conducting its operations.

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 2025	December 2024
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.

3.1 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: -

- a. Tier I capital, which includes paid-up share capital, share premium, retained earnings, and other reserves less investment in subsidiaries.



3. Capital management (continued)

b. 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 2025, are as shown in the table below: -

	December 2025	December 2024
Tier 1 capital		
Share capital	327,715	327,715
Share premium	4,493,101	4,493,101
Retained earnings	62,473,941	41,224,274
Less: Investments in unconsolidated banking & financial subsidiary companies	(838,250)	(838,250)
Deferred tax asset	-	-
	66,456,507	45,206,840
Tier 2 capital		
Subordinated debt (limited to 50% of tier 1 capital)	-	-
Investments in unconsolidated banking & financial subsidiary companies	-	-
	-	-
Total regulatory capital	66,456,507	45,206,840
Risk component		
Credit risk	170,447,679	37,990,860
Market risk	28,361,914	16,666,897
Operational risk	39,398,468	45,605,132
Total risk weighted assets	238,208,061	85,034,765
Capital ratios		
Tier 1 capital as a percentage of total risk-weighted assets	27.90%	45.09%

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: -

- 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:

- Enterprise risk management policy
- Credit policy
- Investment policy
- Liquidity risk management policy
- Information and communication policy
- Stress testing framework

4. Risk management framework (continued)

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. 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 21-Mar-25	Date 30-Jun-25	Date 26-Sep-25	Date 12-Dec-25
Mr Franklin Kennedy	Chairperson	✓	✓	✓	✓
Mr Kofi Sekyere	Non-executive Director	✓	✓	✓	✓
Mr Robert Abbey	Non-executive Director	✓	✓	✓	✓
Mr Charles Asare	Non-executive Director	✓	✓	✓	✓
Mr Thoko Mkavea	Executive Director	✓	✓	✓	✓
Mr Elias Malion	Non-executive Director	✓	✓	✓	✓
Mr Sydney Chikoti	Non-executive Director	✓	✓	✓	✓
Mr Kingsley Zulu	Non-executive Director	✓	✓	✓	✓
Mr John McGrath	Non-executive Director	✓	✓	✓	✓
Mrs Joyce Gundani	Non-executive Director	✓	✓	✓	✓
Ms Beatrix Mosiwa	Executive Director	✓		N/A	N/A
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.



4. Risk management framework (continued)

4.2 Risk governance (continued)

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

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 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 transfer 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:



5. Management of risks (continued)

5.1 Credit risk (continued)

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

	Maximum Limit %	2025	2024	2025	2024
Agriculture	20%	13%	15%	22,262,231	16,478,205
Construction	5%	1%	2%	1,050,046	1,882,909
Manufacturing	30%	24%	13%	40,070,088	14,691,177
Wholesale and retail	55%	30%	34%	49,488,853	38,514,398
Tourism and leisure	10%	3%	5%	5,700,252	5,793,604
Transport	10%	0%	0%	111,206	164,092
Community, social and personal services	30%	3%	9%	4,832,408	9,752,157
Electricity, Gas, Water and Energy	35%	15%	17%	24,443,433	19,947,973
Others	10%	11%	5%	17,284,977	6,091,886
		100%	100%	165,243,494	113,316,401

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 2025.

2025	Stage 1	Stage 2	Stage 3
Agriculture	22,262,231		
Construction	1,047,534	2,512	
Manufacturing	28,602,943	11,467,145	
Wholesale and retail	19,519,297	29,969,556	
Tourism and leisure	226,818	23	5,473,411
Transport	111,183	23	
Community, social and personal services	4,769,670	26,358	36,380
Electricity, Gas, Water and Energy	24,443,433		
Others	17,284,532	445	
Less: Allowance for impairment	(60,585)	(8,588)	(5,482,116)
Total	118,207,056	41,457,474	27,675

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 2025	Carrying amount	Net exposure to risk
Cash and balances with banks	51,035,672	51,035,672
Interbank Placements	8,764,418	8,764,418
Loans and advances to customers	159,692,205	159,692,205
Financial assets	651,790,341	651,790,341
Investment securities	86,783,711	86,783,711
Other accounts receivables	263,013	263,013
	958,329,360	958,329,360

5. Management of risks (continued)

5.1 Credit risk (continued)

As at 31 December 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

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 2025, the geographical distribution of credit exposures was as follows:

Concentration by region	2025	2024
South	86,425,852	49,486,063
Centre	78,817,642	63,830,338
	165,243,494	113,316,401

Concentration by counterparty type	2025	2024
Corporate	151,206,907	95,557,614
Retail	14,036,587	17,758,787
	165,243,494	113,316,401

Credit exposures under the standardized approach

The tables below show risk weighted assets for credit risk under the standardized approach as at 31st December 2025.

Exposures to Sovereign and Central Banks	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Exposures to Malawi Government, Central Government Ministries and Departments	111,106,047		24,322,336	86,783,711	0%	-
Exposures to RBM				-	0%	-
Exposures to Sovereigns rated AAA to AA-				-	0%	-



5. Management of risks (continued)

5.1 Credit risk (continued)

Exposures to Sovereign and Central Banks	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
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%	-
Exposures to Sovereigns rated below B-				-	150%	-
Defaulted Exposures				-	100%	-
Sub-total	111,106,047	-	24,322,336	86,783,711		-

Exposures to Non-Central Government 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	29,921,484		29,921,484	-	100%	-
Exposures to Local Assemblies (district, town, municipal or city assemblies)				-	100%	-
Exposures to other Government related entities not included in 12 and 13 above e.g. NAC, SFFRFM				-	100%	-
Exposures to PSEs rated AAA+ to AA-				-	20%	-
Exposures to PSEs rated A+ to A-				-	50%	-
Exposures to PSEs rated BBB+ to BBB-				-	100%	-
Exposures to PSEs rated BB+ to B-				-	100%	-
Exposures to PSEs rated below B-				-	150%	-
Defaulted Exposures				-	100%	-
Sub-total	29,921,484	-	29,921,484	-		-

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%	-
Exposure to MDB assigned a Credit Assessment Rating of AAA to AA-				-	20%	-
Exposure to MDB assigned a Credit Assessment Rating of A+ to A-				-	30%	-

5. Management of risks (continued)

5.1 Credit risk (continued)

Exposures to Sovereign and Central Banks	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Exposure to MDB assigned a Credit Assessment Rating of BBB+ to BBB- or unrated MDBs				-	50%	-
Exposure to MDBs assigned a credit assessment rating of BB+ to B-.				-	100%	-
Exposure to MDBs assigned a credit assessment rating of below B-.				-	150%	-
Defaulted Exposures				-	100%	-
Sub-total	-	-	-	-		-

Exposures to 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	8,764,418			8,764,418	20%	1,752,884
Exposures to local banks with original contractual maturity of more than three months	2,471			2,471	30%	741
Exposures to banks assigned a Credit Risk Assessment Rating of AAA to AA-.	0			-	20%	-
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-.	35,756,811.51			35,756,812	100%	35,756,812
Exposures to banks assigned a Credit Assessment Rating of below B-.				-	150%	-
Defaulted Exposures				-	100%	-
Sub-total	44,523,701	-	-	44,523,701		37,510,437



5. Management of risks (continued)

5.1 Credit risk (continued)

Exposures to Securities Firms and Other Financial Institutions	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 Credit Risk Guidelines				-	50%	-
Claims on Securities Firms assigned a credit assessment rating of AAA to AA-				-	20%	-
Claims on Securities Firms assigned a credit assessment rating of A+ to A-				-	50%	-
Claims on Securities Firms assigned a credit assessment rating of BBB+ to BBB-				-	50%	-
Claims to Securities Firms assigned a credit assessment rating of BB+ to B-, not regulated or unrated				-	100%	-
Claims to Securities Firms assigned a credit assessment rating of below B-				-	150%	-
Defaulted Exposures				-	100%	-
Sub-total	-	-	-	-		-

Exposures to Corporates	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
General Corporates						
All general corporate exposures	46,394,318	1,071	38,756,896	7,636,351		7,636,351
Specilized Lending Exposures						
exposures with "Issue Specific" external ratings	-	-	-	-		-
Commodity finance	45,095,358	33,234	200,000	44,862,124		44,862,124
Object Finance	-	-	-	-		-
Project Finance	-	-	-	-		-
Exposures in foreign currency	-	-	-	-		-
Defaulted Exposures	5,473,411	5,473,368	-	43		43
Sub-total	96,963,087	5,507,673	38,956,896	52,498,518		52,498,518

5. Management of risks (continued)

5.1 Credit risk (continued)

Retail exposures	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Exposures (excluding overdrafts) that fully meet the prescribed criteria for Regulatory retail exposures and not exceeding MK150 Million	8,672,768	4,959	2,991,901	5,675,908	75%	4,256,931
Exposures not meeting the specified criteria for regulatory retail exposures (including those above limit of K150 million)	3,266,410		2,370,287	896,123	100%	896,123
Overdrafts (drawn portion)	1,285,402			1,285,402	100%	1,285,402
Exposures in foreign currency (without currency mismatch)				-	100%	-
Exposures with currency mismatches				-	150%	-
Defaulted Exposures	908	908		-	100%	-
Sub-total	13,225,488	5,867	5,362,188	7,857,433		6,438,456

Residential real estate (lending to finance residential real estate)	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Residential real estate (Owner occupied)	775,627	9,491	460,452	305,684		126,527
Residential real estate (Rented/leased/for sale)	-	-	-	-		-
Defaulted Exposures	35,472	28,258	17,736	-		-
Sub-total	811,099	37,749	478,188	305,684		126,527

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 secured by mortgage on commercial real estate (repayments not materially dependent on property)	-	-	-	-		-
Claims secured by mortgage on commercial real estate (repayments materially dependent on property)	-	-	-	-		-
Defaulted Exposures	-	-	-	-		-
Sub-total	-	-	-	-		-

Exposures on Land Acquisition, Development and Construction (ADC)	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
General exposures on land acquisition, development and construction				-	150%	-



5. Management of risks (continued)

5.1 Credit risk (continued)

Exposures to Securities Firms and Other Financial Institutions	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Exposures on land acquisition, development and construction supporting industrialization, agriculture commercialization, import substitution, and export orientation				-	100%	-
Defaulted Exposures				-	100%	-
Sub-total	-	-	-	-		-

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	v15,276,389			15,276,389	0%	-
Cheques in course of collection				-	20%	-
Other assets	15,329,499			15,329,499	100%	15,329,499
Sub-total	30,605,888	-	-	30,605,888		15,329,499

Subordinated Debt, Equity and Other Regulatory Capital Instruments	Exposure Amounts	Loss Provisions	Credit Risk Mitigation (CRM)	Exposure Amounts after CRM	Risk-weights (%)	Risk-weighted Amount
Equity holdings made pursuant to national legislated programmes				-	100%	-
Exposures pertaining to venture (start up) capital or private equity				-	150%	-
Subordinated debt and capital instruments other than equities				-	150%	-
All other equity holdings not adjusted in the computation of capital				-	250%	-
Speculative unlisted equity exposures				-	400%	-
Defaulted Exposures				-	150%	-
Sub-total	-	-	-	-		-
TOTAL ON-BALANCE SHEET RISK-WEIGHTED AMOUNT	327,156,794	5,551,289	99,041,092	222,574,935		111,903,436

5. Management of risks (continued)

5.1 Credit risk (continued)

Off balance sheet exposures	Exposure Amounts	Provisions	CRM	Exposure amount after CRM and Provisions	Credit Conversion Factors (CCF)	Credit Equivalent Amounts	Risk-weights of Credit Equivalent Amounts	Risk-weighted Amounts
Claims to or Guaranteed by Government				-	0%	-	100%	-
Claims with Cash Collateral	530,470			530,470	0%	-	100%	-
Direct Credit Substitutes e.g. Guarantees, Letters of credit, Assets pledged as collateral				-	100%	-	100%	-
Sale and repurchase agreements and asset sales with recourse, where the credit risk remains with the bank				-	100%	-	100%	-
Lending of banks' securities or posting of securities as collateral by banks including instances where these arise out of repo-style transactions				-	100%	-	100%	-
Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain drawdown				-	100%	-	100%	-
Off-balance sheet items that are credit substitutes not explicitly included in any other category				-	100%	-	100%	-



5. Management of risks (continued)

5.1 Credit risk (continued)

Off balance sheet exposures	Exposure Amounts	Provisions	CRM	Exposure amount after CRM and Provisions	Credit Conversion Factors (CCF)	Credit Equivalent Amounts	Risk-weights of Credit Equivalent Amounts	Risk-weighted Amountsvv
Transaction Related Contingent Items (Performance or Bid Bonds, Warranties, Standby L/Cs etc) related to specific transactions (but not as credit guarantee)	2,039,154			2,039,154	50%	1,019,577	100%	1,019,577
Short-term self-liquidating trade letters of credit e.g. Documentary Credits				-	20%	-	100%	-
Other Commitments regardless of maturity of the underlying facility				-	40%	-	100%	-
Similar Other Commitments which can be unconditionally cancellable at any time by the bank without prior notice	575,246,654.2			575,246,654	10%	57,524,665	100%	57,524,665
Sub-total	577,816,278	-	-			58,544,242		
Total off balance sheet risk weighted assets								58,544,242
Grand total all exposures						64,095,531		170,447,67

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).

5. Management of risks (continued)

5.2 Liquidity risk (continued)

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 2025 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	815,103							815,103
Cheques in the course of collection								-
Balances at RBM	14,461,286							14,461,286
Balances with other banks in Malawi	2,471							2,471
Balances with banks abroad	35,756,812							35,756,812
Investments in Securities		95,548,129	-	-	76,543,687		838,250	172,930,066
Bills of exchange etc payable abroad								-
Loans and advances	48,198,215	3,551,874	21,820,832	28,912,903	39,241,490	23,486,515	31,665	165,243,494
Other assets	2,886,327						12,443,172	15,329,499
Total assets	102,120,214	99,100,003	21,820,832	28,912,903	115,785,177	23,486,515	13,313,087	404,538,731
Liabilities and shareholder funds								-
Domestic deposits	208,733,236	22,529,749	4,776,838	651,134	-	-	-	236,690,957
Foreign currency denominated deposits	58,968,508	3,661,416	5,409,980	4,901,009	-	-	-	72,940,912
Balances due to RBM								-
Balances due to other banks in Malawi	-							-
Balances due to banks abroad								-



5. Management of risks (continued)

5.2 Liquidity risk (continued)

31 st December 2025 Assets	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 6 Years	Over 6 Years	Total
Other borrowed funds	0						-	0
Other liabilities	27,612,105							27,612,105
Shareholders' funds							67,294,757	67,294,757
Total liabilities and shareholders' funds	295,313,848	26,191,165	10,186,818	5,552,143	-	-	67,294,757	404,538,731
Net Liquidity Gap	(193,193,635)	72,908,839	11,634,014	23,360,759	115,785,177	23,486,515	(53,981,670)	(0)
Cumulative Liquidity Gap	(193,193,635)	(120,284,796)	(108,650,783)	(85,290,023)	30,495,154	53,981,670	(0)	(0)

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

5. Management of risks (continued)

5.2 Liquidity risk (continued)

31 st December 2025 Assets	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 3 Years	3 - 6 Years	Over 6 Years	Total
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

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

- 5.2.1 Liquidity Ratio 1 - Net liquidity (total liquid assets less suspense accounts in foreign currency) divided by total deposits must be at least 25 percent.
- 5.2.2 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.
- 5.2.3 Liquidity Ratios 1 and 2 were as specified below:

	2025	2024
Liquidity Ratio I	64.07%	49.50%
Liquidity Ratio II	64.07%	49.50%

5.3 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.

5.3.1 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:

- 5.3.1.1 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.
- 5.3.1.2 Holding foreign currency position in the bank books (e.g. in the form of loans, deposits, cross border investments, etc.).
- 5.3.1.3 The Treasury Department is responsible for: -
- 5.3.1.3.1 Setting the foreign exchange risk management strategy and tolerance levels.
- 5.3.1.3.2 Ensuring that effective risk management systems and internal controls are in place.



5. Management of risks (continued)

5.3 Market risk (continued)

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

- 5.3.1.4 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	897	(131)	766
2. British Sterling	GBP	24	150	174
3. South African Rand	ZAR	546	(597)	(51)
4. EURO	EUR	98	30	128
5. Other				
6. Aggregate net long position				1068
7. Aggregate net short position				51
8. Larger sum of net long/short position				1068
9. Gold	GOL			
10. Overall net open position(10=8+9)				1068
11. Risk weight				8.0%
12. Capital charge for foreign exchange risk				85

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.

Assets subject to interest rate adjustment within the following time horizons	Zero rate	Floating rate					9 - 12 months	Over 12 months	Total
			0 - 3 months	3 - 6 months	6 - 9 months				
Loans and leases:									
Fixed rate by maturity									-
Floating rate by repricing interval		159,692,205							159,692,205
Scheduled payments due on all loans									-

5. Management of risks (continued)

5.3 Market risk (continued)

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
Securities:								
Fixed rate by maturity			8,764,418	-	-	76,543,687	86,783,711	172,091,816
Floating rate by repricing								-
Interest-bearing balances								-
Inter-bank loans								-
Other	151,635,029							151,635,029
Total rate sensitive assets (RSA)	151,635,029	159,692,205	8,764,418	-	-	76,543,687	86,783,711	483,419,050
Liabilities subject to interest rate adjustment								
Demand accounts		174,610,581						174,610,581
Savings deposits			16,826,916					16,826,916
Time deposits			88,339,331	20,740,170	4,792,143	4,280,728	42,000	118,194,373
Other borrowings			0					0
Long-term debt		-						-
Other	144,637,816							144,637,816
Total rate sensitive liabilities (RSL)	144,637,816	174,610,581	105,166,247	20,740,170	4,792,143	4,280,728	42,000	454,269,685
Asset Liability Gap	6,997,213	(14,918,377)	(96,401,828)	(20,740,170)	(4,792,143)	72,262,959	86,741,711	29,149,364
Cummulative Gap	6,997,213	(14,918,377)	(111,320,205)	(132,060,375)	(136,852,518)	(64,589,559)	22,152,151	22,152,151
Net position as a percent of total assets	0	(0)	(11)	-	-	1	1	0
RSA as a percent of RSL	1	1	0	-	-	18	2,066	1



5. Management of risks (continued)

5.3 Market risk (continued)

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
Impact of increase in Interest Rate	5%	(15,664,295)	(101,221,920)	(21,777,179)	(5,031,751)	75,876,107	91,078,796	23,259,759
	10%	(16,410,214)	(106,042,011)	(22,814,187)	(5,271,358)	79,489,255	95,415,882	24,367,366
	15%	(17,156,133)	(110,862,103)	(23,851,196)	(5,510,965)	83,102,403	99,752,967	25,474,974
Impact of decrease in Interest Rate	-5%	(14,172,458)	(91,581,737)	(19,703,162)	(4,552,536)	68,649,811	82,404,625	21,044,544
	-10%	(13,426,539)	(86,761,646)	(18,666,153)	(4,312,929)	65,036,663	78,067,540	19,936,936
	-15%	(12,680,620)	(81,941,554)	(17,629,145)	(4,073,322)	61,423,515	73,730,454	18,829,328

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 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.

5. Management of risks (continued)

5.4 Operational risks (continued)

Operational risk	MK '000	MK '000
	December 2025	December 2024
Mean average of aggregate capital charge	39,398,468	45,605,132

5.5 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 2025 the provision amount was MWK 60 million.

6. Equities

The following were the equity positions as at 31st December 2025

	2025 MK '000	2024 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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