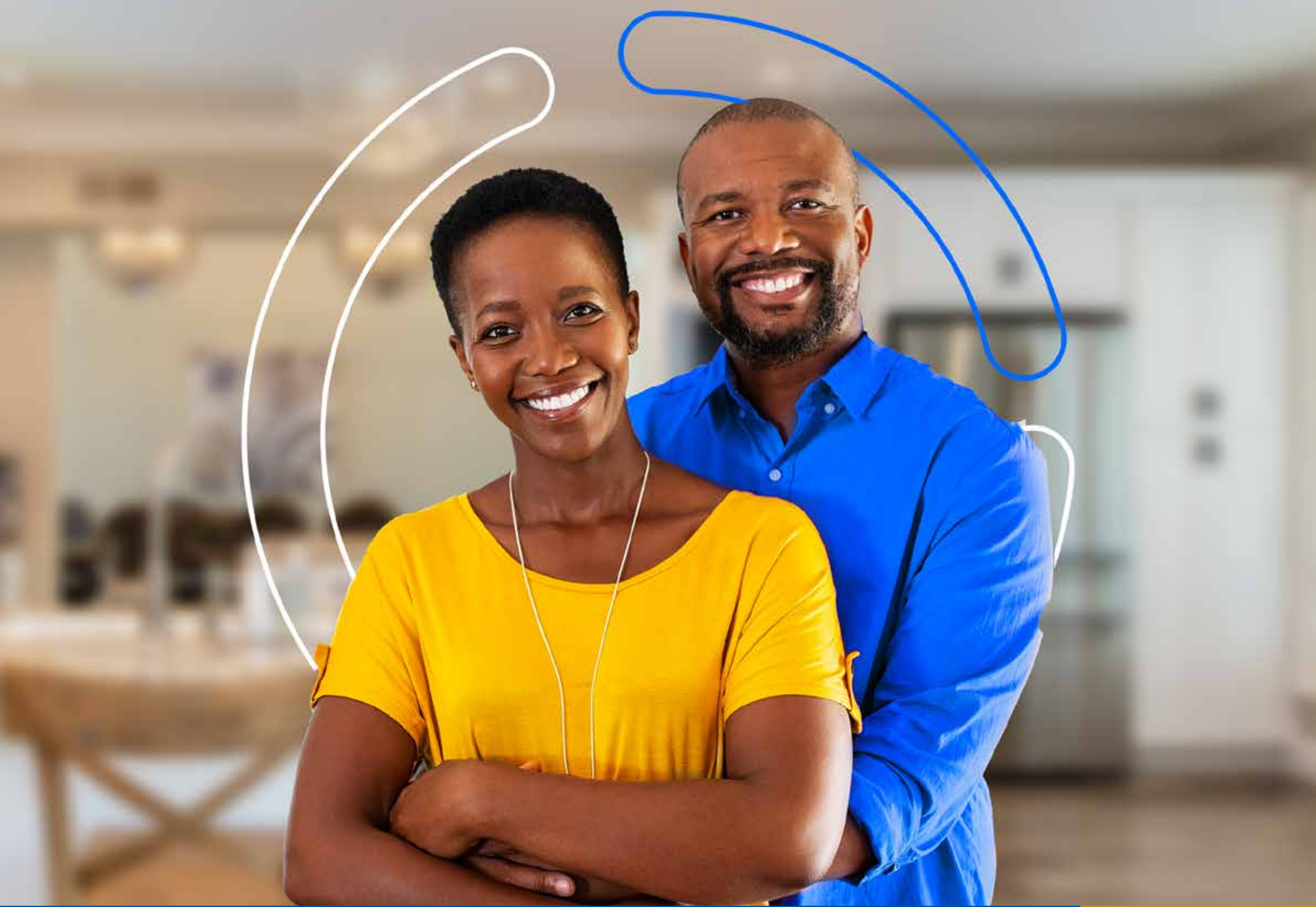
FDH Bank

PROSPECTUS

INITIAL PUBLIC OFFER

OFFER FOR SALE AND OFFER FOR SUBSCRIPTION



Offer for Sale of 979,175,000 Ordinary Shares and Offer for Subscription of 401,031,250 Ordinary Shares at an Offer Price of MWK10.00 per Share and admission to trade on the Malawi Stock Exchange

Date of issue: 29th June 2020

A copy of this Prospectus has been delivered to the Reserve Bank of Malawi ('RBM') and the Registrar of Companies ('RoC') for registration. The RBM and RoC accept no responsibility for the accuracy of any statements made or for the financial soundness of FDH Bank Plc ('FDH', the 'Bank' or the 'Company') or the value of the securities concerned. The RoC registered this Prospectus on 26th June 2020.

This Prospectus has been prepared in accordance with Listings Requirements of the Malawi Stock Exchange ('MSE'). Copies of the Prospectus can be obtained from the Receiving Banks whose addresses are set out in Appendix 3 of this Prospectus , as well as from the Company's website www.fdh.co.mw/investor from 29th June 2020 up to and including 17th July 2020. The Directors of FDH accept no responsibility for any applications that are, or may be, misdirected.

The Directors confirm that the Prospectus includes all such information within their knowledge (or which it would be reasonable for them to obtain by making enquiries) as investors and their professional advisers would reasonably require and reasonably expect to find for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the issuer and of the rights attaching to the securities to which this Prospectus relates.

TABLE OF CONTENTS

Prospective investors should read this Prospectus in its entirety. See 'Risk Factors' in Part 7 for a discussion of certain risks and other factors that should be considered prior to any investment in the Shares.

EXCLUDED JURISDICTIONS

The Offer and the distribution of this Prospectus in jurisdictions other than Malawi may be restricted by law, and a failure to comply with any of those restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, this Prospectus and the Offer do not constitute an offer to issue or sell, or an invitation to purchase, or the solicitation of an offer to buy, any securities in, into or from any jurisdiction in which such offer or solicitation would be unlawful or would require further action in order to be lawful, including, without limitation, in, into or from any Excluded Jurisdiction. To the extent that this Prospectus is sent to any Excluded Jurisdiction, it is provided for information purposes only. Persons in Excluded Jurisdictions may not accept the Offer. No person accepting the Offer should use the mail of any such Excluded Jurisdiction nor any other means, instrumentality or facility in such Excluded Jurisdiction for any purpose, directly or indirectly, relating to the Offer. Persons into whose possession this Prospectus comes must inform themselves about and observe any such restrictions. No actions have been taken, or will be taken, that would permit an offering of Offer Shares to occur outside Malawi.

FORWARD-LOOKING STATEMENTS

This Prospectus and any document incorporated herein by reference contains statements about the Company that are or may be forward-looking statements. All statements, other than statements of historical fact, are, or may be deemed to be, forward-looking statements, including, without limitation, those concerning: strategy; the economic outlook for the banking industry; cashflows; operating results; growth prospects and outlook for operations, individually or in the aggregate; liquidity, capital resources and expenditure; and the outcome and consequences of any pending litigation proceedings. These forward-looking statements are not based on historical facts, but rather reflect current expectations concerning future results and events and generally may be identified by the use of forward-looking words or phrases such as 'believe', 'aim', 'expect', 'anticipate', 'intend', 'foresee', 'forecast', 'likely', 'should', 'planned', 'may', 'will,' 'estimated', 'potential,' 'target,' or similar words and phrases or other variations or comparable terminology. Examples of forward-looking statements include statements regarding the company's objectives, a future financial position or future profits, results of operations, cash flows, corporate strategy, estimates of capital expenditures, dividends, or future capital expenditure levels, and other economic factors, such as, amongst other things, interest and exchange rates. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. The Company cautions that forward-looking statements are not guarantees of future performance. The Company's actual performance, results of operations, financial condition, distributions to shareholders and the development of its financing strategies may differ materially from the forward-looking statements contained in this Prospectus and any documents incorporated by reference herein. Actual results, financial and operating conditions, liquidity and the developments within the banking industry in which the Company operates may differ materially from those made in, or suggested by, the forward-looking statements contained in this Prospectus.

Furthermore, prospective investors should keep in mind that any forward-looking statement made in this Prospectus or elsewhere is applicable only at the date of this Prospectus. New factors that could cause the business of FDH Bank or other matters to which such forward-looking statements relate, not to develop as expected, may emerge from time to time, and it is not possible to predict all of them. The Company has no duty, and does not intend, to update or revise the forward-looking statements contained in this Prospectus after the date of this Prospectus, except as may be required by law or regulation.

CORPORATE INFORMATION AND ADVISORS

FDH Bank

Registered office of the Company

FDH Bank Plc
Umoyo House
P.O. Box 512
Blantyre, Malawi
Tel +265 (0) 1 820 219
info@ fdh.co.mw
Transfer Office: Chibisa House, 19 Glyn Jones Road, Blantyre

Lead Corporate Advisor

Ernst & Young
Chartered Accountants Malawi
Apex House, Kidney Crescent
P.O. Box 530
Blantyre, Malawi
Tel +265 (0) 1 876 476
admin.malawi@mw.ey.com

Legal Advisor

Tembenu, Masumbu & Company
Gelu House
Kamuzu Procession Rd
P.O. Box 2777
Lilongwe, Malawi
Tel +265 (0) 1 756 286
info@tembenumasumbu.com

Reporting Accountant

Deloitte
Chartered Accountants Malawi
PCL House
P.O. Box 187
Kaohsiung Road
Blantyre, Malawi
Tel +265 (0) 1 822 277
bt@deloitte.co.mw

Transfer Secretary

NICO Asset Managers Limited
Chibisa House
19 Glyn Jones Road
P.O. Box 3173
Blantyre, Malawi
Tel +265 (0) 1 832 085
invest@nicoassetmanagers.com

Sponsoring Broker

Continental Capital Limited
1st Floor, Ulimi House
Sharpe Road
P.O. Box 1444
Blantyre, Malawi
Tel +265 (0) 1 830 679
capital@continental.mw

Media and Communications

Corporate Graphics Limited
31 Chilembwe Road
P.O. Box 2455
Blantyre, Malawi
Tel +265 (0) 1 826 740
lesandra@corporategraphicsmw.com

Underwriter

First Discount House Limited
Umoyo House
P.O. Box 512
Blantyre, Malawi
Tel +265 (0) 1 820 219
fdh@fdh.co.mw

Underwriter

Cedar Capital Limited
Livingstone Towers
P.O. Box 3340
Blantyre, Malawi
Tel +265 (0) 1 831 995
kamphonia@cedarcapital.mw

Underwriter

Reunion Insurance Ltd
Reunion House, Maselema
Private Bag 242
Blantyre, Malawi
Tel +265 (0) 1 874 006
reunion@reunioninsurance.com

Receiving Bank

FDH Bank Plc
Umoyo House
P.O. Box 512
Blantyre, Malawi
Tel +265 (0) 1 820 219
info@ fdh.co.mw

Receiving Bank

Standard Bank
Standard Bank Centre
African Unity Avenue
P.O. Box 30380
Lilongwe, Malawi
Tel +265 (0) 999 331 372
custodymalawi@standardbank.co.mw

Auditors

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Chartered Accountants Malawi
PCL House
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Tel +265 (0) 1 822 277
bt@deloitte.co.mw

Attorneys

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34 Link Road, Namiwawa
Off Independence Drive
P.O. Box 1785
Blantyre, Malawi
Tel +265 (0) 1 822 027
mail@mbenderankhono.com

SALIENT FEATURES OF THE OFFER

The information set out in this Salient Features section of the Prospectus is not intended to be comprehensive. To gain a more extensive understanding of the subject matter and information of the IPO, this Prospectus should be read in its entirety. In making an investment decision, investors must rely on their own or their advisors' examination of FDH and the terms of the IPO, including the merits and risks involved. Prospective investors should not treat the contents of this Prospectus as advice relating to legal, taxation or investment matters and are advised to consult their own professional advisors concerning the acquisition, holding or disposal of FDH Shares.

1. NATURE OF THE BUSINESS

- FDH Bank Plc was incorporated and registered in Blantyre, Malawi on 16th May 2007, with registration number 8328 under the Companies Act, 1984 (now repealed), as a private limited liability company
- The Company was re-registered as a public limited liability company under the Companies Act, 2013 on 3rd June 2020
- The Bank is also registered with the Reserve Bank of Malawi ('RBM') as a commercial bank and authorized dealer for exchange control purposes
- The Bank's registered office is situated at Umoyo House, Victoria Avenue, P.O. Box 512, Blantyre, Malawi
- The principal function of FDH is to provide banking services through its main divisions of Retail Banking, Corporate Banking, International Banking, Structured Trade Finance, Treasury Management, Corporate Advisory Services, Asset Finance and the related products are:
  - Current accounts
  - Savings accounts
  - Call and fixed deposits
  - Overdrafts and loans
  - Foreign exchange and international trade transactions
  - Custodial services
  - Financial advice to corporate and private clients
- As at 31st March 2020, FDH acquired the entire equity of MSB Properties Limited ('MSBP'). MSBP is a real estate investment company whose registered address is FDH House, Corner Victoria Avenue and Chilembwe Road, P.O. Box 512, Blantyre, Malawi. Information and relevant disclosures on MSBP are included in Appendix 7 of this Prospectus and the financial forecasts of FDH were prepared prior to the acquisition of MSBP

2. HISTORICAL EARNINGS

Description	FY17A	FY18A	FY19A	FY20F	FY21F
(Loss)/profit before tax (MWK'mn)	(1,986)	8,157	11,743	10,114	15,068
(Loss)/profit after tax (MWK'mn)	(1,004)	5,965	7,846	7,080	10,548
Basic earnings per share before tax (MWK)*	(0.29)	1.18	1.70	1.47	2.18
Basic earnings per share after tax (MWK) [a]*	(0.15)	0.86	1.14	1.03	1.53
Dividends per share (MWK) [b]	-	-	0.15	0.58	0.84
Dividend cover (Times) [a/b]	-	-	7.54	1.77	1.82

*EPS has been calculated on the number of shares that will be in issue post the IPO for the historic and forecast periods

3. INVESTMENT ATTRACTIVENESS

- **FDH is an innovative bank**
  - FDH utilises an integrated digital core banking platform to carry out transaction processing requirements
  - FDH has prioritised upgrading server and processing capabilities to improve overall performance of its systems to deliver enhanced product development capabilities and operational efficiencies

- **Robust credit model**
    - The Bank achieved an NPL ratio of 0.8% compared to the banking sector's NPL ratio of 6.3% as at 31st December 2019
- **Sound key performance indicators**
    - Total income of MWK34.3bn for the year ended 31st December 2019
    - 17.4% compound annual growth ('CAGR') in total income over the past 3 years
    - Profit after tax of MWK7.8bn for the year ended 31st December 2019
    - 18.8 % CAGR in profit after tax between 2014 and 2019
    - Total assets of MWK188.7bn as at 31st December 2019
    - 13.2% CAGR in its loan book over the past 3 years
    - 34.6% return on equity as at 31st December 2019
    - Capital adequacy ratio of 19.6% well above the statutory requirement of 15% as at 31st December 2019
- **Skilled entrepreneurship**
    - Successful acquisition and integration of the loss-making government owned Malawi Savings Bank (MSB)
- **Access to markets**
    - Only bank to be represented in 27 districts of Malawi to encompass financial inclusion
    - Country wide ATM network
- **International partnerships**
    - FDH has established international partnerships with:
        - European Investment Bank
        - Netherlands Development Finance Company (FMO)
        - Africa Guarantee Fund
        - Land O Lakes
        - African Export-Import Bank (AFREXIM)
        - ABSA Group Limited
        - Mauritius Commercial Bank
        - Crown Agents
        - Standard Bank SA
        - Mastercard
- **Corporate governance**
    - Best practice corporate governance standards according to the Companies (Corporate Governance) Regulations 2016 and RBM Directives have been implemented by the Bank

4. PURPOSE OF THE IPO AND USE OF PROCEEDS

- Application for a listing on the Main Board of the MSE of 20% of the issued ordinary shares of FDH by way of an offer for sale and offer for subscription as prescribed in the Listings Requirements to:
    - Raise capital to support future growth
    - Fulfil a contractual obligation with the Government of Malawi (GoM), as part of the MSB acquisition, to list FDH and allow GoM to dispose of its entire shareholding in FDH

- Allow existing shareholders to dispose of part of their shareholding in FDH

5. THE IPO

- Initial Public Offer of MK13,802,062,500 in the Ordinary Share capital of FDH as follows:

	No. of shares	MWK
Offer for sale	979,175,000	9,791,750,000
Offer to subscribe excluding preference shares	89,931,250	899,312,500
Offer to subscribe by preference shareholders	311,100,000	3,111,000,000
Total offer to subscribe	401,031,250	4,010,312,500
Offer price		10.00
Total IPO	**1,380,206,250**	**13,802,062,500**
Authorised number of shares at no par value	10,000,000,000	-
Existing shares in issue and fully paid for	6,500,000,000	-
Number of shares post IPO	6,901,031,250	
Market capitalisation post IPO	-	69,010,312,500

- 311,100,000 shares out of the 401,031,250 shares for subscription have been ring-fenced for subscription by preference shareholders
- The IPO will constitute 20% of the Ordinary Share capital of the Bank

6. DIVIDENDS

- The Company will pay dividends at such times as the Board determines appropriate, subject to the financial performance, and applicable laws, the Bank's target capital adequacy ratios
- The Company dividend policy is to pay up to 80% of its profit after tax as an annual dividend

7. MINIMUM SUBSCRIPTION

- Each applicant must subscribe in multiples of 100 shares with a minimum application of 500 shares
- There is no maximum number of shares or maximum subscription amount that can be applied for by Applicants

8. APPLICATION FOR SHARES

- Applicants may obtain a copy of the Prospectus, Application Forms and Central Securities Depository ('CSD') Forms from any registered branch of the Receiving Banks listed in Appendix 3 of this Prospectus or applicants may download from FDH Bank's investor page:www.fdh.co.mw/investor
- To make a digital application for the Offer Shares, Applicants can use the FDH OneClick and FDH Mobile Smart App applications as detailed in the Terms and Conditions in Appendix 4 of this Prospectus
- Applicants who do not have a CSD account number will need to complete the CSD form
- Completed application forms shall constitute an offer to FDH for IPO shares, and shall not constitute an acceptance of the Offer contained in this Prospectus

9. OVERSUBSCRIPTION ALLOTMENT POLICY

- To be determined by the Directors of FDH in consultation with the Lead Corporate Advisor to:
    - Achieve an appropriate diversity of shareholders to enhance the capital markets in Malawi
    - Comply with MSE listing guidance wherein the basis of allotment is calculated in such a way that a category of investor will not, in respect of his application, receive an allocation of a lesser number of Shares than any other investor in the same category that applied for a lesser amount
- The Company reserves the right to accept or refuse any application, either in whole or in part, or to accept some applications in full and others in part in such manner as it may, in its sole and absolute discretion, determine whether the Offer is over or undersubscribed

10. UNDERWRITING

The Offer has been underwritten in full by the underwriters detailed in Part 8 – Statutory Disclosures. At the date of the Prospectus, none of the underwriters had any interest in FDH

11. IMPORTANT DATES AND TIMES

Event	Date
Publication of the Prospectus and Pre-Listing Statement in the local press	29 June 2020
Offer opens at 09:00	29 June 2020
Offer closes at 17:00	17 July 2020
Results of offer submitted to the MSE	24 July 2020
Allotment announcement to the public	28 July 2020
Latest date for issuing of share allocation letters and refunds	28 July 2020
Listing of FDH on MSE	3 August 2020

12. JURISDICTION

This Prospectus and the Offer do not constitute an offer to issue or sell, or an invitation to purchase, or the solicitation of an offer to buy, any securities in, into or from any jurisdiction in which such offer or solicitation would be unlawful or would require further action in order to be lawful, including, without limitation, in, into or from any Excluded Jurisdiction

DEFINITIONS AND INTERPRETATIONS

DEFINITIONS

The following definitions apply throughout this Prospectus unless the context requires otherwise:

Term	Meaning
'Act'	The Companies Act No.15 of 2013 of the Laws of Malawi
'Applicant' or 'Subscriber'	A person, including juristic persons, applying for FDH's shares pursuant to the Offer, on the terms and conditions set out in this Prospectus
'Application Forms'	The application form relating to the Offer, being the only method of application to be used by Applicants in connection with the Offer, including the Online Application
'Articles'	The Articles of Association of FDH
'Attorney'	Mbendera & Nkhono Associates, attorneys of FDH Bank
'Auditors' and 'Reporting Accountant'	Deloitte
'Bank', 'FDH' or the 'Company'	FDH Bank Plc, a company incorporated with limited liability and registered as a Bank in terms of the laws of the Republic of Malawi
'Banking Act'	The Banking Act (Cap 44:01) of the Republic of Malawi
'Board'	The Board of Directors of FDH
'Business day'	Any day of the week, excluding Saturdays, Sundays and any official public holidays in Malawi
'Controlling Shareholder'	FDH Financial Holdings Limited (FDHFHL) which currently owns 93.68% of the issued Ordinary Share capital of FDH Bank
'COVID 19'	Coronavirus disease 2019
'Director(s)'	Members or member of the Board
'E'	Estimate
'Excluded Jurisdiction'	A jurisdiction where the dissemination of this Prospectus or the making of the Offer may be illegal or fails to conform to the laws of such jurisdiction or requires any type of registration or the like, with any regulator or public body or the like
'Exiting Shareholder'	Government of Malawi (GoM) who currently owns 5.04% of the issued Ordinary Share capital of FDH
'F'	Forecast
'FDH Group'	Collectively, FDH Financial Holdings Limited and its subsidiaries
'FDH' or the 'Bank' or the 'Company'	FDH Bank Plc
'FY'	Financial Year
'FY17A'	Audited financial statements for Financial Year ended 31 December 2017
'FY18A'	Audited financial statements for Financial Year ended 31 December 2018
'FY19A'	Audited financial statements for Financial Year ended 31 December 2019
'FY20F'	Forecast financial statements for Financial Year ending 31 December 2020
'FY21F'	Forecast financial statements for Financial Year ending 31 December 2021
'FX'	Foreign Exchange
'Issue'	The issue by FDH of the Offer Shares, pursuant to the Offer
'Lead Corporate Advisors'	Ernst & Young Malawi
'Legal Advisors'	Tembenu, Masumbu & Company
'Listing'	The proposed listing of 20% issued share capital of FDH on the MSE
'Listings Requirements'	The Listings Requirements of the MSE for the listing of a company on the MSE, as amended from time to time
'Malawi'	The Republic of Malawi
'Memorandum'	The memorandum of association of FDH
'Offer'	The proposed offer for the subscription and offer for sale in the Ordinary Share capital of FDH that is the subject of this Prospectus
'Offer Price'	The IPO offer price of MWK10.00 per share
'Offer Shares'	1,380,206,250 shares collectively being shares on offer for sale and offer for subscription offered as part of this IPO at the Offer Price of MWK10.00 per share

'Online Application'	Application for Offer Shares completed and submitted on FDH's digital platform namely, FDH OneClick and FDH Smart Mobile App
'Ordinary Shares' or 'Shares'	Ordinary shares in the share capital of FDH
'Prospectus' or 'Document'	This Prospectus containing the terms and conditions of the Offer as well as the requisite statutory, regulatory and general information relating to FDH, inclusive of the appendices and the Application Forms
'Selling Shareholder'	FDH Financial Holdings Limited (FDHFHL) who currently owns 93.68% of the issued Ordinary Share capital of FDH
'Sponsoring Broker'	Continental Capital Limited
'Transfer Secretary'	NICO Asset Managers Limited
'Underwriters'	First Discount House Ltd, Cedar Capital Ltd and Reunion Insurance Company Ltd
'Underwriting Agreements'	The agreements between FDH and the Underwriters

GLOSSARY

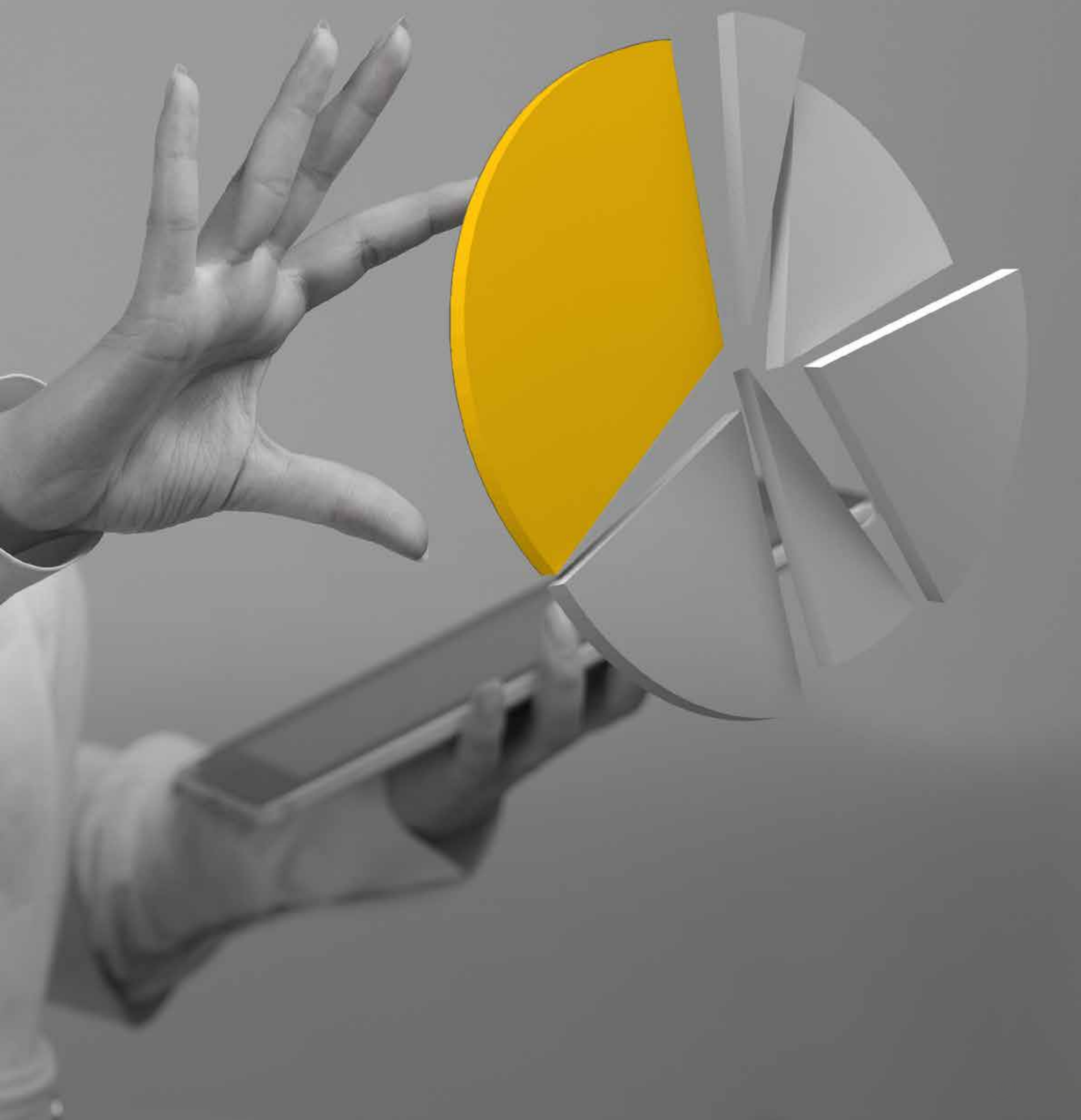
The following terms have the meanings provided below unless the context requires otherwise:

Abbreviation	Definition
A&R	Appointments & Remuneration Committee
ALCO	Asset and Liability Management Committee
BAM	The Bankers Association of Malawi
bn	Billion
CAGR	Compound Annual Growth Rate
CIMA	Chartered Institute of Management Accountants
COMSIP	Community Savings and Investment Promotion
CR	Credit Risk Committee
CSD	Central Securities Depository
DEMAT	The Development of Malawian Enterprises Trust
DFID	The Department for International Development
DFS	Digital Financial Services
E&S	Environmental and social risks
ECL	Expected Credit Losses
EIU	Economist Intelligence Unit
ESAAMLG	The East and Southern Africa Anti Money Laundering Group
ESOP	Employee Share Ownership Plan
F&A	Finance & Audit Committee
FCCA	Fellow of the Association of Chartered Certified Accountants
FCDA	Foreign Currency Denominated Accounts
FDH Bank	FDH Bank Plc
FDHEL	FDH ESOP Ltd
FDHFHL	FDH Financial Holdings Limited
FDHL	First Discount House Limited
FDHMBL	FDH Money Bureau Limited
FSA	Financial Services Act
GDP	Gross Domestic Product
GIO	Government and International Organisations
GoM	Government of Malawi
IASB	International Accounting Standards Board
ICAM	Institute of Chartered Accountants in Malawi
ICPAK	Institute of Certified Public Accountants of Kenya
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
IPO	Initial Public Offer
ISACA	Information Systems Audit and Control Association

IT	Information Technology
KPI	Key Performance Indicator
MAB	Malawi Accountants Board
MARDEF	Malawi Rural Development Fund
MASI	The Malawi All Share Index
MBC	Malawi Broadcasting Corporation
MCA	Media and Communications Advisor
MDC	Malawi Development Corporation
MDL	M Development Limited
MESOP	MSB Employee Share Ownership Plan
MGDS III	Malawi Growth and Development Strategy 3
mn	Million
MNO	Mobile Network Operators
MSBPL	MSB Properties Limited
MSE	Malawi Stock Exchange
MSELR	MSE Listings Requirements
MWK	Malawi Kwacha
NAIP	National Agriculture Investment Plan
NPL	Non-performing loans
OMLAC	Old Mutual Life Assurance Company Limited
OMMALA	Old Mutual (Malawi) Limited
OMO	Open Market Operations
PBB	Personal and Business Banking
PISII	Partnership for Impactful Social Investment Initiative
PPE	Property, Plant and Equipment
RBM	Reserve Bank of Malawi
RCM	Risk and Capital Management Committee
ROA	Return on Assets
RoC	Registrar of Companies
ROE	Return on Equity
SME	Small and Medium Enterprises
tr	Trillion
USD	United States Dollar
ZAR	South African Rand

Parts

Parts



PART 1
COMPANY OVERVIEW

1. OVERVIEW OF THE BUSINESS

Investors should read this Part 1 'Company Overview' in conjunction with the financial and other information appearing in Part 5 'Selected Financial Information' and Part 6 'Management discussion and analysis of the financial condition and results of the Company's business operations'. Where stated, financial information in this section has been extracted from Part 6.

Company profile

- Incorporated in Blantyre, Malawi on 16th May 2007, with registration number 8328 under the Companies Act, 1984 (now repealed) as a private limited liability company
- Re-registered as a public limited liability company under the Companies Act, 2013 on 3rd June 2020
- The Bank is engaged in the business of commercial banking. The Bank is incorporated in Malawi and is registered under the Malawi Companies Act and Banking Act
- The Bank's registered office is situated at Umoyo House, P O Box 512, Blantyre, Malawi
- Subsidiary of FDHFHL, a diversified financial investments company, whose registered address is Umoyo House, Victoria Avenue, P O Box 512, Blantyre, Malawi
- As at 1st April 2020, FDH has one subsidiary, MSB Properties Limited ('MSBP'). MSBP is a real estate investment company whose registered address is FDH House, Corner Victoria Avenue and Chilembwe Road, P.O. Box 512, Blantyre, Malawi. Information and relevant disclosures on MSBP are included in Appendix 7 of this Prospectus

Nature of business

- Full-service commercial bank
- Provides banking services through its main divisions of Retail Banking, Corporate Banking, International Banking, Structured Trade Finance, Treasury Management, Corporate Advisory Services, Asset Finance with the following related products:
  - Current accounts
  - Savings accounts
  - Call and fixed deposits
  - Overdrafts and loans
  - Foreign exchange and international trade transactions
  - Custodial services
  - Financial advice to corporate and private clients
- FDH's mission is to provide value to all stakeholders through superior returns, sustainable growth, secure and efficient solutions based on sound business values while being an employer of choice
- FDH's vision is to be the leading provider of first-class banking solutions in Malawi and Southern Africa
- The Bank currently employs approximately 700 people

Company history

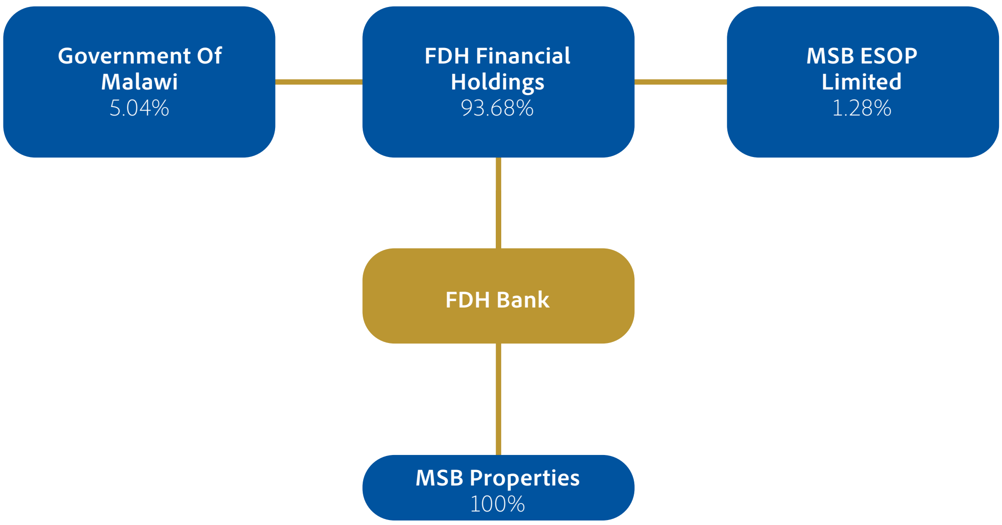
Date	Event
2007	FDH incorporated on 16th May 2007, as FDH Merchant Bank Limited, as a wholly owned subsidiary of FDHFHL and obtains its banking license on 31st January 2008 FDH changes name to FDH Bank Limited on 29th November, 2007
2008	FDH commences operations.
2015	FDHFHL acquires an 80% equity stake in MSB (the 'Acquisition').

2016	FDHFHL completes the merger of FDH and MSB. The merged bank adopts the name FDH Bank Ltd
2017	FDHFHL recapitalizes FDH in March 2017 with a capital injection of MWK6.6bn. Preference shareholders complete the recapitalization of FDH on 30th June 2017 with a capital injection of MWK3.1bn
2020	As at 31st March 2020, FDH acquires the entire equity of MSBP. Information and relevant disclosures on MSBP are included in Appendix 7 of this Prospectus

- **Corporate Social Responsibility**
  - The Bank's focus is on enabling sectors of health and education
  - The Bank renovates and equips health amenities and has previously renovated Queen Elizabeth Cancer Ward and Makwasa Paediatric High Dependency Unit
  - The Bank provides scholarships to University of Malawi, Hope for the Blind and Malawi University of Science and Technology students
  - The Bank has recently signed a MWK5 billion 5-year strategic Partnership for Impactful Social Investment Initiative (PISII) with Press Trust that aims to achieve greater impact on social sectors of health and education in the next 5 years
- **Inherent culture**
  - A great place to work for employees to serve the financial growth needs of its customers through innovative solutions and operating responsibly as a good corporate citizen hence the adoption of its motto:
    - 'Our bank, our future, grow with us'

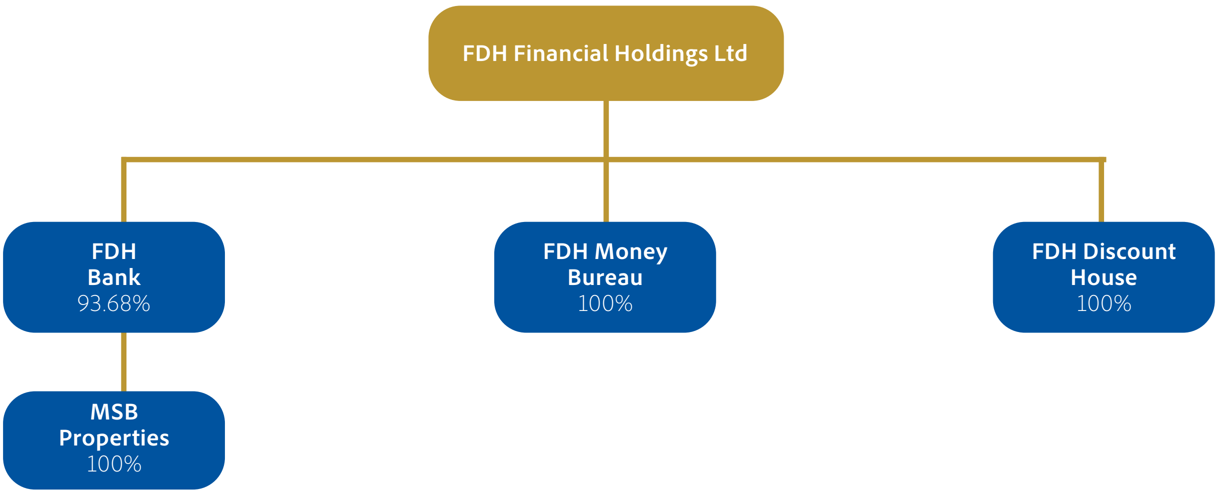
2. SHAREHOLDERS AND RELATED COMPANIES

FDH current shareholders



- FDHFHL ('Selling Shareholder') is a diversified investments and financial solutions company with interests in banking, discount house operations, forex bureau operations as well as investment management. The shareholding in FDHFHL is as follows:
  - M. Development Limited ('MDL'): a company with interests in property and financial services. MDL has a 55% equity stake in FDHFHL
  - Old Mutual (Malawi) Limited ('OMMALA') has a 21% equity stake in FDH and is part of an international long-term savings, insurance, investment and protection group commonly referred to as Old Mutual with approximately 12 million customers worldwide and was established over 166 years ago
  - Old Mutual Life Assurance Company Limited ('OMLAC') has a 19% equity stake in FDH and is also part of the Old Mutual group
  - FDH ESOP Limited ('FDHEL') was incorporated in 2009 to facilitate the Employee Share Ownership Scheme in FDHFHL and holds a 5% equity stake in FDHFHL
  - Prospective investors are advised of ongoing discussions between MDL and Old Mutual group of a possible transaction involving part of MDL's shares in FDHFHL by Old Mutual group and the timing of the outcome of these discussions is presently unknown
- GoM ('Exiting Shareholder') acquired a 5.04% equity stake in FDH by virtue of the acquisition by FDHFHL of MSB
- MSB ESOP ('MESOP') was incorporated in 2016 to enable MSB employee ownership in the shares of FDH

Profile of related companies



- MSBP: MSBP is a real estate investment company
- FDH Money Bureau Limited: FDHMBL offers forex trading and international money transfer services including MoneyGram, Western Union, Hello Paisa and Mukuru
- First Discount House Limited ('FDHL'): FDHL offers investment products to individuals and corporate clients

3. KEY STRENGTHS OF FDH

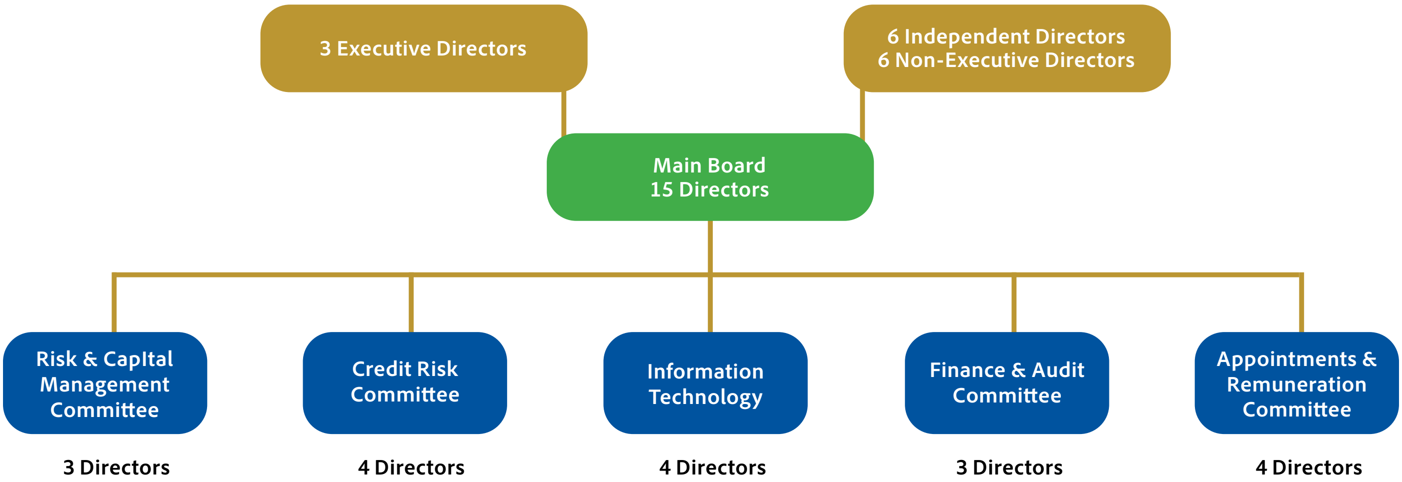
- **Distribution network**
  - Expansive and strategic branch network of 51 branches, 1,771 agents and 92 auto-teller machines
  - Agents are primarily located in the rural areas to harness financial inclusion
  - FDH's service and product offering is mainly provided over mobile phones, mobile banking platforms, auto-teller machines (ATMs) and the WhatsApp social media messaging application
- **Digital and efficient platform**
  - Significant investment over the past 3 years in banking technology
  - Introduction of digital solutions that aim to break the barriers to financial inclusion for the unbanked and under-banked population
  - The Bank is a leader in cutting edge innovative digital product solutions and has the most comprehensive portfolio of digital products in the sector
- **Market position**
  - Third largest bank in Malawi in terms of customer deposits as at 31st December 2019. Malawi's banking sector is highly competitive with 9 licensed commercial banks
  - Leading bank in Malawi in terms of presence throughout the country
- **Brand equity**
  - FDH carries with it a home-grown heritage, brand respect and has passion for the Small and Medium Enterprise sector, with a focus to improve financial inclusion by targeting the unbanked population in Malawi
- **Highly experienced and respected management team**
  - FDH's management team is respected and experienced
  - Dr Ellias Ngalande, former RBM governor and Secretary to Treasury is the Managing Director
  - Senior management have experience in leadership positions and each boasts of at least 10 years professional experience in the banking sector

- **Strong talent and skill base**
    - Sustainable growth and a best in class service offering driven by a strong emphasis on training and team collaboration
    - Senior staff turnover is rare
- **Sound key performance indicators**
    - Total income of MWK34.3bn for the year ended 31st December 2019
    - 17.4% CAGR in total income over the past 3 years
    - Profit after tax of MWK7.8bn for the year ended 31st December 2019
    - 18.8% CAGR in profit after tax between 2014 and 2019
    - Total assets of MWK188.7bn as at 31st December 2019
    - 13.2% CAGR in its loan book over the past 3 years
    - 34.6% return on equity as at 31st December 2019
    - Capital adequacy ratio of 19.6% well above the statutory requirement of 15% as at 31st December 2019
- **Wide customer base**
    - FDH is the only bank in Malawi with a presence in 27 districts in Malawi
    - The Bank has a diverse customer base that cuts across the socio-economic strata of the country including the low, middle- and high-income earning individuals and entities

PART 2
DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

1. BOARD OF DIRECTORS AND PROFILES

15 independent, executive and non-executive directors with diverse skills and expertise:



- **Arthur Oginga**
  - Kenyan, 50: Chairman, non-executive director, 38 Borrowdale Road, River Club, Sandton 2149, Johannesburg, South Africa
  - Over 26 years' professional experience
  - Certified Public Accountant (Kenya and Uganda), Bachelor of Arts Degree in Economics from the University of Nairobi, Kenya
  - Currently the Group Chief Executive Officer, UAP Holdings Limited
  - Has extensive banking experience across several African countries serving as Chief Finance Officer and Director of Finance for a number of subsidiaries of Standard Bank of South Africa
  - Previously Director for Group Financial Operations at Atlas Mara BVI Group and headed the finance department for Banque Indosuez, Kenya
- **Dr. Ellias Ngalande**
  - Malawian, 65: Managing Director, Plot Number BW863, Blantyre West 2/49, Sunnyside c/o P.O. Box 512, Blantyre, Malawi
  - Joined FDH on 2nd January 2020
  - Responsible for effective and efficient management and coordination of the Bank's strategy, strategic and tactical operations to achieve the Bank's growth objectives
  - Has over 30 years of professional banking experience
  - Previously served as Governor and Deputy Governor of RBM, Secretary to Treasury in the Ministry of Finance, Economic Planning and Development, Executive Director for Microeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), General Manager for ADMARC Investment Holdings Limited
  - Doctorate of Philosophy in Economics, Masters in Political Economy from Boston University, USA, Masters of Science Degree in Development Economics from University of Strathclyde, Scotland and a Bachelor of Social Science Degree from Chancellor College, University of Malawi
  - Has previously served on the boards of First Capital Bank (formerly First Merchant Bank), NICO Life Insurance Company Limited, CUMO Microfinance Ltd, Press Agriculture Limited, Malawi Revenue Authority, and MSB
- **William Mpinganjira**
  - Malawian, 36: Deputy Managing Director, Plot No. NY634, Nyambadwe, c/o P.O. Box 512, Blantyre, Malawi.

- Deputises the Managing Director and is responsible for the Bank's strategy formulation and execution with special focus on the business units
- Spearheads the digital and culture transformation strategy to ensure competitiveness and attainment of planned revenue targets and optimal utilization of resources
- Chartered Accountant and a Chartered Banker. Trained by Deloitte and a banker by profession with extensive experience in banking, finance and risk management
- Fellow of the Association of Chartered Certified Accountants (FCCA), Master of Science in International Business, Bachelor of Accounting and Finance from London South Bank University, United Kingdom, MBA in International Business from Grenoble Graduate School of Business (GGSB) in France, MBA in Banking from Bangor Business School, University of Wales, leadership training from London Business School and Harvard Business School and is an alumnus of London and Harvard Business Schools, Graduate of the Executive Development Program from the University of Stellenbosch Business School, South Africa
- Council Member of Malawi University of Science and Technology and commissioner at the Public Private Partnership Commission

- **George R. Chitera**
  - Malawian, 40: Executive director, Plot No. BC 945/23, Kalulu Close 11, New Naperi, Blantyre, Malawi
  - Over 15 years professional experience in corporate finance, financial planning and analysis, strategic planning, banking, risk management, capital allocation, treasury and tax planning
  - Currently also the Acting Chief Executive Officer for FDH Financial Holdings Limited
  - Previously with RBM for 3 years and has served on the boards of Lilongwe Shopping Mall and Women's Legal Resource Centre
  - Fellow of the Association of Chartered Certified Accountants (FCCA), Masters in Business Administration from the Polytechnic, University of Malawi, Blantyre, graduate of the Executive Development Program from the University of Stellenbosch Business School in South Africa

- **Dr. Nathan Mpinganjira**
  - Malawian, 52: Non-executive director, 1 Napa Valley, 110 Puttick Avenue, Sundowner 2188, South Africa
  - Over 30 years of professional experience in leadership and strategic management in Malawi and South Africa
  - Fellow of the Association of Chartered Certified Accountants UK, Doctor of Business Administration (DBA) and Master of Business Administration (MBA) Degrees from University of Manchester, United Kingdom, Bachelor of Commerce (Accountancy) with distinction from the Polytechnic, University of Malawi
  - Consultant by profession
  - Integration Director on the MSB acquisition
  - Previously with South African Revenue Services as a Tax Specialist for ten years and the Malawi Development Corporation (MDC) as Director of Finance/Administration and Company Secretary
  - Previous directorships include Sunbird Tourism Limited, Indefund Limited, Portland Cement Limited, Malawi Institute of Tourism and Stockbrokers Malawi Limited.

- **Edith Jiya**
  - Malawian, 44: Non-executive director, Plot No. BW833, Corner Bowie Road/Bank Road, c/o P.O. Box 393, Blantyre, Malawi
  - Over 24 years' experience in business leadership and strategic management
  - Currently the Chief Executive Officer of Old Mutual Malawi Limited
  - Previously General Manager for Old Mutual Life Assurance Company (Malawi) Ltd, Aviation Business Manager of Puma Energy Limited
  - Master of Science in Strategic Management from the University of Derby, United Kingdom, Bachelor of Business Administration from the Polytechnic, University of Malawi, Post Graduate Diploma in Marketing from Chartered Institute of Marketing and Diploma in Insurance from the Chartered InsDr Eric J. Sankhulani

- **Dr. Eric J. Sankhulani**
  - Malawian, 70: Independent non-executive director, House No. 18, Poly Village, Kasungu Crescent, Chichiri, c/o Private Bag 303, Chichiri, Blantyre 3, Malawi

- Senior Lecturer in Management at the Polytechnic, University of Malawi with over 40 years' experience in lecturing, consulting and providing board leadership
- Doctorate of Philosophy from University of Saskatchewan, Canada, Masters in Business Analysis from University of Lancaster, United Kingdom, Bachelor of Social Science from the University of Malawi
- Previously Director of the University of Malawi Management Development Centre, National Bank of Malawi Plc and the Public Private Partnership Commission

Patrice C. Nkhono SC

- Malawian, 54: Independent non-executive director, Plot No. NY273, Sanders/Maugham Road, Nyambadwe, c/o P.O. Box 1785, Blantyre, Malawi
- Senior Counsel with 30 years' legal experience
- Member of the International Bar Association and of the Licensing Executives Society (a global association of multi-disciplinary professionals involved in technology transfer and the licensing of intellectual property)
- Specialist areas include financial services law, corporate law, corporate finance law and intellectual property law
- LLB (Hons) (Bachelor of Law) from the University of Malawi, Chancellor College, Master of Laws (LLM) in International Development Law from the University of Warwick, UK
- Senior Partner of Mbendera & Nkhono Associates
- Previously with Wilson & Morgan and Ministry of Justice as a Resident Magistrate and as a State Advocate
- Previously board director of RBM

Mark Mikwamba

- Malawian, 43:Non-executive director, Plot No. CSS/01/39, P.O Box 178, Blantyre, Malawi
- Over 18 years' experience in investment and strategic management
- Currently the Managing Director at Old Mutual Investment Group
- Previously served as Chief Executive Officer of Stockbrokers Malawi Limited, Head of Investments and Projects for NICO Holdings Limited and Investments Manager for Old Mutual Malawi Limited
- Chartered Financial Analyst (CFA) and a Fellow of the Association of Chartered Certified Accountants (FCCA), Bachelor of Accountancy Degree from the Polytechnic, University of Malawi

Dr. Ulemu Katunga

- Malawian, 58: Independent director, Plot No. NM5/2, Chikunda, Bangwe, Blantyre, c/o P.O. Box 1254, Blantyre, Malawi
- Over 24 years professional experience and currently the Chief Financial Officer and Board Secretary of Medical Aid Society of Malawi
- Previously Head Office Accountant for the National Insurance Company of Malawi
- PhD from Columbia Commonwealth University, MBA and Diploma in Management Studies from Management College of Southern Africa, Fellow of the Association of Chartered Certified Accountants (FCCA)

Harold Kuchande

- Malawian, 60: Independent director, Plot No. 10/395, Off Lundu Street, Area 10, Lilongwe, c/o Private Bag B326, Lilongwe 3, Malawi
- Over 30 years' experience in HR Management
- Currently Managing Director and Head of Human Resources & Business Development at Management Solutions Consulting (Malawi) Limited
- Previously served as an HR Advisor & Cultural Change Management Specialist at FDHFHL during the merger of MSB, National Advisor and Institutional Development Expert at the Office of the President in Burundi, Institutional Development and Human Resource Specialist at the SADC Secretariat in Botswana, Senior HR Technical Advisor for the Department for International Development (DFID) and Management Sciences for Health (MSH), Technical Advisor & HR Specialist for Malawi Health SWAP, Principal HR Officer for African Development Bank, Abidjan, Principal HR Consultant at Deloitte and Senior HR Management Development Consultant at the Malawi Institute of Management

- Master of Science in Human Resources Management from the University of Manchester, UK, Bachelor of Social Science from Chancellor College, Zomba, Malawi, Post Graduate Diploma in Management of Training Institutions from the International Training Centre of the International Labour Organisation, Italy

- **Judith P. Chirwa**
    - Malawian, 64: Independent director, Plot No. CG 423/424, Chigumula, c/o P.O. Box 5060, Limbe, Malawi
    - Over 40 years professional experience, with 18 years spent in Micro, Small and Medium Scale Enterprise Development
    - Previously General Manager for the Development of Malawian Enterprises Trust (DEMAT), consultant with Community Savings and Investment Promotion (COMSIP) and Malawi Rural Development Fund (MARDEF) on strategic planning and business development
    - Master of Strategic Management from University of Derby, United Kingdom, Diploma in Education from Chancellor College, University of Malawi

- **Charity Mseka**
    - Malawian, 61: Independent director, Plot No. 10/484, Off Lundu Street, Area 10, c/o Post Dot Net, P.O. Box X319, Crossroads Complex, Lilongwe, Malawi
    - Over 35 years' experience in central banking
    - Previously Director of Banking, Director of Accounting and Finance and Chief Accountant at RBM, and previous non-executive director of Nitel and Export Development Fund Ltd
    - Master of Science Degree in Strategic Management from Manchester Metropolitan University, UK, Member of the Chartered Institute of Management Accountants (CIMA), Diploma in Business Studies from the Polytechnic, University of Malawi

- **Gertrude L. Hiwa, SC**
    - Malawian, 51: Non-executive director, Plot No. 10/483, Off Lundu Street, Area 10, c/o Private Bag 333, Lilongwe 3, Malawi
    - Senior Counsel with over 27 years legal experience
    - Currently the Ministry of Justice Solicitor General and Secretary for Justice
    - Master of Laws (LLM) from University of West Indies, Bachelor of Law (LLB) (Honours) from Chancellor College, University of Malawi
    - Previously served at the Government of Malawi Law Commission as Law Commissioner and as Chief Parliamentary Draftsperson at the Ministry of Justice

- **Secretary to the Treasury**
    - The Secretary to the Treasury in the Ministry of Finance Economic Planning and Development is an ex officio member of the Board of FDH Bank

- **Juliano G. Kanyongolo, Company Secretary**
    - Malawian, 35: Company Secretary, Plot No. SL12/03/102, Machinjiri, Blantyre, Malawi, c/o P.O. Box 512, Blantyre, Malawi
    - Over 10 years' experience in commercial and financial services law
    - Previously Head of Legal and Company Secretary at FINCA Limited, Company Secretary Legal and Human Resources Manager at Charter Insurance Company Limited
    - Member of the Malawi Law Society and the Malawi Bar
    - Bachelor of Laws (Honours) from Chancellor College, University of Malawi

- Details of FDH Directors' other directorships are in Appendix 6 of this Prospectus

2. BOARD COMMITTEES

The Board appoints Directors to four separate board committees to assist in discharging its duties. The Board Committees are chaired by either an independent or non-executive Director to maintain, as best practice requires, the independence and objectivity of the function. The Head of Risk, Head of Credit, Head of Internal Audit, IT and Compliance have direct access to the chairpersons of the respective board committees.

- **Risk & Capital Management Committee (RCM)**
  - Meets quarterly
  - Comprises three independent directors:

Charity Mseka	**Chairperson**
Dr. Eric J. Sankhulani	Member
Patrice Nkhono, SC	Member

  - Reviews and assesses the capital position, integrity of the risk control systems and ensures that risk policies and strategies are effectively identified, managed and monitored and approves risk appetite

- **Credit Risk Committee (CR)**
  - Meets quarterly
  - Comprises two independent directors and two non-executive directors:

Judith Penjani Chirwa	**Chairperson**
Dr. Nathan Mpinganjira	Member
Mark Mikwamba	Member
Gertrude L. Hiwa, SC	Member

  - Reviews the Bank's lending policies and credit risk management to identify irregular credit facilities, minimises credit losses and maximises recoveries and authorises any transactions above the authorised limits of the credit risk management committee

- **Finance & Audit Committee (F&A)**
  - Meets quarterly
  - Comprises one independent director and two non-executive directors:

Dr. Ulemu Katunga	**Chairperson**
Edith Jiya	Member
Secretary to the treasury	Ex-officio member

  - Independently evaluates the adequacy and efficiency of the Bank's internal control systems, accounting practices, information systems and auditing processes
  - Reviews the financial statements and liaises with the external and internal auditors on accounting policies and procedures and internal controls

- **Appointments & Remuneration Committee (A&R)**
  - Meets quarterly
  - Comprises three independent directors and one non-executive director

Harold Kuchande	**Chairperson**
Dr. Eric J. Sankhulani	Member
Dr. Nathan Mpinganjira	Member
Gertrude L. Hiwa, SC	Member

  - Provides oversight and guidance on all human resources issues including recruitment policy, industrial relations, succession planning, health and safety and remuneration terms and packages for management and staff

- **Information Technology Committee (IT)**
  - Meets quarterly
  - Comprises two independent and two non-executive directors:

Dr. Eric James Sankhulani	**Chairperson**
Dr. Nathan Mpinganjira	Member

Judith Chirwa	Member
Mark Mikwamba	Member

- Reviews and provides oversight on management's strategies relating to technology and the alignment of these strategies with the Bank's overall strategy and objectives

3. DIRECTORS REMUNERATION

The remuneration paid to the Board of Directors is approved by the shareholders in a general meeting. In line with the FDH's Governance Policy, there are no fees paid to executive directors. The remuneration payable to each eligible Director in the financial year 2017, 2018 and 2019 is detailed as part of Statutory Disclosures. There will be no variations in the remuneration being paid to the Directors of FDH as a consequence of the IPO.

4. PROVISIONS OF ARTICLES OF ASSOCIATION OF FDH CONCERNING THE DIRECTORS

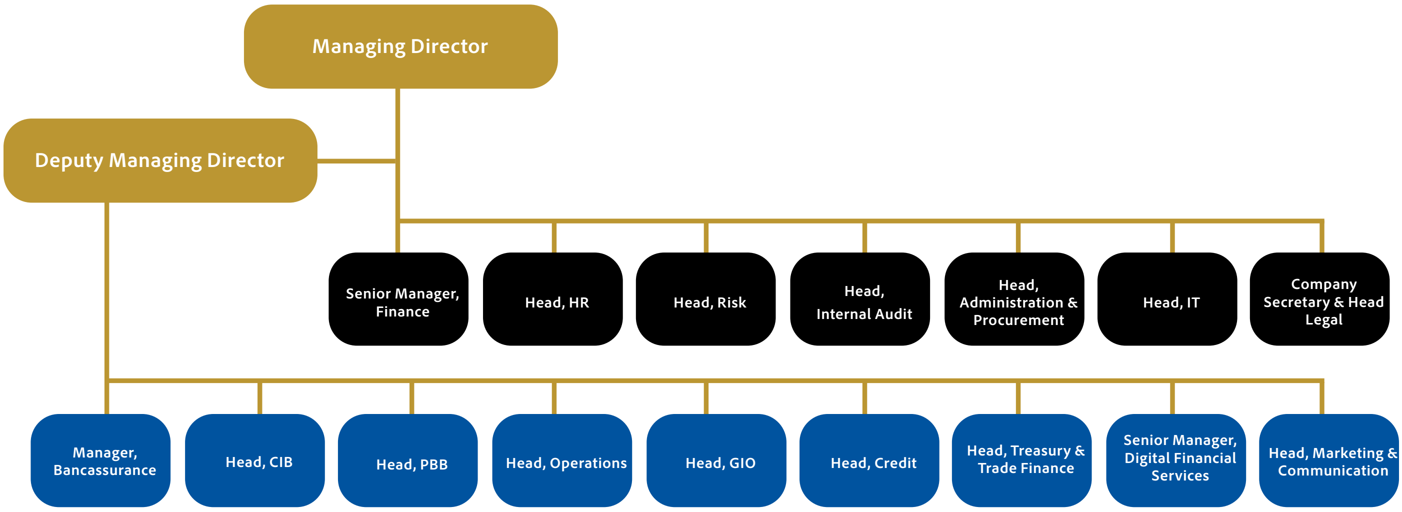
- The relevant provisions of the Articles of Association of FDH concerning the qualification, remuneration, power of Directors to vote, borrowing powers and appointment of the Directors are summarised below and are set out in detail in Appendix 1 of this Prospectus:
  - **Term of office** - Independent and non-executive directors may serve more than 1 term comprising of a year. Executive Directors may be appointed for a term of five years and are eligible for reappointment thereafter
  - **Qualification of Directors** - The Company is required to maintain a unitary Board of Directors comprising of an appropriate balance of skills, knowledge and experience in accordance with the financial laws
  - **Number of Directors** - The number of Directors shall not be less than nine, a majority of whom shall be independent or non-executive and resident in Malawi
  - **Remuneration of Directors** - The remuneration of the Directors shall be decided by the shareholders in General Meeting from time to time. And shall be deemed to accrue from day to day. Directors may also be paid all travelling, hotel and other expenses properly incurred by them in attending meetings of the Board or any committee of Directors or general meetings of the Company or in connection with the business of the Company
  - **Borrowing powers** – Directors may from time to time, and in accordance with existing financial laws, exercise all the powers of the Company to raise or borrow money and to mortgage or charge its undertaking and property or any part thereof, and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability of the Company or of any third party: Provided that the aggregate amount for the time being remaining undischarged of the monies borrowed by the Company (exclusive of inter-company borrowing and apart from temporary loans obtained from the Company's bankers in the ordinary course of business) shall not at any time, exceed a reasonable fixed amount or percentage of paid up share capital or reserves of the Company except with the consent of the Company in general meeting by ordinary resolution and the Directors will procure that the aggregate amount at any one time owing in respect to the monies borrowed by the Company (including overdue creditors) will not without consent exceed the same limit

5. COMPLIANCE WITH THE CODE OF BEST PRACTICE

Directors are committed to the principles of corporate governance namely integrity, transparency and responsibility as contained in the Company (Corporate Governance) Regulations 2016 and the Code of Best Practice for Corporate Governance in Malawi. The Board has adopted a code of conduct for directors, a corporate governance charter and the terms of reference applicable to public companies. The Bank is in compliance with the principles set out in the Code of Best Practice for Corporate Governance in Malawi with formal and transparent procedures of appointments to the Board, clear division of responsibilities, a balance of power and authority and has appointed required principal board committees given the nature of the business and composition of the Board.

The Malawi Code II guidelines have been adhered to in all material respects for the year ended 31st December 2019.

6. SENIOR MANAGEMENT STRUCTURE AND PROFILES



- **Dr. Ellias Ngalande**
  - Malawian, 65: Managing Director
  - See Directors' profiles
- **William Mpinganjira**
  - Malawian, 36: Deputy Managing Director
  - See Directors' profiles.
- **Richard Chipezaani**
  - Malawian, 37: Senior Manager, Finance , Plot No. Nancholi 123, Blantyre, Malawi, Blantyre, Malawi
  - Responsible for financial management, financial reporting including tax planning and capital allocation
  - Over 13 years professional experience in strategic planning, financial planning and analysis, banking, risk management, capital planning and allocation, tax planning, continuous process improvement, financial modelling and audit
  - Previously with TNM for 5 years and Deloitte for 4 Years
  - Fellow of the Association of Chartered Certified Accountants (FCCA), CPA (MW), Bachelor of Accountancy from the Polytechnic, University of Malawi, Blantyre, graduate of the Executive Development Program from Gordon Institute of Business Science in South Africa
- **Robert Kennedy Ouko Onyango**
  - Kenyan, 51: Head Corporate & Investment Banking, Plot No. NY634, Nyambadwe, Blantyre, Malawi
  - Responsible for formulation, direction and execution of the Corporate & Investment Banking strategy
  - 26 years of commercial banking experience
  - Previously with Kenya Commercial Bank Group, Stanbic Bank Kenya, Chase Bank, Abn Amro Bank NV and Standard Chartered Bank (Kenya)
  - Chartered Banker (UK), Bachelor of Science in Financial Services from Manchester University, UK, Master of Science and Bachelor of Science in Statistics and Mathematics & Statistics respectively from Kenyatta University, Nairobi, Kenya
- **Mary Lorraine Nkando Jussab**
  - Malawian, 47: Head of Government and International Organisations, Plot 44/42, Area 44, Lilongwe, Malawi
  - Responsible for canvassing, managing and retaining clients in the Government, Parastatal, NGO, International Organisations and Embassy categories
  - Over 18 years' banking experience in branch management, credit management, treasury and international trade and corporate banking

- Previously with First Capital Bank Plc for 17 years as International Banking Manager, Corporate Branch Manager, Head of Government and International Organisations and Head of Emerging Sectors
- Bachelor of Social Science Degree majoring in Economics and Computer Science from Chancellor College, University of Malawi, Zomba and Advanced Diploma in Treasury and International Trade from the Institute of Bankers South Africa

Arthur Yapuwa

- Malawian, 34: Head of Internal Audit, Plot No. A0301/101865/000, Chirimba, Blantyre, Malawi
- Oversees the internal audit function and provides assurance on risk management, internal controls and governance processes
- Previously served as Head of Credit for FDH
- Previously with KPMG Malawi
- Fellow of the Association of Chartered Certified Accountants (UK), Bachelor of Accountancy from the University of Malawi, Polytechnic.

Bernard Omenda

- Kenyan, 40: Head of Treasury and Trade Finance, GAB Residence, House No.2, Kabula, Blantyre, Malawi
- Responsible for all aspects of finance including Global Markets, Assets and Liabilities Management, Custodial Services, Trade Finance and Financial Institutions and Relations
- Over 15 years of executive management experience
- Previously Chief Executive Officer at Meta Capital Ltd, Treasurer & Head of Business with ECB Bank Ltd (now Spire Bank Ltd) and held senior management positions in KCB Bank Group in Kenya, South Sudan and Burundi
- Chairs the board of Center for Enterprise Development and Innovation (CEDI) and is a member of the board of Hanmak Technologies Ltd, an ICT firm specializing in ERP solutions
- Chartered Accountant and a member of the Institute of Certified Public Accountants of Kenya (ICPAK), the Institute of Certified Investment & Financial Analyst, member of the Institute of Economic Affairs (Kenya), MBA from Symbiosis University, India, and a Bachelor of Commerce (BCOM) from University of Pune, India

Kawawa Msapato

- Malawian, 44: Head of Personal and Business Banking, Plot No. NY357, Maugham Road, Nyambadwe, Blantyre, Malawi
- Responsible for all strategic and operational aspects of the SME and retail banking portfolios of the Bank
- Over 20 years' experience in various areas of banking operations
- Previously with National Bank of Malawi for 14 years
- Bachelor of Social Science from the University of Malawi, Chancellor College, Zomba, Master of Science in Strategic Management from the University of Derby, UK, attended the Executive Development Program at the University of Stellenbosch Business School, South Africa

Mwiza Madanitsa

- Malawian, 34: Head of Operations, Administration and Procurement, Plot No. BC841, Songwe 1, New Naperi, Blantyre, Malawi
- Responsible for trade operations, treasury back office operations, clearing, domestic payments, card operations and routine control, oversees cash management bank wide and is in charge of the Bank's call center, administration and procurement
- Over 14 years' experience
- Previously Head of Operations at Ecobank Malawi Limited and external auditor at PwC
- Certified Chartered Accountant and Bachelor of Accountancy Degree from the University of Malawi, Polytechnic, Blantyre, Malawi

Chrispin R. Chikwama

- Malawian, 43: Head of Human Resources, 4 Sapitwa Street, New Naperi, Blantyre, Malawi
- Responsible for all aspects of the Bank's human capital

- Over 18 years' experience in Human Resource Management
- Previously with Illovo Sugar (Malawi) Plc
- Bachelor of Arts in Public Administration from Chancellor College, University of Malawi, Zomba
- Past President of the Institute of People Management Malawi (IPMM) and currently chairs the Institute's Standards Committee

- **Jones Chabwera**
  - Malawian, 45: Head of Credit, Plot No. LE 290, Mpingwe, Blantyre, Malawi
  - Responsible for all aspects of Credit Risk Management
  - Over 15 years of executive management experience
  - Previously audit manager at Deloitte and financial controller for Banja La Mtsogolo
  - Board member of the Malawi College of Accountancy
  - Fellow of the Association of Chartered Certified Accountants (FCCA), member of the Institute of Chartered Accountants in Malawi (ICAM), Bachelor of Accountancy Degree from the University of Malawi, Polytechnic, Blantyre
- **Sammy S.B. Chilunga**
  - Malawian, 43: Head of Risk and Compliance, Plot No.LK231, Magasa Avenue, Namiwawa, Blantyre, Malawi
  - Responsible for managing all risks and is the compliance officer
  - Over 15 years' experience in risk and compliance management
  - Previously was RBM's principal examiner for banks at RBM, consultant with the World Bank, International Monetary Fund (IMF), National Bank of Rwanda, and the East and Southern Africa Anti Money Laundering Group (ESAAMLG).
  - Certified Anti-Money Laundering Specialist (ACAMS), Masters of Arts in Banking and Law with Distinction from University of Bangor, Wales, Bachelor of Accountancy from University of Malawi
- **Victoria Tina Mbewe**
  - Malawian, 30: Senior Manager, Digital Financial Services, Plot No 9, Green Corner, Blantyre, Malawi
  - Responsible for all aspects of digital strategy including strategic partnerships, corporate entrepreneurship, mobile money, project management, product development and digital banking operations
  - Over 8 years' experience in the banking sector
  - Previously head of marketing at Opportunity International Bank Limited
  - Certified Prince 2 Practitioner and Certified Digital Banker by training, MBA from the Eastern and Southern African Management Institute
- **Ganizani Phiri**
  - Malawian, 47: Head of Information Technology, Plot Number NE/24, Nyambadwe Crescent, Nyambadwe, Blantyre, Malawi
  - Responsible for all aspects of information and communication technology including strategy formulation, service delivery, project management, innovations management, IT governance and IT risk management
  - Over 15 years of executive management experience
  - Previously with Web and Internet Systems Solutions
  - Certified in Governance of IT Enterprise (ISACA), MSc in Information Technology with merit from University of Derby, UK and a Bachelor of Social Science with distinction from University of Malawi, Chancellor College, Zomba
- **Levie Nkunika**
  - Malawian, 43: Head of Marketing and Communication, Plot No. LK781/27, Namiwawa, Blantyre, Malawi
  - Responsible for all aspects of brand development, promotion and protection

- Over 18 years' experience in Marketing
- Previously with Sunbird Hotels and Resorts, MBC, Bottling and Brewing Group Limited and Air Malawi Limited
- MBA in Strategic Marketing from University of East London UK, Bachelor of Social Science Chancellor College, University of Malawi, Zomba

- **Juliano Godfrey Kanyongolo**
  - Malawian, 35: Senior Manager Legal/Company Secretary, Plot No. SL12/03/102, Machinjiri, Blantyre, Malawi, c/o P.O. Box 512, Blantyre, Malawi
  - See Directors' profiles

PART 3
OPERATING ENVIRONMENT: MACROECONOMIC AND SECTOR OVERVIEW

1. COUNTRY OVERVIEW

Statistics	2018
Land size (including lake Malawi)	11.8mn ha
Population	17.6mn
Unemployment Rate	18.5%
Life Expectancy	64 years
Mobile penetration (September 2019)	34.6%
Adults with a bank account (2017)	34%
GDP (nominal)	USD6.2bn
Bank Policy Rate (2019)	13.5%
Lending Rate (2019)	28.2%
Inflation Rate	9.9%
Current account deficit	USD1.1bn

Source: National Statistics Office, Oxford economics, World Bank, Fitch Solutions, 2020

Economy

- Predominantly reliant on agriculture which contributed 27.3% to GDP in 2018 and employed 73% of the working population directly and indirectly
- The next highest contributor to GDP is the wholesale and retail trade sector which contributed 15.9% in 2018
- The financial sector contributed 5.4% to GDP in 2018 with 20.9% of commercial bank advances being provided to the agriculture sector as at September 2018[1]
- Economic growth slowed from 4.0% in 2017 to 3.5% in 2018 due to frequent and prolonged power outages
- Economic growth is expected to increase to 5.1% in 2019 and decrease to 1.9% in 2020 due to the effects of the COVID 19. GDP is expected to pick up in 2021 as a result of improved agricultural output and improved power supply
- GoM's policies continue to focus on the agriculture and power sectors as the main drivers of Malawi's economic development and growth. Recent policies include the Malawi Growth and Development Strategy (MGDS) III and National Agricultural Investment Plan (NAIP) and a new National Export Strategy is also being developed

Inflation and interest rates

- Malawi has experienced continuous decline in inflation since 2014. This has been driven by the stability of the Malawi Kwacha against currencies of major trading partners, the improved availability of food supplies and associated reduction in food prices
- Inflation was 9.4% in 2019 and average inflation is expected to increase to 10.7% in 2020[2]
- Interest rates have steadily declined since 2016 in line with a reduction in inflation and the base lending rate which is currently in the region of 13%
- Long-term impact of lower interest rates is projected to be positive, due to increased demand for credit from new customers who will be attracted by low interest rates[3]
- Banks continue to register above average returns from non-interest activities and simultaneously have continued to intensify efforts in collecting all impaired loans and advances[4]

Exchange Rate

- Malawi adopted a floating exchange-rate regime in May 2012
- The Malawi Kwacha depreciated to an average of MWK364: USD1 in 2013, from MWK166:USD1 in 2012

1. Reserve Bank of Malawi, Financial and Economic Review Vol 53 Issue 3 2019.
2. Oxford economics, Country Economic Forecast Malawi.
3. Reserve Bank of Malawi Financial and Economic Review Vol 53 Issue 3 2019.
4. Reserve Bank of Malawi Financial and Economic Review Vol 53 Issue 3 2019.

- The Malawi Kwacha continued to depreciate steadily in subsequent years until it became relatively stable in 2016 at MWK730: USD1 and traded at MWK736.70: USD1 on 28th May 2020

- **Demographics**
    - Malawi's population was estimated to be 17.6 mn in 2018
    - The Southern Region with 44% of total population is the most populated region followed by the Central Region (43%), and lastly the Northern region (13%)
    - With an annual growth rate of 2.9%, Malawi's population is expected to double by 2042
    - Malawi has a low urbanisation rate with 82% of the population living in the rural areas
    - Malawi has a predominantly young population with a median age of 17 years and 56% of the total population is aged 19 or younger
    - Out of a labour force of 6.6million persons, 81.5% were employed and 18.5% were unemployed
    - Approximately 55% of Malawi's population is financially excluded
    - The World Bank's Global Findex Database estimated that only 34% of adults have an account at a formal financial institution

- **Malawi Economic Outlook**

	2018	2019E	2020F	2021F	2022F
Real GDP growth	3.5	5.1	1.9	4.5	3.9
Consumer Price Inflation (average %)	9.9	9.4	10.7	9.0	7.8
Government Budget Balance (% of GDP)	(7.2)	(7.0)	(9.1)	(6.7)	(6.6)
Current Account Balance (% of GDP)	(15.4)	(16.0)	(15.3)	(15.2)	(14.9)
Commercial Lending Rate (average %)	32.3	28.2	23.9	23.6	23.4
RBM Bank Policy Rate	16.0	13.5	13.5	13.0	12.5
Exchange Rate MWK:USD (average)	732.3	744.5	787.7	857.3	918.1

Source: Oxford economics ,State of the Nation Address 05 June 2020, and 2020/21 National Budget Speech

- Forecast GDP is expected to increase to 5.1% in 2019. GDP is expected to decrease to 1.9% in 2020 and thereafter increase to 4.5% in 2021 driven by sustained improvements in the agriculture sector, energy projects coming onstream, stable supply of foreign exchange and fuel, a steady decline in inflation and interest rates and continued infrastructure investment[5]

2. BANKING SECTOR REGULATION

- **RBM**
    - RBM is the Central Bank of Malawi and regulator of the financial services sector in Malawi
    - FDH abides by the regulatory requirements of the RBM under the Banking Act including currency exposure limits, capital adequacy and credit concentration
    - RBM supervision of all financial institutions ensures stability of the financial sector and protection for borrowers and depositors

- **BAM**
    - BAM is the trade association whose main objective is to coordinate the efforts of the banking industry, and to share a common vision of progress and development with its members
    - FDH is a member of BAM

3. BANKING SECTOR OVERVIEW

- The banking sector currently consists of 9 licensed commercial banks out of which 3 are listed on the MSE. Furthermore, 5 banks are domestically owned and 4 banks are foreign owned
- FDH is prominent in the market with a leading position in terms of number of service centres and is the 3rd largest bank in terms of customer deposits as at December 2019
- Domestically owned and foreign owned banks held a 57.4% and 42.6% share of total net assets respectively in 2019

5 The Economic Intelligence Unit (EIU)

	2018	2019
Number of banks	9	9
Local	5	5
Foreign	4	4
Banking sector assets (MWK'bn)	1,671	1,890
Banking sector deposits (MWK'bn)	1,088	1,175
Gross loans (MWK'bn)	513	637
NPLs (MWK'bn)	31	40
NPLs %	6%	6%
Bank assets/ GDP (%)	32%	33%
Growth		
Bank assets	6%	13%
Deposits	9%	8%
NPLs	6.1%	6.3%

Source: RBM Financial Stability Reports and Financial Institution Supervision Annual Report 2018 and 2019

- Total banking sector assets increased by 13% to MWK1,890bn in December 2019 from MWK1,671bn in 2018
- Total deposits remained the single largest source of funding throughout the 5-year period, with a CAGR of 11%, while the sector experienced an 8% growth in total deposits to MWK1,175bn at end December 2019 from MWK1,088bn at end December 2018

Summary Of The Banking Sectors KPIs

Assets MWK'bn	2018	2019
Cash and cash equivalents due from other banks	234.4	177.8
Securities and Investments	680.3	791.7
Treasury Bills	348.1	388.6
RBM Day Bills	-	-
Money Market deposits	32.1	35.2
Interbank Loans	23.7	30.5
Repurchase Agreements	143.0	108.7
All other Short-term Investments	18.2	17.6
Local registered stocks	22.5	58.5
Government bonds	61.1	62.9
Local Government Bonds	7.5	10.2
Equity (MSE)	-	-
Other securities	24.1	79.5
Total Loans and Leases	491.2	609.9
Other Assets	264.6	310.8
Total Assets	1,670.5	1,890.2
Type of Liabilities	**2018**	**2019**
Deposits	1,088.1	1,175.2
Liabilities to other banks	67.1	43.0
Other liabilities	248.2	356.9
Total equity capital	267.1	315.1
Total Liabilities	1,670.5	1,890.2

Source: RBM Financial Institution Supervision Annual Report 2018 and 2019

- The growth in total assets in the sector was largely driven by a 16% growth in securities and investments to MWK792bn in 2019 from MWK680bn in 2018, and by a growth in loans and leases of 25% from MWK491bn as at December 2018 to MWK610bn in December 2019
- Securities and investments contributed the highest proportion of total net assets at 42% in 2019, from 41% in 2018, while loans and leases contributed 32% in 2019, from 29% in 2018
- Total equity capital increased by 18% from MWK267bn in 2018 to MWK315bn in 2019
- Total deposits remained the highest source of funding accounting for a 62.2% share of total liabilities and equity as at December 2019

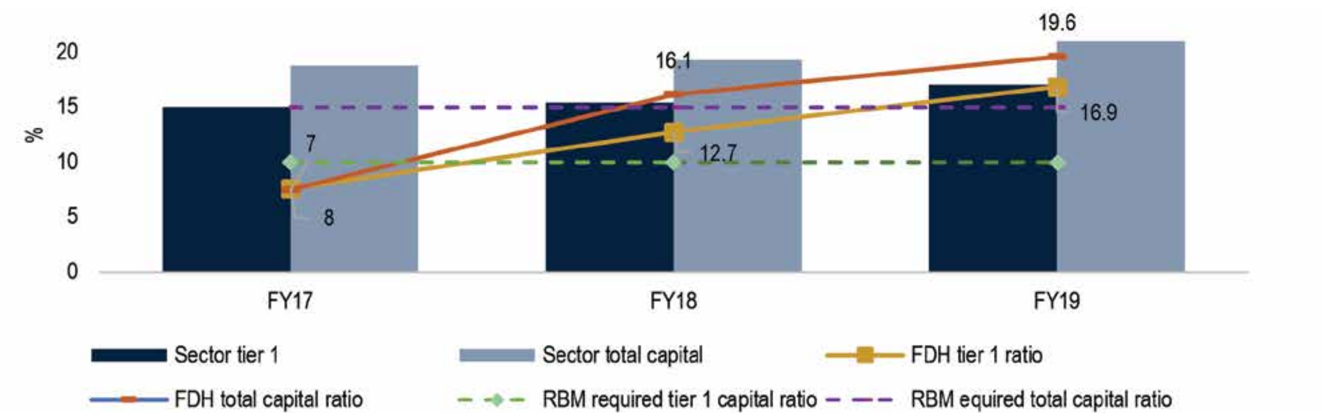
- FDH total assets increased by 13% between 2018 and 2019:

Total Assets

Source: RBM financial institution annual report 2018, financial stability reports and FDH audited financial statements

- The banking sector's core and total capital ratios stood at an average of 17% and 21% respectively as at December 2019, above the previous year's ratios of 15% and 19% and the regulatory benchmarks of 10% and 15%. Core and total capital increased by 25% and 27% to MWK216bn and MWK267bn in 2019, from MWK173bn and K211bn in 2018, respectively

- The Bank's Tier 1 and Tier 2 capital ratios were 16.9% (MWK19bn) and 19.6% (MWK22bn), respectively

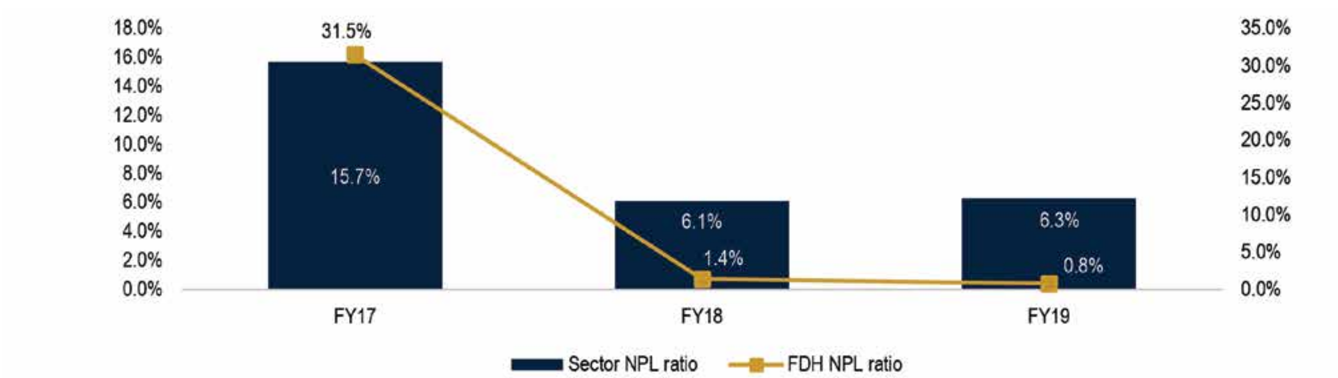


Source: RBM financial institution annual report 2018, financial stability reports, and FDH audited financial statements

- The sector NPL ratio decreased to 6.3% in December 2019 from 15.7% in December 2017

- The Bank's NPL ratio as at December 2019 was 0.8%

NPL ratios



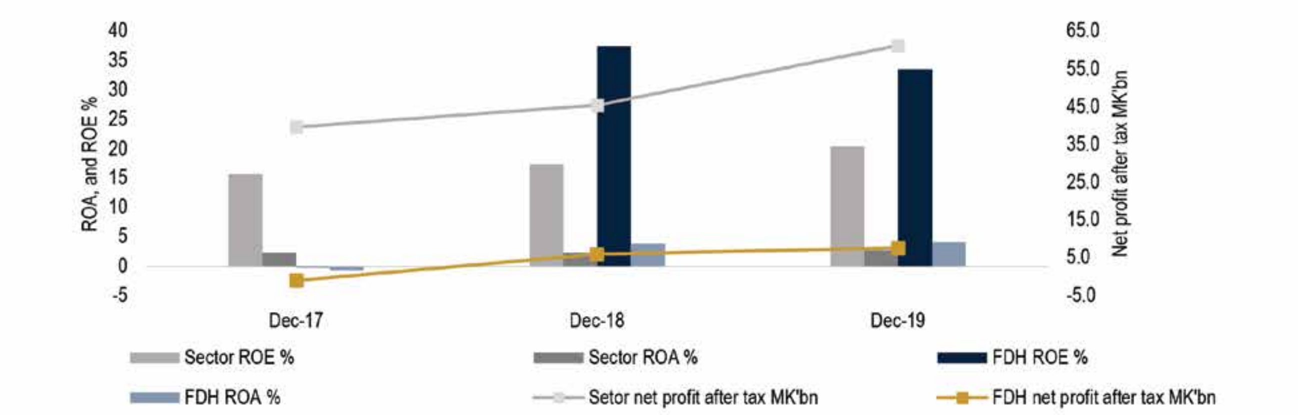
Source: RBM financial institution annual report 2018, financial stability reports, and FDH audited financial statements

- Profit after tax for the sector grew by 35% to MWK59bn for the year ended 31st December 2019 from K45bn for the year ended 31st December 2018

- The Bank's profit after tax grew by 32% to MWK7.85bn for the year ended 31st December 2019 from MWK5.97bn for the year ended 31st December 2018

- Return on Assets (ROA) for the sector improved from 2.3% to 2.7% between December 2018 and December 2019, and Return on Equity (ROE) increased to 20.5% from 17.3% in this period

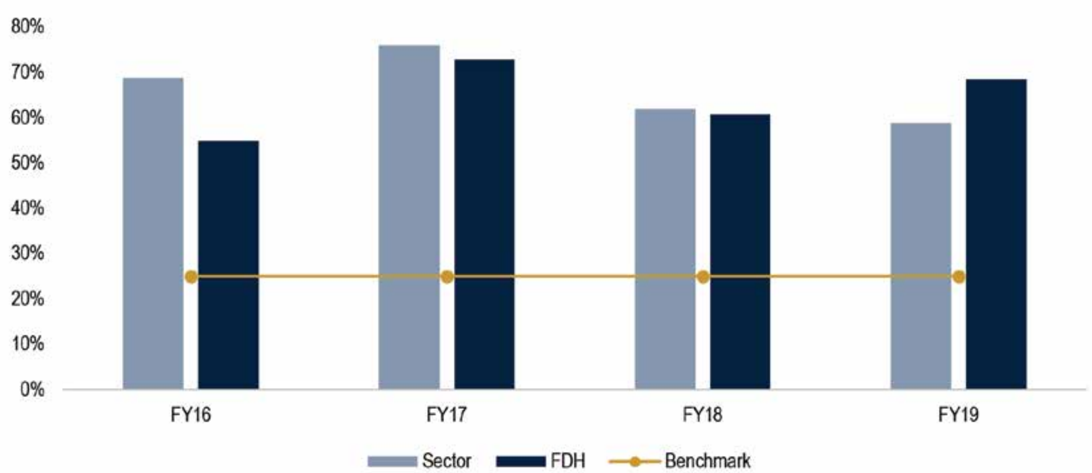
Trends of ROE, ROA and Net Profit after Tax



Source: RBM financial institution annual report 2018, financial stability reports, and FDH audited financial statements

- Although the liquidity ratio for the sector declined to 58.9% in December 2019 from 61.8%, as at end December 2018, it remained above the prudent benchmark of 25% as required by RBM
- Furthermore, to complement Section 38 of the Banking Act, RBM had issued the following guidelines as at the end of December 2018 on the management of liquidity:
  - Liquidity Ratio I - Net liquidity (total liquid assets less suspense accounts in foreign currency) divided by total deposits must be at least 30%
  - Liquidity Ratio II - Net liquidity (total liquid assets less suspense accounts in foreign currency and cheques in the course of collection) divided by total deposits must be at least 20%
- As at 31st December 2019, the Bank's Liquidity Ratio I was 68.58% compared to 60.74% in 2018 and Liquidity Ratio II was 68.08% compared to 60.27% in 2018:

Liquidity Ratio - liquid assets to deposits and short-term liabilities



Source: RBM Financial institution supervision annual report, and FDH audited financial statements

PART 4
FDH'S GROWTH STRATEGY AND INVESTMENT CONSIDERATIONS

1. GROWTH STRATEGY

- The Board of Directors is of the opinion that FDH has potential for future growth, stemming from both core growth drivers and further upside initiatives
- FDH's 2019 to 2021 Strategic Plan comprises the following five pillars:
    - Market share growth
    - Revenue growth
    - Capital efficiency optimisation
    - Operating margin optimisation
    - Employee engagement
- FDH's growth initiatives include:
    - Continued investment in its technology, products and processes
    - Innovative financial offerings
    - Convenient and inclusive digital solutions
    - Establishment of a large network of service centres, agencies and ATMs for easy accessibility and convenience

2. MARKET SHARE GROWTH

- Market share growth goals include:
    - Increase deposit market share by 20%
    - Optimise the digital financial services division business revenue
    - Grow the number of agencies by 400% nationwide
- The Bank executes its market share growth strategy by leveraging on its multiple customer points in the following divisions:
- **Corporate and Investment Banking**
    - The growth strategy is anchored on industries which contribute sustainably to the GDP of Malawi, with a key focus on the agriculture, wholesale & retail trade, infrastructure and energy sectors
    - Service these markets by exploiting the Bank's competitive advantage in innovative debt and trade finance solutions as well as digital finance transactional capabilities
- **Personal and Business Banking**
    - Address existing financial inclusion gaps by offering banking solutions that offer convenience and simplicity
    - Penetrate the vastly under-serviced SME sector by addressing major challenges key among them being lack of access to finance and business acumen and access to markets
    - Grow market share in the SME agribusiness value chain to support the diversification of Malawi's export base
    - Continue to aggressively leverage digital banking capabilities to achieve outreach to the various customer segments, and overcome traditional barriers to access to finance. FDH is strategically placed to offer various products and services to customers right in their geographical localities through its popular social media messaging tool, WhatsApp[6], and nationwide network of 51 branches, 92 ATMs and 1771 agencies
    - Continue to focus on women entrepreneurs and business owners who are under-served in terms of access to funding and business advisory support

6. https://www.fdh.co.mw/index.php/news2/item/138-fdh-bank-introduces-whatsapp-banking

- Continue to focus on youth empowerment

- **Government and International Organisations (GIO)**
  - Achieve growth in the GIO division by focusing on strategic and growth industries namely, energy, higher education, agriculture, health, utility organisations and donor funded institutions and projects
  - Customise and enhance key value proposition of providing efficient and convenient banking services to GIOs
  - Build upon existing strategic partnerships and collection agreements with various clients leveraging the ease of digital banking platforms
- **Treasury and Trade Finance**
  - Focus on the provision of trade finance solutions for the agriculture, energy and wholesale and retail trade sectors
  - Enhance the various relationships the Bank has established with international financial institutions
  - Offer innovative trade finance products and solutions and supply chain financing solutions to SME entrepreneurs
- **Digital Platforms**
  - Introduce an array of digital solutions and services on the FDH mobile banking platform that cater for different market segments' existing and emerging needs

3. REVENUE GROWTH

- **FDH's revenue growth goals include:**
  - Optimise the product servicing mix and loan deposit ratio
  - Maintain 80% of deposits in demand savings and foreign currency denominated accounts (FCDA)
  - Increase digital revenue contribution to 20% of total revenue
  - Achieve a minimum 15% of the total sector's profits after tax:
    - Reduce funding costs
    - Interest income and grow the loan book
    - Develop and strengthen corporate partnerships
    - Continuously refresh and expand the digital banking services platform
    - Focus on stability and integration of these digital platforms with FDH's systems linked to multiple service providers nationally

4. CAPITAL EFFICIENCY OPTIMISATION

- FDH's capital efficiency optimisation initiatives include:
  - Maintain a minimum Tier 1 and 2 capital adequacy ratios of 13% and 18% respectively
  - Achieve a 45% return on equity

5. OPERATING MARGIN OPTIMISATION

- FDH's operating margin optimisation goals include:
  - Achieve a cost to income ratio of 45%:
    - Optimise operational performance through scalable IT platforms and innovative customer propositions to achieve cost-efficient growth across all divisions
    - Complement deposit growth through an expanding agency network and corporate clientele growth, with increasing acquisition of deposits through digital platforms from both existing and new-to-bank customers
    - Maintain an NPL ratio of below 2% through its robust credit management policy

6. EMPLOYEE ENGAGEMENT

- Continue to focus on investing in people to build their capabilities and make the Bank a great place to work in order to grow the revenue, market share, drive capital efficiency, and increase operating margins

7. INVESTMENT CONSIDERATIONS

- **FDH is an innovative bank**
    - FDH utilises an integrated digital core banking platform to carry out transaction processing requirements
    - FDH has prioritised upgrading server and processing capabilities to improve overall performance of its systems to deliver enhanced product development capabilities and operational efficiencies
- **Robust credit model**
    - The Bank achieved an NPL ratio of 0.8% compared to the banking sector NPL ratio of 6.3% and a 1.4% credit loss ratio as at 31 December 2019
- **Sound key performance indicators**
    - Total income of MWK34.3bn for the year ended 31st December 2019
    - 17.4% CAGR in total income over the past 3 years
    - Profit after tax of MWK7.8bn for the year ended 31st December 2019
    - 18.8% CAGR in profit after tax between 2014 and 2019
    - Total assets of MWK188.7bn as at 31st December 2019
    - 13.2% CAGR in loan book over the past 3 years
    - 34.6% return on equity as at 31st December 2019
    - Capital adequacy ratio of 19.6% - well above the statutory requirement of 15% at 31st December 2019
- **Skilled entrepreneurship**
    - Successful acquisition and integration of the loss-making government owned Malawi Savings Bank (MSB)
- **Access to markets**
    - The only bank to be represented in 27 districts of Malawi to encompass financial inclusion
    - Country wide ATM network
- **FDH has established international partnerships with:**
    - European Investment Bank
    - Netherlands Development Finance Company (FMO)
    - Africa Guarantee Fund
    - Land O Lakes
    - African Export-Import Bank (AFREXIM)
    - Absa Group Limited
    - Mauritius Commercial Bank
    - Crown Agents
    - Standard Bank SA
    - Mastercard
- **Corporate governance**
    - Best practice corporate governance standards according to the Company (Corporate Governance) Regulations 2016 and RBM directives have been implemented by the Bank

PART 5
SELECTED FINANCIAL INFORMATION

This Part 5 'Selected Financial Information' should be read in conjunction with Part 6 'Management Discussion and Analysis'. Prospective investors should read the entire document and not just rely on the summary set out below.

PRESENTATION OF FINANCIAL INFORMATION

- Historical financial information presented in this Prospectus has been sourced from the Bank's audited annual financial statements prepared in accordance with International Financial Reporting Standards ('IFRS') as promulgated by the International Accounting Standards Board ('IASB')
- Deloitte were the external auditors of FDH for the years ended 31st December 2017, 31 December 2018 and 31st December 2019 and reported on the financial statements without qualification
- The historical and forecast financial information presented in this Prospectus has been sourced from the Reporting Accountant's report in Appendix 2

Historical Earnings and Forecast Summary

MWK'mn	FY17A	FY18A	FY19A	FY20F	FY21F
(Loss)/profit before tax (MWK'mn)	(1,986)	8,157	11,743	10,114	15,068
(Loss)/profit after tax (MWK'mn)	(1,004)	5,965	7,846	7,080	10,548
Earnings per share before tax (MWK)	(0.29)	1.18	1.70	1.47	2.18
Earnings per share after tax (MWK) [a]	0.15	0.86	1.14	1.03	1.53
Dividends per share (MWK) [b]	-	-	0.15	0.58	0.84
Dividend cover (Times) [a/b]	-	-	7.54	1.77	1.82

Summarised Historical and Forecast Income Statements

MWK'mn	FY17A	FY18A	FY19A	FY20F	FY21F
Gross interest income	17,116	14,781	16,344	18,652	28,920
Interest expense	(8,923)	(6,735)	(7,767)	(5,235)	(6,137)
Net interest income	**8,192**	**8,046**	**8,577**	**13,417**	**22,783**
Commissions and fee income	13,074	21,020	25,813	20,155	18,670
Total income	**21,266**	**29,066**	**34,390**	**33,572**	**41,453**
Administrative costs less depreciation and amortisation	(8,919)	(9,337)	(8,994)	(8,881)	(9,328)
Staff costs	(6,403)	(7,921)	(9,209)	(10,172)	(11,758)
EBTDA	**5,944**	**11,808**	**16,187**	**14,589**	**20,367**
Depreciation and amortisation	(1,903)	(2,215)	(3,961)	(4,066)	(4,506)
Profit before impairment losses	**4,041**	**9,593**	**12,226**	**10,524**	**15,861**
Net impairment losses	(6,027)	(1,436)	(483)	(410)	(794)
(Loss)/profit before taxation	(1,986)	8,157	11,743	10,114	15,068
Taxation	982	(2,191)	(3,897)	(3,034)	(4,520)
(Loss)/profit after tax	**(1,004)**	**5,966**	**7,846**	**7,080**	**10,548**

Summarised Historical and Forecast Balance Sheets

MWK'mn	Dec17A	Dec18A	Dec19A	Dec20F	Dec21F
Cash and cash equivalents	6,815	7,459	6,389	7,504	9,491
Cash with RBM	7,903	7,427	673	7,197	8,860
Placements with other banks	33,256	31,581	31,751	29,685	13,393
Treasury bill & GoM bond investments	33,274	39,552	46,955	52,926	69,832
Loans and advances	39,180	40,689	56,813	91,799	133,439
Other receivables	13,910	13,929	33,413	19,422	20,097
Deferred tax assets	3,927	2,009	-	-	-

Property and equipment	5,816	8,086	8,632	8,308	8,904
Intangible assets	2,266	2,010	2,351	2,492	2,940
Right of use assets	-	-	1,692	1,770	1,983
Other investments*	3,702	26	31	31	31
Total Assets	**150,050**	**152,768**	**188,700**	**221,134**	**268,970**
Shareholders loan	505	2,729	2,607	2,182	1,182
Customer deposits	114,210	112,570	137,141	176,420	221,682
Other liabilities	21,738	11,625	8,417	7,187	8,222
Interbank borrowings and BAs	-	4,504	10,301	-	-
Long term loans	-	5,455	5,761	8,495	6,371
Current taxation liabilities	-	-	1,550	1,009	924
Deferred tax liabilities	-	-	250	-	-
Total Liabilities	**136,453**	**136,883**	**166,027**	**195,293**	**238,381**
Net Asset Value	**13,597**	**15,885**	**22,673**	**25,841**	**30,589**

*The balance as at FY17A includes the investment in MSBP which was disposed off in FY18A for MWK3.7bn and subsequently re-acquired on 31st March 2020 for MWK5.6bn. This re-acquisition has not been reflected in the forecast balance sheets for FY20F and FY21F

Summarised Historical and Forecast Cash Flow Statements

MWK'mn	FY17A	FY18A	FY19A	FY20F	FY21F
Cash generated from operations	13,331	924	5,023	8,775	16,611
Taxation claimed/(paid)	**67**	**348**	**533**	**(1,516)**	**(3,641)**
Cash flows from operating activities	13,398	1,272	5,556	7,259	12,970
Cash flows used in investing activities	(1,934)	(2,055)	(6,530)	(1,592)	(1,257)
Cash flows from/(used in) financing activities	8,996	7,679	719	(3,911)	(4,802)
Net increase / (decrease) in cash and cash equivalents	**20,460**	**6,896**	**(255)**	**1,756**	**6,911**
Cash and cash equivalents at the beginning of the year	36,899	57,359	64,255	64,000	65,756
Cash and cash equivalents at the end of the year	**57,359**	**64,255**	**64,000**	**65,756**	**72,667**

Significant notes to the financial statements

- Significant notes to the financial statements are included in the Reporting Accountant's report in Appendix 2

Statement of compliance

- The annual audited financial statements of the Bank have been prepared in accordance with IFRS

Basis of preparation

- The annual audited financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at revalued amount or fair value at the end of the reporting period. No other procedures are adopted to reflect the impact on the financial statements of specific price changes or changes in the general level of prices

Retirement benefit costs

- The Bank operates a defined contribution retirement benefit plan. Contributions to the scheme are recognised as an expense when employees have rendered service entitling them to the contributions

PART 6

MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF THE COMPANY'S BUSINESS OPERATIONS

This Part 6 'Management Discussion and Analysis' should be read in conjunction with Part 3 'Industry Overview', Part 1 'Business Overview' and Part 5 'Financial Information'. Prospective investors should read the entire document and not just rely on the summary set out below.

Significant factors affecting FDH Bank's results of operations

- The following analysis of the Bank's financial results and financial condition contains forward-looking statements. The Company's actual results could differ materially from those discussed in the forward-looking statements. The factors that could contribute to such differences include those discussed below and elsewhere in this Prospectus

Funding

- FDH is primarily funded by deposits from its customers and capital provided by its shareholders

- The Bank also obtains loans from its shareholders as well as from the interbank market including from the RBM's discount window through repos which are utilised to manage its short-term liquidity

- Customer deposits comprise current deposits, savings deposits, fixed deposits and foreign currency deposits:

Currency: MWK'mn	Dec17A	Dec18A	Dec19A	CAGR
Current deposits	41,442	39,332	44,556	3.7%
Foreign currency denominated accounts	27,988	18,040	17,402	(21.1%)
Fixed deposits	23,192	27,498	35,290	23.4%
Savings deposits	21,588	27,700	39,893	35.9%
Total Customer Deposits	**114,210**	**112,570**	**137,141**	**9.6%**

- The Bank's deposits grew by a CAGR of 9.6% from MWK114.2bn as at Dec17A to MWK137.1bn as at Dec19A primarily driven by the expansion of its footprint and the increasing use by its customers of its digital channels

- Going forward, and in line with its Strategic Plan, the Bank will seek to reduce the proportion of its high-cost term deposits by growing its low-cost current and savings accounts. The Bank targets an overall deposit growth of approximately 20% per year in the medium-term

Loans Portfolio Growth

- Loans and advances to customers comprise business loans, mortgages, SME loans, personal loans and overdrafts:

MWK'mn	Dec17A	Dec18A	Dec19A	CAGR
Loans and advances				
Retail	22,135	7,938	14,176	(20.0%)
Corporate	28,579	33,299	43,439	23.3%
Gross Loans and Advances	**50,714**	**41,237**	**57,615**	**6.6%**

- Corporate loans and retail loans accounted for 75% and 25% of the loan book respectively as at 31st December 2019

- Gross loans grew by a CAGR of 6.6% from MWK50.7bn as at 31st December 2017 to MWK57.6bn as at 31st December 2019

Net Interest Income

- Net interest income accounted for 39%, 28% and 25% of operating income in 2017, 2018 and 2019 respectively

- The Bank's net interest income is affected by a number of factors, including, the size of its loan and investment portfolios, the level of customer deposits, product mix and the interest rates that the Bank pays on its sources of funding and the interest that it earns on its loans portfolio and investments

- The Bank's interest-bearing liabilities consist of predominantly deposits from customers while its interest-earning assets consist of loans, overdrafts and investment in GoM securities

- Net interest income is affected by changes in interest rates with reference to RBM's policy rate. The Bank therefore faces risks associated with prevailing interest rates as set by RBM. The Bank's average cost of deposits declined from 7.8% in 2017 to 5.7% in 2019, and similarly, the average interest yield on its loans declined from 28.1% in 2017 to 16.7% in 2019 as a result of the reduction in the policy rate over the period

Commission and Fee Income

- Commission and fee income include fees from a wide range of banking services charged to customers, including loan fee income, arrangement fees arising from negotiating, or participating in the negotiation of, a trade finance transaction for a third party such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses and gains on foreign currency transactions
- Commission and fee income accounted for 62%, 72% and 75% of operating income in 2017, 2018 and 2019 respectively. This percentage increase is mainly driven by growth in trade finance transactions, fees earned on credit facilities due to the growth in the loan book, and growth in the number of customers utilizing the digital platforms resulting in an increase in transactional revenues

Cost Efficiency

- FDH operating costs have increased from MWK17.2bn in 2017 to MWK19.5bn and MWK22.2bn in 2018 and 2019, respectively
- The underlying cost to-income ratio improved to 65% in 2019 from 81% in 2017, reflecting income growth of 27% outpacing cost growth of 13% over the period
- The Bank intends to improve its cost to-income ratio to 61% by 2021

Profit After Tax

- The Bank achieved a profit after tax of MWK7.8bn in 2019 compared to a profit after tax of MWK6bn in 2018 and a loss after tax of MWK1bn in 2017

Implementation of IFRS 9 and IFRS 16

- The Bank adopted IFRS 9 "Financial Instruments" which was issued in July 2014 with a date of mandatory application of 1st January 2018
- The implementation of IFRS 9 led to a one-off increase in impairment allowances for certain financial assets in the Bank's balance sheet at the time of adoption. The financial liabilities resulting from the adoption of IFRS 9 amounting to MWK5.3bn are recognised in retained earnings and reserves as at 1st January 2018
- In addition, as of 1st January 2019, the Bank implemented IFRS 16 "Leases", which requires lessees to recognise Right-of-Use assets and lease liability for all leases with a term of more than 12 months, unless the underlying asset is of low value. The Bank's risk weighted assets (RWAs) have increased by MWK24.9bn as a result

PART 7
RISK FACTORS

Any investment in the Shares is subject to a number of risks. Prior to investing in the Shares, prospective investors should carefully consider risk factors associated with any investment in the Shares, FDH's business and the industry in which it operates, together with all other information contained in this Prospectus including, in particular, the risk factors described below.

Prospective investors should note that the risks relating to FDH, its industry and the Shares summarised in this section of the Prospectus are the risks that the Directors and the Company believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Shares. The risks and uncertainties which FDH faces relate to events and depend on circumstances that may or may not occur in the future as summarised in this section of the Prospectus.

The risk factors described below are not an exhaustive list or explanation of all risks which investors may face when making an investment in the Shares and should be used as guidance only. Additional risks and uncertainties relating to FDH that are not currently known to FDH, or that FDH currently deems immaterial, may individually or cumulatively also have a material adverse effect on FDH's business, results of operations, financial condition and/or prospects and, if any such risk should occur, the price of the Shares may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Shares is suitable for them in light of the information in the Prospectus and their personal circumstances.

RISKS RELATING TO FDH'S BUSINESS AND INDUSTRY

- **Interest Rate Risk**

  - Interest rate risk is the exposure of the Bank's earnings to adverse movements in interest rates. This risk has a direct impact on the Bank's net interest margin. Downward trends in interest rates negatively impact revenues and in turn reduce interest margins. Sharp increases in interest rates can also result in increased funding costs which may impact the Bank's ability to increase its lending rates proportionally

  - To mitigate interest rate risk, the Asset and Liability Management Committee (ALCO) meets monthly to monitor and control interest rate risk in accordance with the Bank's risk appetite. ALCO members consist of senior management and the committee is chaired by the Managing Director

- **Funding and Liquidity Risk**

  - Liquidity risk arises where the operations of the Bank cannot be funded due to mismatches in the cash flows of assets and liabilities within the statement of financial position. The Bank relies on two principal sources of liquidity; deposits from customers and repayments of loans granted to customers

  - FDH manages liquidity risk by having access to a diverse funding base. Funds are raised mainly from deposits and shareholders. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility using liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business objectives. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy and the Bank's ALCO manages mismatches by setting guidelines and limits for anticipated liquidity gaps and monitors these gaps on a weekly basis. ALCO reviews the product and customer behavioural assumptions when there is indication that there is a shift in one or more of the variables. Furthermore, the Bank continues to mobilise cheap retail deposits to grow the liquidity base which ultimately will improve the number of days in which the Bank would be liquid in the event of a run on deposits

- **Credit Default Risk**

  - Credit default risk arises where there is a probability that a counterparty, being a client or a third party, may default on their commitments to the Bank due to factors that are beyond the Bank's control thereby causing a loss to the Bank. This includes losses arising through both on and off-balance sheet lending decisions and settlements. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), and investments in debt securities that are an asset position. The Bank's main income generating activity is lending to customers and therefore credit risk is a principal risk

  - The Bank mitigates credit risk by proactively managing it through its Board Credit Risk Committee. Lending and other facilities are granted only if the level of risk is acceptable. This is achieved by thoroughly evaluating customers' credit worthiness before facilities are granted. Even after the facilities are granted, the Bank continues to monitor customers' performance so that timely corrective action can be taken should circumstances demand. Various committees and structures are in place for sanctioning large facilities and monitoring customer performance

- **Credit Concentration Risk**

  - Credit concentration is a risk in the banking industry where gross loans and leases are concentrated in a few sectors namely: wholesale, agriculture and manufacturing. As such, a downturn in any of these sectors would result in a high proportion of the Bank's outstanding loans to become non-performing

- The Bank's Board of Directors has delegated responsibility for the management of credit risk to its Credit Risk Committee which is responsible for oversight of the credit risk, including 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)

- **Capital Management Risk**

  - RBM sets and monitors the capital requirements for Banks. In implementing current capital requirements, RBM requires the Bank to maintain a minimum ratio of 10% core (Tier 1) capital and 15% of total (Tier 2) capital to risk-weighted assets. The Bank's regulatory capital is analysed as follows:

    - Tier I capital, which comprises ordinary share capital, share premium, retained profits from prior periods, and 60% of after-tax profits in the current period-to-date (or less 100% of current period loss), less any unconsolidated investment in financial companies

    - Tier II capital, which also includes share revaluation reserves, investment revaluation reserve, property revaluation reserve and loan loss reserve

  - Over and above the Tier 1 and Tier 2 ratios, RBM has also set minimum core capital (share capital, share premium and retained earnings) requirements of the Malawi Kwacha equivalent of USD 5 million

  - To comply with the regulatory minimum core capital adequacy ratios, the Bank must maintain these capital requirements and a breach of these requirements would negatively impact performance and result in the Bank being penalised by RBM

  - The Bank has a comprehensive stress and scenario testing framework which is used to assess the Bank's vulnerability to shocks of the different financial parameters. The aim of the stress test is to prepare the Bank for the worst-case scenario in the financial sector as it provides the Bank with a forward-looking assessment of risks and facilitates development of mitigation or contingency plans

  - The Bank conducts monthly stress tests, the results of which are submitted to the ALCO and RCM to ensure that appropriate strategies are formulated to address the needs revealed by the stress testing

- **Operational Risk**

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

  - The Bank's objective is to manage operational risk to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity

  - Effective operational risk management is an essential part of the Bank's high-level control framework. All staff are responsible for the management and mitigation of operational risk within their respective departments and activities. Through its risk management framework, FDH adopted the three lines of defence approach towards the management of operational risk. The lines of defence include individual business unit's management, risk and compliance function, and the internal audit function

- **Competition and Business Risk**

  - The market for financial and banking services in Malawi is increasingly competitive. Increased competition can negatively affect the Bank's revenues and other key performance indicators. Additionally, the Bank's current trading position and future performance are dependent upon the overall political, social and economic situation in Malawi. A deterioration in any of the external factors can have a negative effect on profitability

  - The Bank mitigates these risks by monitoring and adjusting strategies to improve performance against a backdrop of ever-changing market conditions

- **Regulatory and Compliance Risk**

  - Regulatory authorities have broad powers over many aspects of the business, including marketing and selling practices, product development and structures, data and records management (including customer financial and personal data), systems and controls, capital requirements, permitted investments and the ability to impose restrictions on the future growth of business, particularly in respect of the Bank's financial services products

  - The Bank could be impacted by the imposition of new regulations or changes in existing requirements. Such changes may impact provisioning policies, liquidity and capital adequacy requirements. The Bank cannot predict such changes with certainty but must be prepared to respond to the changes in a timely manner. This may require the Bank to change its strategy, marketing, business or operational practices or otherwise make adaptations to its products or services, which may increase its costs or result in reduced revenues

- Authorized dealer banks are required to adopt regulatory changes as soon as RBM introduces the respective directive. FDH must embed good governance practices, while retaining the flexibility to respond proactively to the fast-changing regulatory environment

- The management of compliance risk is a distinct discipline within the Bank's overall risk management framework. Ultimate responsibility for this risk lies with the Board of Directors. A combination of key activities is undertaken to manage the risk including identifying the regulatory environment and developing compliance management plans, training staff and other stakeholders on relevant regulatory requirements, and monitoring compliance

Human Resources Risk

- This is the risk that adequate numbers of appropriately qualified and skilled human resources are not available within the organisation or cannot be retained by the Bank to perform duties required. This includes the risk that employees are not appropriately motivated or remunerated to perform their assigned responsibilities with the requisite degree of skill and care

- The success of the Bank is dependent upon its continuing ability to recruit and retain employees of suitable skill and experience. The inability to recruit and retain staff of suitable aptitude could adversely affect the ability of the Bank to conduct its business, which could have a material adverse effect on the Bank's financial results and financial condition

- This risk is mitigated by the A&R, comprised of four non-executive directors. A&R meets quarterly and considers all human resources issues including recruitment policy, industrial relations, succession planning, safety and health and remuneration terms and packages for management and staff, minimising human resources related risk

Foreign Exchange Risk

- Foreign exchange risk relates to the exposure of the Bank's foreign exchange position to adverse movements in the exchange rates. FDH is occasionally exposed to foreign exchange risk arising from transactions in foreign currency. Exchange rate movements between the Kwacha and major foreign currencies may impact the Bank's future cash flows

- Foreign exchange risk can be mitigated by balancing foreign exchange liabilities with the appropriate foreign exchange assets. Overall authority for this risk management is vested in the ALCO

Cybersecurity Risk

- The Bank is exposed to cybersecurity risk at national and global level by virtue of being a leading digital bank in Malawi. Cyber-attacks can hinder business activities and negatively impact operations and financial results

- The Bank has a Cyber Security Policy which outlines the management of cyber risks. Mitigation measures amongst others include installation of firewalls on all its systems to secure it against potential cyber-attacks originating from within and outside the Bank. In addition, the Bank has a cyber-risk monitoring system that detects any cyber attempt on the systems and the Bank is informed through penetration tests which are conducted internally and externally by engaging external cyber risk management experts. The penetration tests are conducted bi-annually at most. However, where increased attempts have been detected, ad-hoc penetration tests are conducted immediately on the targeted systems. It is also the Bank's policy to always use certified systems and software to mitigate cyber-attacks. Finally, in view of progressive cyber risk attacks, the Bank implements continuous professional upgrade of its IT security staff to keep up to date with emerging cyber risk

Physical Security Risk

- The Bank is exposed to physical security risk by virtue of its nationwide footprint. Damage to or theft of property could adversely affect the ability of the Bank to continue to conduct its business, which could have a material adverse effect on the Bank's financial results and financial condition

- This risk is mitigated by construction of infrastructure which comply with the basic requirements set by RBM. In addition, all FDH offices, branches and service centres are securely guarded twenty-four-seven, have closed-circuit television systems, and have system-controlled access to all restricted areas. In the event of business disruption, customers are serviced through other branches that are closer to the one that may have been affected. The Bank has a business continuity plan at branch level as well as at head office level which outlines how business would continue in the event of disruption including physical risk

Environmental and Social Risk

- Environmental and social risks (E&S) stem from the environmental and social issues that are related to customers' operations. Since environmental and social issues are inherent in the Bank customers' operations, almost all transactions are exposed to some degree of environmental and social risk

- Environmental and social issues typically include environmental pollution, hazards to human health, safety and security, impacts on communities and threats to the country's biodiversity and cultural heritage. In most cases, customers have control over the environmental and social issues associated with the operation and can take the necessary steps to mitigate these risks

- The Bank has implemented a policy to guide the business in environmental and social matters. The environmental and social risk policy is applied in credit management, procurement, and in all the key areas of the Bank's activities. All Bank and customer projects undergo evaluations of E&S, and must comply with the regulation, as well as best practices in safeguarding and improving the environment, and in averting social risks
- By implementing the Environmental and Social Management System, the Bank enhanced its understanding of E&S risks associated with each transaction. The Bank continues to make improvements in matters concerning E&S in furthering its agenda to be an all-inclusive financial partner while addressing the environmental and social risk

Reputational Risk

- Any negative publicity could have a material adverse effect on the Bank's reputation, and therefore could have a negative impact on the Bank's business, financial condition and financial results
- The Bank's objective is to manage all relevant stakeholder and operational risk to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity

COVID – 19 Risk

- COVID-19 evolved from a regional crisis in China's Hubei province to a global pandemic. GoM declared a state of disaster on 20th March 2020 and has since announced numerous measures to ensure the spread of the virus in Malawi is slowed down and eliminated
- COVID-19 has caused a deterioration in economic conditions and an increase in economic uncertainty
- FDH has assessed whether the events or conditions, either individually or collectively cast significant doubt on the company's ability to continue as a going concern. Key risks in this regard that may affect the Bank are:
  - **Credit loans and guarantees:** Businesses may be affected by the slowdown in business activity caused by GoM's public COVID-19 prevention measures, including a potential lockdown, which may result in a decrease in the demand for credit. Furthermore, wider SME borrowing is generally driven by trading in imports and exports and may be heavily impacted if the Mozambique and Tanzanian Governments decide to close the borders
  - **Deposits**: FDH anticipates a decrease in retail and SME deposits by virtue of a general slowdown in business activity in the country, with many institutions and individuals reducing their expenditure in favour of other priorities
  - **Liquidity gaps:** May occur by virtue of lower customer deposits and delays in loan repayments from other clients
  - **Foreign Exchange (FX) trading**: A slowdown in FDH's trade finance business is anticipated in the medium term as the Bank's clients are likely to experience a slowdown in demand on fuel due to decreased movement and activities as per GoM directives
  - **New customers**: Reduction in the number of walk-in customers with a knock-on effect on both the digital and core banking customer numbers
- In correlation with the Reporting Accountant's Report on the profit forecasts of FDH as set out in Appendix 2 of this Prospectus, the Company has prepared and analysed the profit forecasts of the Bank, which assumes, inter alia, that the underlying assumptions of the forecast do provide a reasonable basis for the forecasts. Furthermore, FDH intends to mitigate the COVID-19 risk as follows:
  - FDH will take advantage of the reduced Lombard rate by 20 basis points which is intended to reduce the interest rates and create appetite for credit. GoM has further provided reassurances that the Governments of Mozambique and Tanzania will not shut down their boarders and ports for cargo drivers to allow goods and essential supplies to reach Malawi
  - FDH has started to invest in GoM securities as alternative investments to loans and as at March 2020, new investments stood at MWK17.9bn with an average effective yield of 20.66%, The trade-off between loans and government securities will slightly improve the forecast interest income
  - The Bank is refocusing its loan book growth to sectors which will be least affected during the pandemic including pharmaceutical and medical supplies, ICT and agriculture, forestry and fishing
  - FDH is actively approaching various institutions and organisations who may be receiving relief funding in relation to COVID-19
  - The Bank will continue to carry out digital promotions to ensure customers register on the platforms and are able to make transactions without visiting a branch. More self-service options are being added on the existing digital platforms to increase the convenience enjoyed by the Bank's customer base
  - The impairment risk from the individuals and SME space will be mitigated by the collaterals the bank has against the loans as most of these loans are only issued if there is adequate collateral. Some SMEs are insured with the African Guarantee Fund and this will reduce the impact of the impairments

- FDH will engage SMEs to establish how they have been affected by the COVID-19 in order to restructure their facilities where necessary

- FDH has put in place a business continuity plan to protect its staff and customers while continuing to provide services to its customers. FDH provides personal protective equipment (PPE) to ensure staff and customers are protected. Furthermore, core and essential staff have been deployed to work from various locations (geographical redundancy) to create social distancing and to ensure large numbers of critical staff are not affected at the same time

- FDH will also take advantage of the following external factors to ensure continued operations as required:

  - In order to increase liquidity in the economy, RBM has reduced the Liquidity Reserve Requirement (LRR) on domestic deposits by 125 basis points to 3.75% from 5.0% from 1st April 2020. RBM will open a special window to assist Banks that may have liquidity problems as a result of COVID-19

  - The tobacco market will help to build forex reserves and FDH envisages being able to build up foreign currency reserves

RISKS RELATING TO THE OFFER AND THE SHARES

- **Share Market Liquidity**

  - An active trading market for the Offer Shares may not develop or be sustained after the Listing. If no active trading in the Offer Shares develops or continues after the Offer, this could have a material adverse effect on the liquidity and the market price of the Offer Shares

  - FDH intends to mitigate the liquidity risk by marketing the shares to a diverse range of investors, to increase the potential liquidity of shares after the IPO

- **Share Price Volatility**

  - An investment in the equity market has no guarantee, the Offer Price of the Shares may not be indicative of the prices that will prevail in the secondary market

  - The market price of the Shares could be volatile and subject to significant fluctuations due to a number of factors such as changes in general market conditions, the general performance of the exchange, changes in sentiment in the market regarding the Shares, regulatory changes affecting the Bank's operations, variations in its operating results, business developments relating to it or its competitors, the operating and share price performance of other companies in the industries and markets in which the Bank operates

  - The Bank closely monitors any changes in its operating environment which could impact its performance and takes appropriate actions to address and minimise the impact such changes may have on its operations

- **Conflict of Interest Risk**

  - After the IPO, FDHFHL ('Majority Shareholder') will continue to be a majority shareholder in the Bank. As a result, there may be situations where a conflict of interest may arise between the interests of FDHFHL and the other shareholders. Furthermore, if the Majority Shareholder sells its controlling stake in the Bank to another investor, the buyer may pursue a different strategy with respect to the Bank's business

  - The Bank is a regulated by the RBM and also follows good corporate governance practices. The Bank has a Board of Directors who are approved by RBM, who oversee the operations of management in order to pursue the interests of all shareholders including minority interests

- **Dividend Risk**

  - The Bank's ability to pay dividends in the future depends, among other things, on financial performance and capital requirements and is therefore not guaranteed. There can be no guarantee that the Bank's historic performance will be repeated in the future and its income, profits and cash flow may not meet market expectations

  - In order to address this risk, the Bank has developed and implemented a 3-year strategic plan which it closely monitors and takes appropriate and timely action to minimise any negative impact on its financial performance and its ability to pay dividends

PART 8
STATUTORY DISCLOSURES

Disclosures relating to the Offer

- The following resolutions and approvals have been obtained in relation to the issue of the Offer:

Authorization	Date
Shareholders resolution passed at an extraordinary general meeting	10 February 2020
Directors resolution passed at Board meetings	10 February 2020
Listing approval from MSE	22 June 2020
Listing approval from RBM	25 June 2020
Lodgement and filing of Prospectus with the Registrar of Companies	26 June 2020

- **Conditions precedent to the Listing**
  - The Listing is subject to the approval of the MSE and RBM
  - If the Directors in their discretion determine that it would not be advisable to proceed with the Listing, then FDH Bank shall not be obliged to proceed with the Listing
- **The IPO**
  - Initial Public Offer of MK13,802,062,500 in the Ordinary Share capital of FDH as follows:

	No. of shares	MWK
Offer for sale	979,175,000	9,791,750,000
Offer to subscribe excluding preference shares	89,931,250	899,312,500
Offer to subscribe by preference shareholders	311,100,000	3,111,000,000
Total offer to subscribe	401,031,250	4,010,312,500
Offer price		10
Total IPO	1,380,206,250	13,802,062,500
Authorised number of shares at no par value	10,000,000,000	-
Existing shares in issue and fully paid for	6,500,000,000	-
Number of shares post IPO	6,901,031,250	
Market capitalisation post IPO	-	69,010,312,500

  - 311,100,000 shares out of the 401,031,250 shares for subscription have been ring-fenced for subscription by preference shareholders
  - The IPO will constitute 20% of the Ordinary Share Capital of the Bank
- **Offer Price and premium**
  - The Offer Price of MWK10.00 will not carry a share premium as the shares have been issued at no par value
- **Purpose of the IPO and use of proceeds**
  - Application for a listing on the Main Board of the MSE of 20% of the issued ordinary shares of FDH by way of an offer for sale and offer for subscription as prescribed in the Listings Requirements to:
    - Raise capital to support future growth
    - Fulfil a contractual obligation with the GoM, as part of the MSB acquisition, to list FDH and allow GoM to dispose of its entire shareholding in FDH
    - Allow existing shareholders to dispose part of their shareholding in FDH
  - There will be no further amounts other than the proceeds of this Issue which will be utilised in respect of the above
- **Other Listings**
  - The Shares of FDH are not currently listed on any other stock exchange

Oversubscription allotment policy

- To be determined by the Directors of FDH in consultation with the Lead Corporate Advisor to:
  - Achieve an appropriate diversity of shareholders to enhance the capital markets in Malawi
  - Comply with MSE listing guidance wherein the basis of allotment is calculated in such a way that a category of investor will not, in respect of his application, receive an allocation of a lesser number of Shares than any other investor in the same category that applied for a lesser amount
- The Company reserves the right to accept or refuse any application, either in whole or in part, or to accept some applications in full and others in part in such manner as it may, in its sole and absolute discretion, determine whether the Offer is over or undersubscribed

Options and preferential rights in case of oversubscription

In the event of an oversubscription, bank account holders and employees, will at the recommendation of the Directors and the discretion of the shareholders, be given preferential entitlement and allotted shares prior to all other applicants. In this instance all other outstanding subscriptions will be allotted Offer Shares after all employees, customers and directors of FDH that applied for shares have been allotted

No options to purchase any securities of the Company have been granted or exercised by any of the Directors in the preceding year from the date of the Prospectus

Underwriters

- The Offer has been underwritten in full by underwriters detailed in the table below in return for an underwriting commission of 1.5%. At the date of the Prospectus, the underwriters did not have any interests in FDH

	First Discount House Ltd	Cedar Capital Ltd	Reunion Insurance Ltd
Address	Umoyo House P.O. Box 512 Blantyre, Malawi	Livingstone Towers P.O. Box 3340 Blantyre, Malawi	Reunion House Maselema Private Bag 242, Blantyre, Malawi
Date of Incorporation	8th March 2000	20th December 2007	3rd May 2005
Directors	Dr. Nathan. Mpinganjira Mark Mikwamba Edith Jiya George Chitera Mike Chiwalo	C. S Chilingulo A.N. Kamphoni J.R. Waters	Dr Thomson F Mpinganjira C. Mtonda H. Shamu O Chimwaza Dr. N. Chauluka P.Kalanda B. Mandoloma D. Ngwalo B Kanjinga
Auditors	Deloitte	Crowe Howarth	Audit Consult
Bankers	FDH	First Capital Bank and Standard Bank Limited	FDH and National Bank of Malawi
Issued Share Capital	MWK150,000,000	MWK6,328,682	MWK750,000,000
Amount underwritten	MWK6,691,062,500	MWK2,000,000,000	MWK2,000,000,000
Number of shares	669,106,250	200,000,000	200,000,000
% of IPO shares offered to the public*	62.5%	18.75%	18.75%

* The underwritten shares are the Offer Shares, excluding the 311,100,000 shares ring-fenced for subscription by preference shareholders

- The Company has not had a previous IPO and therefore has not entered into any underwriter agreement, for any commission payable to any person for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions for any securities of FDH

Commissions paid

- No commission or fees were paid, or discounts and/or rebates offered to acquire any shares in FDH within the three years preceding the date of this Prospectus

Minimum subscription

- The minimum subscription required to satisfy the minimum listing criteria as prescribed by the MSE is 30 million shares bearing an offer value of not less than MWK500mn and a minimum of 300 Shareholders

Listing fees

- The expenses of the Listing are estimated at approximately MWK782,911,857 and include the following:

Advisor	Role	MWK
Professional Fees		
Ernst & Young	Lead advisor	379,556,719
Continental Capital Limited	Sponsoring broker	28,000,000
Tembenu, Masumbu & Co	Legal advisor	50,000,000
Deloitte	Reporting accountant	47,489,000
NICO Asset Managers Limited	Transfer secretaries	10,000,000
Refer to corporate information	Underwriters	160,365,937
Refer to corporate information	Receiving banks	15,000,000
Corporate Graphics	PR and marketing	29,500,000
Other Fees		
MSE listing expenses	-	25,100,200
Advertising expenses		37,900,000
Total		**782,911,857**

- Note: All fees shown above exclude relevant taxes
- The fees will be paid out of the proceeds of the Offer

Offer timelines

Event	Date
Publication of Pre-Listing Statement in local press	29 June 2020
Offer opens at 09:00	29 June 2020
Offer closes at 17:00	17 July 2020
Results of the Offer submitted to MSE	24 July 2020
Allotment announcement to public	28 July 2020
Latest date for issuing of share allocation letters and refunds	28 July 2020
Listing of FDH on MSE	3 August 2020

Jurisdiction

- The Offer does not constitute an offer to issue or sell, or the solicitation of an offer to subscribe for or buy, securities in any jurisdiction in which such an offer or solicitation would be unlawful

Application for Offer Shares

- Applications must be made in accordance with the Terms and Conditions set out in Appendix 4 of this Prospectus
- Applicants may obtain a copy of the Prospectus, Application Forms and Central Securities Depository ('CSD') Forms from any registered bank and branch of the Receiving Banks listed in Appendix 3 of this Prospectus or Applicants may download from FDH Bank's investor page: https://www.fdh.co.mw/investor
- To make a digital application for the Offer Shares, Applicants can use either the FDH OneClick or FDH Mobile Smart App as detailed in the Terms and Conditions in Appendix 4 of this Prospectus
- Applicants who do not have a CSD account will need to complete the CSD form
- Completed applications shall constitute an offer to FDH for IPO shares, and shall not constitute an acceptance of the Offer contained in this Prospectus

Terms and Conditions of the Offer

- The Terms and Conditions of the offer including multiple applications, procedures for acceptance, payment and document title are included in Appendix 4 of this Prospectus

Consents

- All advisors and consultants named in the Corporate Information, namely, the Lead Corporate Advisor, Legal Advisor, Reporting

Accountant, Sponsoring Broker, Transfer Secretary, Media and Communications Agency have given and have not withdrawn their consents to the issue of this Prospectus with the inclusion herein, where applicable, of their reports, references to those reports, their names and references to their names, in the form and context in which these appear

- **Investor relations**
  - The Company has undertaken to provide fair access to information to its shareholders. Investors are invited to visit FDH's investor relations web page https://www.fdh.co.mw/investor/ for all Listings communications, regulatory announcements, annual reports, and other investment related information in accordance with the MSE Listing Requirements
  - The contents of the FDH websites do not form part of the Prospectus, and prospective investors should not rely on them
- **Documents available for inspection**
  - Copies of the following documents may be inspected at the head office of FDH by arrangement with the Company Secretary during normal business hours on any Business Day for 21 days from the date of this Prospectus:
    - The Company's Memorandum and Articles of Association;
    - Certificate of incorporation and registration;
    - Material contracts: Underwriting agreements;
    - Trust Deed and the Rules setting up the Employee Share Ownership Plan;
    - The audited financial statements of FDH Bank for the financial years ended 31st December 2019, 31st December 2018 and 31st December 2017 and the auditors' reports thereon;
    - The reporting accountant's report on the profit forecast for FDH Bank Plc;
    - A written statement signed by the reporting accountant setting out the adjustments made by them in arriving at the figures shown in their report giving the reasons therefor;
    - Copies of Special Resolutions;
    - Statement of legal compliance; and
    - Written consents from advisors
- **Disclosures relating to FDH**
  - The share capital of the Company as at 31st December 2019 was:

	31 December 2019
Authorized share capital 500,000,000 Ordinary Shares of K1 each	MWK500,000,000
Issued and fully paid share capital 462,706,000 Ordinary Shares of K1 each	MWK462,706,000

  - Proforma share capital post IPO:

	Post IPO
Authorized share capital	10,000,000,000 Ordinary Shares at no par value
Issued and fully paid share capital	6,901,031,250 Ordinary Shares at no par value

- The Company's share capital is at no par value. Furthermore:
  - There are no FDH shares with options or preferred rights in respect of the Company's share capital
  - Other than as disclosed in terms of this Prospectus, there have been no alterations to FDH's share capital since its incorporation
  - The Company does not have any outstanding debenture capital and has not entered into any contract or agreement to issue any debenture capital
- **Current major shareholders and indicative shareholding**
  - As at the date of this Prospectus, shareholders of FDH are as follows:

Shareholder	Number of shares	Interest
FDHFHL	6,089,200,000	93.68%
GoM	327,600,000	5.04%
MSB ESOP	83,200,000	1.28%

Shareholder	Number of shares	Interest
FDHFHL	5,437,625,000	78.79%
MSB ESOP	83,200,000	1.21%
Public	1,380,206,250	20.00%

- It is envisaged that individual investors will take up to 10% of the Offer and institutional investors will take up to 90% of the Offer

- **Extracts from the FDH Articles of Association relating to share capital**

  - **Article 37: Rights on issue of shares**

    - Where the equity of the Company includes shares with different voting rights, the designation of each class of shares other than those with the most favourable rights shall include the words 'restricted voting' or 'limited voting'; where any preference shares are issued which do not carry voting rights, the words 'non-voting' will appear in the designation of such shares. All equity shares shall have unrestricted right to vote

  - **Article 38: Variation of class rights**

    - If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of that class) may, whether or not the company is being wound up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of these articles relating to general meetings shall apply mutatis mutandis

  - **Article 99: Alterations to share capital**

    - The company may from time to time by special resolution:

      - Increase the share capital by such sum as the resolution shall prescribe

      - Consolidate and divide all or any of its share capital into shares of larger amount

      - Sub-divide its shares or any of them into shares of smaller amounts

      - Cancel any shares which at the date of passing of the resolution, have not been taken or agreed to be taken by any person and reduce the amount of its authorized share capital by the amount of shares so cancelled

  - **Unissued Shares**

    - At the date of this Prospectus the unissued shares subject to the Offer are under the control of the Directors. Following the Offer the remaining 3,098,968,750 unissued shares of FDH Bank will remain under the control of the Directors.

  - **Dividend Policy**

    - The Company's dividend policy shall be based on the following major priorities:

      - To ensure that the Company maintains adequate capital to sustain its current level of business as well as for future growth opportunities

      - To ensure that sufficient amounts of dividends are paid out to the shareholders

      - The Directors may by ordinary resolution declare dividends and the Directors may decide whether or not to pay dividends (whether interim or final) and in what amounts based on results from operations, cash flows, financial condition, capital adequacy ratios, future expansion plans, statutory, regulatory and internal restrictions on the payment of dividends and other relevant factors at any point in time

      - The Directors may declare and recommend payment of dividend of up to 80% (Eighty Percent) of the profit after tax every financial year. The declaration for payment of dividend shall be made at the time of adoption of audited financial statements of the Company by the Board or within sixty days of the adoption of the financial statements by the Directors

      - Dividends shall be payable to shareholders registered as at a date subsequent to the date of declaration or date of confirmation of the dividend whichever is the later. A period of at least fourteen days shall be allowed between the date of declaration or confirmation of the dividend, whichever is later, and the date of the closing of the transfer registers in respect of such dividend

- The timeframe relating to the declaration and payment of dividends is envisaged as follows:

Dividend type	Event	Period
Interim dividend	Declaration	August
	Closing transfer register	September
	Payment	September
Final dividend	Declaration	April
	Closing transfer register	May
	Payment	May

- All dividends or other sums which are payable in respect of shares and are unclaimed after having been declared or become payable, shall be dealt with as follows:
  - The payment of any such dividend or other sum into a separate account shall not make the company a trustee in respect of it provided that:
    - Six years have passed from the date on which a dividend or other sum became due for payment, and
    - The distribution recipient has not claimed it, such money shall be paid into the Trust Fund established by the Secretary to the Treasury in accordance with sections 41 and 44 of the Public Finance Management Act
- The Company does not have an existing arrangement in which future dividends may be waived.
- Extracts from the Articles of Association of FDH relating to the dividend policy are detailed in Appendix 1

Litigation

- At the time of publication of this Prospectus, FDH was in litigation proceedings which have not had a significant effect on the financial position of the Bank during the preceding 12-month period and in relation to which:
  - Matters being litigated comprise claims arising out of employment contracts by former employees and other contracts as well as litigation taken up by the Bank against customers defaulting on their loan obligations with the Bank
  - Claims arising out of contracts of employment comprise a combination of liquidated damages as well as unliquidated damages. All of these are being contested by the Bank, with reasonable chances of success

Borrowings

- The Bank had the following borrowings as at 31st December 2019 as further detailed in notes 15 and 16 of the Reporting Accountant's Report in Appendix 2:

Lender	Facility type	Currency	Approved amount	Tenor	Pricing	Carrying amount
FDH Financial Holdings Limited	Unsecured term loan	MWK'000	2,500,000	5 years	6-month average yield for 364 day Treasury bills plus 2%	2,606,543.00
Dutch Bank FMO	Unsecured term loan	USD	7,500,000	5 years	3 month's Libor plus 4%	7,560,770.83
Land O Lakes	Unsecured term loan	USD	250,000	2 years	4%	259,777.78

- FDH does not have any issued loan capital, debentures or debenture stock

Contingent liabilities

- The Directors confirm that, other than as disclosed in the Reporting Accountant's Report, there are no outstanding contingent liabilities which the Directors are aware of and which may have a material effect on the Company's financial position

Material property leases

- FDH's main leases are detailed as follows:

Name	Location	Area (sqm/ha)	Rental per annum (MWK)	Date lease effective	Lease expiry date
Head office: FDH House	Blantyre	2,804 sq. meters (internal floor area)	620,356,550	01/01/2020	31/12/2020
Umoyo House	Blantyre	2,452.30 sq. meters	89,644,800	01/01/2020	31/12/2021
Mzuzu Service Centre	Mzuzu	875 sq. meters	106,233,159	01/01/2020	31/12/2022
Lilongwe Old Town (1&2)	Lilongwe	220 sq. meters	55,056,000	01/11/2019	31/10/2022
Bwaila Service Centre	Lilongwe	180 sq. meters	23,779,980	01/02/2018	31/01/2023
Lilongwe City Mall	Lilongwe	69 sq. meters	18,147,600	01/01/2020	31/12/2020

- The Bank conducts its business primarily from leased premises and approximately 55% of the premises are leased from MSB Properties Limited which is a related party. Approximately 35% of the premises are leased from third parties and approximately 10% are premises owned by the Bank

- The Company's headquarters are located in Blantyre at FDH House and Umoyo House which are related party and third party leased properties respectively. There are currently no proposed expansion plans or capital commitments for the FDH operations which may require further space. In the long term the Bank may consider the option of further leasing where the need arises

Material changes

- FDH acquired the entire equity of MSBP for MWK5.6bn on 31st March 2020 on the basis of a valuation performed by Knight Frank as at 19th December 2019

- The Directors report that to the best of their knowledge there have been no further material changes in the financial or trading position of the Company since the date of the last financial statements for the year ended 31st December 2019, other than in the ordinary course of business, or as set out in this Prospectus

Significant contracts

- There are no other material contracts outside the ordinary course of business currently in force or which have existed since the incorporation of FDH

- The material contracts are as follows:

Supplier	Period	Date Entered	Expiry Date	Description
Temenos	10 years	26/02/2020	25/02/2030	Provision and support of core banking system
Microsoft Enterprise	3 years	08/04/2018	30/04/2021	Provision and support on Microsoft applications
ICPS Consultants	5 years	19/12/2018	18/12/2023	Provision of the MasterCard management system
Liquid Telecom	5 years	27/06/2019	26/06/2024	Provision of support on ATM, POS machines and cards
Net Guardian	5 years	25/01/2018	24/01/2023	Provision of fraud prevention software
Sybrin Limited	5 years	01/02/2020	31/01/2025	Provision of cheque management and customer KYC documentation management system
Edgetech Consultancy	5 years	01/10/2016	30/09/2021	Provision of mobile banking solution and support
Edgetech Consultancy	10 years	26/02/2019	25/02/2029	Provision of bulk disbursement and internet banking system
Strategic Consulting Ltd	2 years	01/09/2018	31/08/2020	Provision of T24 Servers Database management
Thomson Reuters	1 year	01/11/2019	30/10/2020	Provision of trading and information sharing between licenced financial institutions and organisations
Swift	1 year	01/01/2020	31/12/2020	Messaging and settlement statement for international transfers

Disposal and re-acquisition of investment

- The Bank disposed of its investment in MSBP on 28th February 2018 to FDH Money Bureau Ltd, whose registered address is P.O. Box 512, Umoyo House, Victoria Avenue, Blantyre, Malawi, for a consideration of MWK3.7bn based on a valuation performed by Knight Frank as at 31st December 2017

- FDH re-acquired the entire equity of MSBP for MWK5.6bn on 31st March 2020 also on the basis of a valuation performed by Knight Frank as at 19th December 2019

- **Related party transactions**
  - The Directors confirm that, other than as disclosed in the Reporting Accountant's Report, there are no related party transactions which the Directors are aware of which may have a material effect on the Company's financial position as disclosed in note 10 of the Reporting Accountant's Report
  - FDH transacts its business on an arm's length basis with related parties in the following categories:
    - Transactions between the Bank and its parent company, FDHFHL and other subsidiaries within the group
    - Transactions relating to loans and advances made to companies and firms in which some of the Directors have interests
    - Payments in respect of loans, interest, other payments such as rent, advisory fees, Directors remuneration and property management fees payable to shareholders or companies in which some shareholders have interests
    - Loans and advances made to members of staff
- **Vendors**
  - No purchases in excess of 15% of shareholder funds at the time of the transaction have been made or acquired by FDH in the last three years prior to the date of this Prospectus
- **Compensation of key management personnel:**

MWK'000	FY19A	FY18A	FY17A
Salaries	1,084,346	1,824,973	2,089,671
Benefits	516,548	618,433	610,448
Total	**1,600,894**	**2,443,406**	**2,700,119**

  - Key management personnel are detailed in Part 2 of the Prospectus
- **Capital commitments**
  - The following capital commitments have been made by the Bank in the last 3 years:

MWK'000	2017	2018	2019
Furniture and fittings	162,272,554	52,530,314	348,164,691
Buildings / branch renovations	673,826,357	1,044,439,967	108,951,326
TOTAL	**836,098,911**	**1,096,970,281**	**457,116,017**

  - There were no outstanding capital commitments as at 31st December 2019
- **Declarations of Directors**
  - **Directors renumeration**
    - The remuneration paid to the Board of Directors is approved by the Company in a general meeting and the remuneration paid to the Directors in FY17A, FY18A and FY19A is as follows:

Currency: MWK'000	FY17A	FY18A	FY19A
Fees	120,120	136,052	152,100
Sitting allowance	23,000	18,275	84,147
Total	**143.12**	**154.33**	**236.25**
Executive directors' earnings MWK'mn	264.12	351.6	416.4

    - Other than the Managing Director and the Deputy Managing Director, no other Directors are employed by FDH Bank on a fixed term or permanent contract basis
    - There are no sums which have been paid or agreed to be paid to any Director to either induce them to become a Director or in connection with the promotion of FDH
    - There will be no variations in the remuneration being paid to the Directors of FDH as a result of the IPO
  - **Directors' interest in securities**
    - As at the date of this Prospectus none of the Directors hold any shares in the Company

- Edith Jiya has indirect non-beneficial interest as she is CEO and director at Old Mutual Malawi Ltd, a director at Old Mutual Pension Services Co Ltd, Old Mutual Life Assurance Co Ltd, FDH Financial Holdings and First Discount House, and the Chairperson of Old Mutual Investment Group Ltd
- William Mpinganjira has indirect non beneficial interest as he is a non-executive director at M. Development Limited
- Mark Mikwamba has an indirect non-beneficial interest in the Company as he is the Managing Director at Old Mutual Investment Group Ltd, and is involved in providing investment advice to Old Mutual clients. Further, Mark Mikwamba has declared a conflict of interest regarding the IPO valuation due to his involvement on behalf of Old Mutual Malawi in the shareholder discussions disclosed in *2. Shareholders and related companies*, on page 12 of this Prospectus. Consequently, he signs this Prospectus without prejudice to that declaration of conflict of interest
- Arthur Oginga has indirect non-beneficial interest as he is non-executive director of Old Mutual Holdings Ltd
- Dr Nathan Mpinganjira has indirect beneficial interest as he is shareholder and non-executive director of M.Development Ltd, the Chairman of FDHL and non-executive director of FDHFHL, FDHMBL and MSBP

- **Directors' interest in transactions**
  - No Director has an interest in any contract, arrangement or transaction entered into by FDH which is or was unusual in its nature or conditions or significant in relation to the business of FDH as a whole and which was effected during the current or immediately preceding financial year or was effected during an earlier financial year and remains in any respect outstanding or unperformed
- **Directors' interest in promotion of the Offer**
  - The Directors have not been awarded any shares by the Company or any compensation to induce them in the promotion of the sale of FDH shares pursuant to the IPO
- **Loans to Directors**
  - There are no material loans or guarantees outstanding to any Director of FDH as at 31st December 2019
- **Director borrowing powers per Article 94 of the Articles of Association of FDH**
  - The Directors may from time to time, and in accordance with existing financial laws, exercise all the powers of the Company to raise or borrow money and to mortgage or charge its undertaking and property or any part thereof, and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability of the company or of any third party
  - Provided that the aggregate amount for the time being remaining undischarged of the monies borrowed by the Company and its subsidiary companies (exclusive of inter-company borrowing and apart from temporary loans obtained from the Company's bankers in the ordinary course of business) shall not at any time, exceed a reasonable fixed amount or percentage of paid up share capital or reserves of the Company except with the consent of the Company in general meeting by ordinary resolution and the Directors will procure that the aggregate amount at any one time owing in respect to the monies borrowed by the Company (including overdue creditors) will not without consent exceed the same limit
  - The Company may, in general meeting and by ordinary resolution, issue debentures with special privileges as to allotment of shares or stock, attending and voting at general meetings, appointment of Directors or otherwise
- **Pension and compensation for loss of office**
  - No pension or compensation for loss of office is payable to any non-executive Director of FDH
- **Resignation of Directors**
  - There were two resignations from the Board in 2019:
    - Director Dr. Janet Banda, SC, served up to 30th June, 2019
    - The Managing Director, Mr. Eric Outtara served up to 30th September, 2019
- **Working capital and capital adequacy**
  - The Directors of the Company are of the opinion that:
    - The Company's working capital resources will be adequate cover for its current and foreseeable requirements
    - The Company's stated capital is adequate for the purposes of the business of the Company for the foreseeable future

- **Directors' responsibility statement**

  - The Directors of FDH Bank, whose names are given on Part 2 of this Prospectus, collectively and individually accept full responsibility for the accuracy of the information given and confirm that to the best of their knowledge and belief there are no facts the omission of which would make any statement false or misleading, that this Prospectus contains all information required by the Act, the MSE Listings Requirements and the Securities Act

  - Furthermore, the Directors confirm that the listing particulars include all such information within their knowledge (or which it would be reasonable for them to obtain by making enquiries) as investors and their professional advisors would reasonably require and reasonably expect to find for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of FDH and of the rights attaching to the securities to which the listing particulars relate

  - Signed* in Blantyre on 24th June 2020, by and on behalf of all Directors of FDH

Director's name		Director's name	
Arthur Oginga		Patrice C. Nkhono, SC	
Dr. Ellias Ngalande		Mark Mikwamba	
William Mpinganjira		Dr. Ulemu Katunga	
Dr. Nathan Mpinganjira		Harold Kuchande	
George R. Chitera		Judith P. Chirwa	
Edith Jiya		Charity Mseka	
Dr. Eric J. Sankhulani		Gertrude L. Hiwa, SC	

* Signed in the original

Appendices

APPENDIX 1
EXTRACTS OF THE ARTICLES OF ASSOCIATION

Article	Article extract
Directors' powers and responsibilities	
3 (1), (2), (3), (4), (5). Appointment, qualification and renumeration of directors	1. The company shall maintain a unitary Board of Directors comprising an appropriate balance of skills, knowledge and experience in accordance with the financial laws. The number of directors shall not be less than nine, a majority of whom shall be independent or non-executive and resident in Malawi. 2. The directors shall be appointed in writing by the members. A shareholder holding minimum of ten per cent in the share capital of the company shall be entitled to have a seat on the board of the company. 3. The remuneration of the directors shall be decided by the company in General Meeting from time to time. Such remuneration shall be deemed to accrue from day to day. The directors may also be paid all travelling, hotel and other expenses properly incurred by them in attending or returning from meetings of the directors or any committee of directors or general meetings of the company or in connexion with the business of the company. 4. The directors may from time to time appoint one or more of their number to any executive office including that of managing director, joint or assistant managing director, finance director or operations director, for such period (but not exceeding five years) and on such terms as may be approved by the company in general meeting. 5. Except as provided in these articles, the shareholding qualification for directors may be fixed by the company in general meeting, and unless and until so fixed no shareholding qualification shall be required
4. Directors' general authority	Subject to these articles, the directors shall be responsible for the management of the company's business, for which purpose they may exercise all the powers of the company except those exercisable by the company in General Meeting: PROVIDED that if the directors enter into an agreement for the sale or alienation of all or any major portion of the assets of the company, such decision shall be provisional only and be subject to ratification by members of the company.
Voting rights	
35 (2) and 50. Right to vote	35 (2) A person is able to exercise the right to vote at a general meeting when, a. that person is able to vote, during the meeting, on resolutions put to the vote at the meeting, and b. that person's vote can be taken into account in determining whether or not such resolutions are passed at the same time as the votes of all the other persons attending the meeting. 50 Where the equity of the company includes shares with different voting rights, the designation of each class of shares other than those with the most favourable rights shall include the words 'restricted voting' or 'limited voting'; where any preference shares are issued which do not carry voting rights the words 'non-voting' will appear in the designation of such shares. All equity shares shall have unrestricted right to vote.
68 (2). Joint Holders	Joint holders of a share are jointly and severally liable to pay all calls in respect of that share.
55. Rights of holders with preference shares	The voting rights of preference shares, where the holders of preference shares are entitled to vote, shall be the proportion which the nominal value of such shares bears to the nominal value of the Ordinary Shares in the capital of the company.
Variation of rights	
51. Variation of class rights	If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of that class) may, whether or not the company is being wound up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of these articles relating to general meetings shall apply mutatis mutandis.

53. Rights not varied by issues of shares pari pasu	The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking equally therewith.
54. Restriction on creation of shares ranking pari pasu with preference shares	No shares ranking in priority to or pari passu with the preference shares shall be created without the consent in writing of the holders of three-fourths of the preference shares or with the sanction of a resolution passed at a meeting of the holders of such preference shares convened and passed in the manner provided for the passing of a special resolution.
New issues of shares	
56. Power to issue shares of different classes	1. Without prejudice to the rights attached to any existing shares and subject to existing financial laws the company may issue shares with such rights or restrictions, whether in regard to dividend, voting, return on capital or otherwise as may be determined by ordinary resolution. 2. The company may issue shares which are to be redeemed, or are liable to be redeemed at the option of the company or the holder, and the directors may determine the terms, conditions and manner of redemption of any such shares.
52. Power to issue redeemable preference shares	Subject to the Act, any preference shares may, with the sanction of a special resolution, be issued on the terms that they, or at the option of the company are, liable to be redeemed on such terms and in such manner as the company may by special resolution determine.
Changes in capital	
49. Increase, consolidation and subdivision of share capital	The present share capital of the company is 10,000,000,000 (Ten Billion) Ordinary Shares with no par value, with power to increase, reduce or vary the same from time to time and also power to divide the shares in the capital whether original or increased, into several classes and to attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions as may be determined at the time of issue by or in conformity with the Articles of Association for the time being: PROVIDED that this power shall not be exercised without the prior written approval of the Reserve Bank of Malawi or compliance with financial laws which may apply from time to time
100. Existing members have first option to acquire new shares	Unless the company otherwise resolves, all new shares shall first be offered to such persons as at the date of the offer are entitled to receive notices of general meetings in proportion, as nearly as possible, to the amount of existing shares to which they are entitled. The offer shall be made by notice specifying the number of shares offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and after the expiration of that time, or on receipt of an intimation from the person to whom the offer is made that he declines to accept the offered shares, the directors may dispose of these shares in such manner as they think fit and most beneficial to the company with discretionary authority from shareholders in general meeting.
101. Reduction of share capital	The company may by special resolution reduce its share capital, any capital redemption reserve fund, share premium account or any undenominated capital in any manner and with, and subject to, any incident authorised, and consent required by law: PROVIDED that no capital which has been reduced shall be repaid upon the footing that it may be called up again.

Dividends	
85 (1 – 11). Procedure for declaring dividends	1. The company's dividend policy shall be based on the following major priorities, namely: a. to ensure that the company maintains adequate capital to sustain its current level of business as well as seize future opportunities; b. to ensure that sufficient amounts of dividends are paid out to the shareholders; 2. The directors may by ordinary resolution declare dividends and the directors may decide whether or not to pay dividends (whether interim or final) and in what amounts based on results from operations, cash flows, financial condition, capital adequacy ratios, future expansion plans, statutory, regulatory and internal restrictions on the payment of dividends and other relevant factors at any point in time. 3. The directors may declare and recommend payment of dividend of up to eighty percent (80%) of the profit after tax every financial year. The declaration for payment of dividend shall be made at the time of adoption of audited financial statements of the company by the Board or within sixty days of the adoption of the financial statements by the directors. 4. The directors may declare interim or special dividend in accordance with this article. No dividend may be declared or paid unless it is in accordance with members' respective rights. 5. Unless the members' resolution to declare or directors' decision to pay a dividend, or the terms on which shares are issued, specify otherwise, it shall be paid by reference to each member's holding of shares on the date of the resolution or decision to declare or pay it. 6. If the company's share capital is divided into different classes, no interim dividend may be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrears. 7. The directors may pay at intervals any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment. 8. If the directors act in good faith, they shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on shares with deferred or non-preferred rights. 9. In the event that the directors declare an interim dividend prior to the publication of the annual accounts, the dividend notice given to the shareholders shall contain a statement of the ascertained or estimated combined net trading profits of the company or group for the year, and any abnormal receipts or payments, detail appropriation of those profits as well as profits for the past years or other special source, to provide wholly or partly for the dividend. 10. Dividends shall be payable to shareholders registered as at a date subsequent to the date of declaration or date of confirmation of the dividend whichever is the later. A period of at least fourteen days shall be allowed between the date of declaration or confirmation of the dividend, whichever is that later, and the date of the closing of the transfer registers in respect of such dividend. 11. The directors shall have the power to amend the dividend policy subject to approval by the company in general meeting.
86. Calculation of dividends	1. Except as otherwise provided by these Articles or the rights attached to shares, all dividends shall be: a. declared and paid according to the amounts paid up on the shares on which the dividend is paid; and b. apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. 3. If any share is issued on terms providing that it ranks for dividend as from a particular date that share ranks for dividend accordingly. 4. For the purposes of calculating dividends, no account shall be taken of any amount which has been paid up on a share in advance of the due date for payment of that amount.

87 (1). Payment of dividends	1. Where a dividend or other sum which is a distribution is payable in respect of a share, it shall be paid by one or more of the following means: a. transfer to a bank account specified by the distribution recipient either in writing or as the directors may otherwise decide; b. sending a cheque made payable to the distribution recipient by post to the distribution recipient at the distribution recipient's registered address (if the distribution recipient is a holder of the share), or (in any other case) to an address specified by the distribution recipient either in writing or as the directors may otherwise decide; c. sending a cheque made payable to such person by post to such person at such address as the distribution recipient has specified either in writing or as the directors may otherwise decide; or d. any other means of payment as the directors agree with the distribution recipient either in writing or by such other means as the directors decide. 2. In the articles, "the distribution recipient" means, in respect of a share in respect of which a dividend or other sum is payable – a. the holder of the share; b. if the share has two or more joint holders, whichever of them is named first in the register of members; or c. if the holder is no longer entitled to the share by reason of death or bankruptcy, or otherwise by operation of law, the transmittee
90 (1 – 3). Unclaimed distribution	1. All dividends or other sums which are: a. payable in respect of shares; and b. unclaimed after having been declared or become payable, shall be dealt with in the manner stipulated in this article. 2. The payment of any such dividend or other sum into a separate account shall not make the company a trustee in respect of it. 3. If, a. six years have passed from the date on which a dividend or other sum became due for payment; and b. the distribution recipient has not claimed it, such money shall be paid into the Trust Fund established by the Secretary to the Treasury in accordance with sections 41 and 44 of the Public Finance Management Act.

Borrowing	
92 (1). Borrowing powers	1. Subject as provided by this article, the directors may from time to time, and in accordance with existing financial laws, exercise all the powers of the company to raise or borrow money and to mortgage or charge its undertaking and property or any part thereof, and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability of the company or of any third party: PROVIDED that the aggregate amount for the time being remaining undischarged of the monies borrowed by the company and its subsidiary companies (exclusive of inter-company borrowing and apart from temporary loans obtained from the company's bankers in the ordinary course of business) shall not at any time, exceed a reasonable fixed amount or percentage of paid up share capital or reserves of the company (as determined by the members in general meeting whose details shall be available for inspection by any member at the company's registered offices) except with the consent of the company in general meeting by ordinary resolution and the directors will procure that the aggregate amount at any one time owing in respect to the monies borrowed by the company (including overdue creditors) will not without consent exceed the same limit. 2. The company may, in general meeting and by ordinary resolution, issue debentures with special privileges as to allotment of shares or stock, attending and voting at general meetings, appointment of directors or otherwise
Transfer of shares	
80. Transmission of shares	1. Where title to a share passes to a transmittee, the company may only recognize the transmittee as having any title to that share. 2. Nothing in these articles releases the estate of a deceased member from any liability in respect of a share solely or jointly held by that member.
81. Transmittees' rights	1. A transmittee who produces such evidence of entitlement to shares as the directors may properly require, a. may, subject to these articles, choose either to become the holder of those shares or to have them transferred to another person; and b. subject to these articles, and pending any transfer of the shares to another person, has the same rights as the holder had. 2. A transmittee shall not have the right to attend or vote at a general meeting in respect of shares to which they are entitled, by reason of the holder's death or bankruptcy or otherwise, unless they become the holders of those shares.
76 (5). Directors may decline to register transfers	The directors may refuse to register the transfer of a certificated share if, a. the share is not fully paid; b. the transfer is not lodged at the company's registered office or such other place as the directors have appointed; c. the transfer is not accompanied by the certificate for the shares to which it relates, or such other evidence as the directors may reasonably require to show the transferor's right to make the transfer, or evidence of the right of someone other than the transferor to make the transfer on the transferor's behalf; d. the transfer is in respect of more than one class of share; or e. the transfer is in favour of more than four transferees.
76 (6). Notice of refusal	Where the directors refuse to register the transfer of a share, the instrument of transfer shall be returned to the transferee with the notice of refusal unless they suspect that the proposed transfer may be fraudulent.
Appointment of Directors	
3 (1). Number of directors	The company shall maintain a unitary Board of Directors comprising an appropriate balance of skills, knowledge and experience in accordance with the financial laws. The number of directors shall not be less than nine, a majority of whom shall be independent or non-executive resident in Malawi.
3 (2). Entitlement to directorship	The directors shall be appointed in writing by the members. A shareholder holding a minimum of ten per cent in the share capital of the company shall be entitled to have a seat on the board of the company.

22 (1). Retirement of directors by rotation	At the annual general meeting of a company, one-third of the directors for the time being, (except any executive directors whose contracts have not expired) shall retire from office, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office.
12 (1). Persons eligible for re-election	The directors may act notwithstanding any vacancy in their body, but, if and so long as their number is reduced below the number fixed by or pursuant to the number set by these articles as the minimum number of directors, the continuing director or directors may act for the purpose of increasing the number of directors or of summoning a general meeting of the company, but for no other purpose. Any director so appointed shall hold office until the next following annual general meeting and shall be eligible for re-election but shall not be taken into account in determining the directors who are to retire by rotation at such meeting.
23. Termination of directors' appointment	A person shall cease to be a director as soon as- a. that person ceases to be a director by virtue of any provision of the Act or is prohibited from being a director by law; b. a bankruptcy order is made against that person; c. a composition is made with that person's creditors generally in satisfaction of that person's debts; d. a registered medical practitioner who is treating that person gives a written opinion to the company stating that that person has become physically or mentally incapable of acting as a director and may remain so for more than three months; e. by reason of that person's mental health, a court makes an order which wholly or partly prevents that person from personally exercising any powers or rights which that person would otherwise have; or f. notification is received by the company from the director that the director is resigning from office as director, and such resignation has taken effect in accordance with its terms.
24. Members' power to remove directors	The members may by ordinary resolution at a general meeting, of which special notice has been given in accordance with Section 169 of the Act, remove any director before the expiration of his period of office notwithstanding anything in these articles or in any agreement between the company and such director. Such removal shall be without prejudice to any claim such director may have for damages for breach of contract of service between him and the company.
Qualification of Directors	
3 (5). Qualification	Except as provided in these articles, the shareholding qualification for directors may be fixed by the company in general meeting, and unless and until so fixed no shareholding qualification shall be required.
Remuneration of Directors	
3 (3). Directors' remuneration	The remuneration of the directors shall be decided by the company in General Meeting from time to time. Such remuneration shall be deemed to accrue from day to day. The directors may also be paid all travelling, hotel and other expenses properly incurred by them in in attending or returning from meetings of the directors or any committee of directors or general meeting of the company or in connexion with the business of the company.
26. Directors' expenses	The company may pay any reasonable expenses which the directors properly incur in connection with their attendance at: a. meetings of directors or committees of directors, b. general meetings, or c. separate meetings of the holders of any class of shares or of debentures of the company, or otherwise in connection with the exercise of their powers and the discharge of their responsibilities in relation to the company.

Deloitte.

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The Directors
FDH Bank Plc
Umoyo House
P.O Box 512
BLANTYRE

Members of the Board

INDEPENDENT REPORTING ACCOUNTANT'S REPORT ON THE HISTORICAL FINANCIAL INFORMATION INCLUDED IN THE PROSPECTUS OF FDH BANK PLC

We have compiled the accompanying historical financial information of FDH Bank Plc based on information you have provided. The historical financial information comprises the statement of financial position as at 31 December 2019, and the statements of comprehensive income for the year then ended and for each of the years ended 31 December 2019 and 31 December 2018, statements of changes in equity and statements of cash flows and, a summary of significant accounting policies and related explanatory information.

Deloitte, Chartered Accountants (Malawi) of P.O. Box 187 were the external auditors of FDH Bank Plc for the years ended 31 December 2019 and 31 December 2018 and reported on the financial statements for the aforementioned years without modification.

The full financial statements from which the financial information has been derived are available for inspection at FDH Bank registered office in Umoyo House, 8 Victoria Avenue North, P.O. Box 512, Blantyre, Malawi.

No financial statements have been made up since the end of the last financial period.

RESPONSIBILITIES OF THE REPORTING ACCOUNTANT

We performed this compilation engagement in accordance with International Standard on Related Services 4410 (Revised), Compilation Engagements.

We have applied our expertise in accounting and financial reporting to assist you in the preparation and presentation of the historical financial information in compliance with the Malawi Stock Exchange Listings requirements. We have complied with relevant ethical requirements, including principles of integrity, objectivity, professional competence and due care.

Since a compilation engagement is not an assurance engagement, we are not required to verify the accuracy or completeness of the information you provided to us to compile this historical financial information. Accordingly, we do not express an audit opinion or a review conclusion on this historical financial information.

RESPONSIBILITIES OF THOSE CHARGED WITH GOVERNANCE

The Directors of FDH Bank Plc are responsible for the preparation of the historical financial statements from which the Reporting Accountant's Report has been prepared. The directors are also responsible for the preparation of the prospectus to which this report relates and the information contained therein.

We consent to the inclusion of this report which forms part of the prospectus to be issued on 29th June 2020 in the form and content in which it appears.

Deloitte

Nkondola Uka

Partner
18th June 2020

Partners: NT Uka VW Beza CA Kapenda MC Mwenelupembe (Mrs) KCD Msimuko
Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019	2018
		K'000	K'000
ASSETS			
Cash and Balances with Reserve Bank of Malawi	5	7 062 293	14 885 769
Malawi Government Treasury bills, Promissory notes and Reserve Bank of Malawi Bonds	6	46 955 149	39 552 133
Placements with other banks	7	31 750 661	26 084 042
Other short term investments – OMO	8	-	5 496 484
Loans and Advances to customers	9	56 813 895	40 689 341
Amounts due from related parties	10	-	791 525
Other receivables and prepayments	11	33 412 868	12 562 833
Other investments	12	31 032	26 032
Property, Plant and equipment	13	8 631 509	8 085 928
Intangible assets	14	2 350 619	2 010 463
Right-of-use assets	3.17	1 692 380	-
Deferred tax assets	20	-	2 009 226
Current tax asset		-	575 132
TOTAL ASSETS		**188 700 406**	**152 768 908**
LIABILITIES AND EQUITY			
LIABILITIES			
Amounts due to related parties	10	-	3 444
Shareholders' loan	15	2 606 543	2 729 144
Long term loan	16	5 760 919	5 454 618
Liabilities to customers	17	137 140 830	112 570 264
Liabilities to financial institutions	18	10 301 285	4 504 286
Payables and accruals	19	6 653 457	11 621 378
Lease liabilities	3.17	1 719 042	-
Income tax payable		1 550 102	-
Deferred tax liabilities	20	294 753	-
Total liabilities		**166 026 931**	**136 883 134**
EQUITY			
Share capital		462 706	462 706
Share premium		7 450 660	7 450 660
Capital reserve		2 716 230	2 716 230
Preference shares		3 111 000	3 111 000
Loan loss reserve		495 078	290 733
Retained earnings		8 437 801	1 854 445
Total equity		22 673 475	15 885 774
TOTAL EQUITY AND LIABILITIES		**188 700 406**	**152 768 908**
Memorandum items			
Guarantees and letters of credit	**21**	**32 386 342**	**15 588 105**

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019	2018
		K'000	K'000
INCOME			
Interest earned	22	16 343 445	14 781 015
Interest expense	22	(7 766 556)	(6 734 599)
Net interest income	22	8 576 889	8 046 416
Commissions and other fee income	23	25 812 682	21 019 785
Total income		**34 389 571**	**29 066 201**
EXPENDITURE			
Administrative costs		(12 954 872)	(11 552 668)
Employee benefits costs		(9 209 017)	(7 920 807)
Total expenditure		(22 163 889)	(19 473 475)
Profit before tax and net impartment losses	24	12 225 682	9 592 726
Impairment losses	9	(482 634)	(1 436 186)
Profit before tax		11 743 048	8 156 540
Taxation	25	(3 896 684)	(2 191 098)
PROFIT FOR THE YEAR		**7 846 364**	**5 965 442**
Basic earnings per share (tambala)	**26**	**113.7**	**86.4**

There were no items of other comprehensive income during the year ended 31st December 2019 (2018: nil).

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital	Share premium	Capital reserve	Preference shares	Loan loss reserve	Retained earnings	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
31 December 2018							
At the beginning of the year	462 706	7 450 660	2 716 230	3 111 000	1 269 702	(5 089 966)	9 920 332
Transfer to retained earnings	-	-	-	-	(978 969)	978 969	-
Profit for the year	-	-	-	-	-	5 965 442	5 965 442
At the end of the year	**462 706**	**7 450 660**	**2 716 230**	**3 111 000**	**290 733**	**1 854 445**	**15 885 774**
31 December 2019							
At the beginning of the year	462 706	7 450 660	2 716 230	3 111 000	290 733	1 854 445	15 885 774
Transfer from retained earnings	-	-	-	-	204 345	(204 345)	-
IFRS 16 transitional adjustment	-	-	-	-	-	(26 662)	(26 662)
Deferred tax on transitional adjustment	-	-	-	-	-	7 999	7 999
Profit for the year	-	-	-	-	-	7 846 364	7 846 364
Dividend paid	-	-	-	-	-	(1 040 000)	(1 040 000)
At the end of the year	**462 706**	**7 450 660**	**2 716 230**	**3 111 000**	**495 078**	**8 437 801**	**22 673 475**

	2019	2018
	K'000	K'000
Analysis of share capital		
Authorised 500,000,000 (2018: 500,000,000) Ordinary shares of K1 each	500 000	500 000
Issued and fully paid 462,706,000 (2018: 462,706,000) Ordinary shares of K1 each	462 706	462 706

Share capital and share premium
Additional share capital was issued in June 2017, as a way of recapitalising the Bank. The total amount issued as additional share capital was K6.3 billion, including share premium of K6.1 billion.

Capital reserve
Included in capital reserve is a transfer of share capital and share premium of MSB Limited on merger of MSB Limited and FDH Bank Limited.

Preference share capital
The preference shares of a total value of K3 111 000 000 were issued on 30^{th} June 2017. The shares are irredeemable and non-cumulative.

STATEMENTS OF CASHFLOWS

For the year ended 31 December 2019

	Notes	2019 K'000	2018 K'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		11 743 048	8 156 540
Adjustments for:			
▸ Depreciation of property, plant and equipment	13	1 807 479	1 594 150
▸ Depreciation of right of use assets	3.16	1 484 031	-
▸ Amortisation of intangible assets	14	669 530	621 079
▸ Profit on disposal of equipment		(14 162)	(48 909)
▸ Interest payable on shareholders' loan	15	375 735	405 541
▸ Interest payable on long term loan	16	408 938	13 368
▸ Interest on lease liabilities	3.16	357 142	-
▸ Movement in other receivables and prepayments		(20 850 035)	(475 393)
▸ Movement in loans and advances		(16 124 554)	(5 186 003)
▸ Movement in payables and accruals		(4 967 921)	(10 108 240)
▸ Movement in amount due from related parties		791 525	(165 308)
▸ Movement in liabilities to customers		24 570 566	(1 639 646)
▸ Movement in liabilities to financial institutions		5 796 999	4 504 286
▸ Movement in other investments		(500)	3 676 305
▸ Movement in amount due to related parties		(3 444)	(4 468)
Cash generated from operating activities		6 039 877	1 343 302
Interest paid on lease liabilities	3.16	(357 142)	-
Interest paid on shareholders loan	15	(375 735)	(405 541)
Interest paid on long term loan	16	(284 012)	-
Taxation claimed		532 529	347 736
Net cash generated from operating activities		**5 555 517**	**1 285 497**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of equipment		28 429	175 930
Movement in treasury bills investments		(4 543)	2 124 583
Purchase of intangible assets	13	(1 009 686)	(365 124)
Purchase of plant and equipment	12	(2 367 327)	(3 990 796)
Increase in right-of- use assets	3.16	(3 176 411)	-
Net cash used in investing activities		(6 529 538)	(2 055 407)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		(1 040 000)	-
Increase in shareholder's loan	15	-	2 500 000
Repayment of shareholder's principal loan		(122 601)	(276 230)
Increase in long term loan	16	181 375	5 441 250
Increase in lease liabilities		1 700 379	-
Net decrease in cash generated from financing activities		719 153	7 665 020
Net (decrease)/ increase in cash and cash equivalents		**(254 868)**	**6 895 110**
Cash and cash equivalents at beginning of the year		**64 254 574**	**57 359 464**
Cash and cash equivalents at end of the year		**63 999 706**	**64 254 574**
Cash and cash equivalents comprise:			
Cash and funds with the Reserve Bank of Malawi		7 062 293	14 885 769
Malawi Government Treasury bills (maturing within 3 months)	(Note 6)	25 186 752	17 788 279
Placements with other banks (maturing within 3 months) (Note 29c)		31 750 661	31 580 526
		63 999 706	64 254 574

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

The Bank is engaged in the business of commercial banking. The Bank is incorporated in Malawi and is registered under the Companies Act. The Bank is also registered under the Banking Act.

The Bank's registered office and principal place of business is Upper Ground Floor, Umoyo House, 8 Victoria Avenue North, P. O. Box 512, Blantyre, Malawi. The Bank (FDH Bank Plc) is owned by FDH Financial Holdings Limited, an investment holding company registered under the Companies Act (93.68%); Government of Malawi (5.04%) and Malawi Savings Bank (MSB) ESOP (1.28%).

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

2.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements

In the current year, the Bank has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2019.

Except for IFRS 16, the adoption of these new and revised Standards and Interpretations did not have a significant impact on the financial statements of the Bank.

Impact of initial application of IFRS 16 Leases

In the current year, the Bank has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 3. The impact of the adoption of IFRS 16 on the Bank's financial statements is described below.

The date of initial application of IFRS 16 for the Bank is 1 January 2019.

The Bank has applied IFRS 16 using the cumulative catch up approach. Comparative amounts are not restated and the liability is calculated as the present value of the outstanding rentals, discounted using the incremental borrowing rate at the date of transition. The asset is then set equal to the liability.

(a) Impact of the new Definition of a Lease

The Bank has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Bank applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Bank carried out an implementation project. The project has shown that the new definition in IFRS 16 does not significantly change the scope of contracts that meet the definition of a lease for the Bank.

(b) Impact on Lessee Accounting

(i) Former operating Leases

IFRS 16 changes how the Bank accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Bank:

- Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as tablet and personal computers, small items of office furniture and telephones), the Bank has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

(ii) Former Finance Leases

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Bank recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Bank's financial statements.

(c) Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular with regard to how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sub-lease as two separate contracts. The intermediate lessor is required to classify the sub-lease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). This change did not have a material effect on the Bank's financial statements.

If this change had material impact on the Bank's financial statements, the Bank would have reclassified certain of its sub-lease agreements as finance leases. As required by IFRS 9, an allowance for expected credit losses would have been recognised on the finance lease receivables.

(d) Financial Impact of the Initial Application of IFRS 16. Refer to note 3.16

The application of IFRS 16 has an impact on the statement of cash flows of the Bank.

Under IFRS 16, lessees must present:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by IAS 7 (the Bank has opted to include interest paid as part of operating activities); and
- Cash payments for the principal portion for a lease liability, as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. The adoption of IFRS 16 did not have an impact on net cash flows.

2.2 Standards and Interpretations In Issue, not yet Effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2020, and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2021	**IFRS 17 Insurance Contracts** IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.
Annual periods beginning on or after 1 January 2020	**Amendments to References to the Conceptual Framework in IFRS Standards** Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.
Annual reporting periods beginning on or after 1 January 2020	**Definition of a Business (Amendments to IFRS 3)** The amendments in Definition of a Business (Amendments to IFRS 3) are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They: · Clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; · Narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; · Add guidance and illustrative examples to help entities assess whether a substantive process has been acquired; · Remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and · Add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.
Annual reporting periods beginning on or after 1 January 2020	**Definition of Material (Amendments to IAS 1 and IAS 8)** The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.
Annual reporting periods beginning on or after 1 January 2020	**Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)** The amendments in Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.

The Directors anticipate that other than Interest Rate Benchmark Reform, these Standards and Interpretations in future periods will have no significant impact on the financial statements of the Bank. The amendments will affect entities that apply the hedge accounting requirements of IFRS 9 or IAS 39 to hedging relationships directly affected by the interest rate benchmark reform. The amendments modify specific hedge accounting requirements, so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark is not altered as a result of the interest rate benchmark reform. The changes will mandatorily apply to all hedging relationships that are directly affected by the interest rate benchmark reform.The directors are unable to quantify the impact that adoption of these Standards and Interpretations in future periods will have on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of preparation

The financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at revalued amount or fair value at the end of the reporting period. No other procedures are adopted to reflect the impact on the financial statements of specific price changes or changes in the general level of prices.

3.1 Foreign Currencies

The financial statements are presented in Malawi Kwacha (rounded to the nearest thousand), the currency of the primary economic environment in which the Bank operates and its functional currency.

In preparing the financial statements, transactions in currencies other than Malawi Kwacha (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income.

3.2 Property, Plant and Equipment

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Bank's accounting policy. Depreciation of these assets, determined on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated.

Plant, machinery, fixtures and fittings are stated at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following basis:

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Buildings	4 per cent per annum
Plant and machinery	10 per cent – 25 per cent per annum
Fixtures and fittings	10 per cent – 20 per cent per annum

3.3 Intangible Assets Acquired Separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives which are disclosed in note 14. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following conditions have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3.4 Impairment of Non-financial Assets Excluding Goodwill

At the end of each reporting period, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss.

3.5 Financial Instruments

Financial assets and financial liabilities are recognised in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).
- Despite the foregoing, the Bank may make the following irrevocable election/designation at initial recognition of a financial asset:
- The Bank may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- The Bank may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below). and receivables are initially measured at fair value and subsequently at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

(i) Amortised Cost and Effective Interest Method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Bank recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "Interest income" line item (note 21).

(ii) Debt Instruments Classified as at FVTOCI

The corporate bonds held by the Bank are classified as at FVTOCI. The corporate bonds are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these corporate bonds as a result of foreign exchange gains and losses (see below), impairment gains or losses (see below), and interest income calculated using the effective interest method (see (i) above) are recognised in profit or loss. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these corporate bonds had been measured at amortised cost. All other changes in the carrying amount of these corporate bonds are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these corporate bonds are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Equity Instruments Designated as at FVTOCI

On initial recognition, the Bank may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs.

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

The Bank has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9.

(iv) Financial Assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

Investments in equity instruments are classified as at FVTPL, unless the Bank designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (iii) above).

Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria (see (i) and (ii) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Bank has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship.

Foreign Exchange Gains and Losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- For financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other gains and losses' line item;
- For debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the 'other gains and losses' line item. Other exchange differences are recognised in other comprehensive income in the investments revaluation reserve;
- For financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss; and
- For equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the investments revaluation reserve.

Impairment of Financial Assets

The Bank recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Bank always recognises lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Bank's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Bank recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant Increase in Credit Risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Bank's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Bank's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor;
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Bank has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Bank assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

1. The financial instrument has a low risk of default,

2. The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

3. Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Bank considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Bank becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Bank considers the changes in the risk that the specified debtor will default on the contract.

The Bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of Default

The Bank considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or

- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Bank, in full (without taking into account any collateral held by the Bank).

Irrespective of the above analysis, the Bank considers that default has occurred when a financial asset is more than 90 days past due unless the Bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired Financial Assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a. significant financial difficulty of the issuer or the borrower;

b. a breach of contract, such as a default or past due event (see (ii) above);

c. the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

d. it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

e. the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Bank writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Bank's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and Recognition of Expected Credit Losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Bank's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

Modification and Derecognition of Financial Assets

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Bank in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, as the Bank is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Bank expects to receive from the holder, the debtor or any other party

If the Bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Bank measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Bank recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Reclassifications

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Bank renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Bank has an established forbearance policy which applies for corporate and retail lending.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 20% the Bank deems the arrangement is substantially different leading to derecognition.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- The remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Bank's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Bank's ability to collect the modified cash flows taking into account the Bank's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Classification as Debt or Equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Compound Instruments

The component parts of convertible loan notes issued by the Bank are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to [share premium/other equity where the conversion option remains unexercised at the maturity date of the convertible loan note, the balance recognised in equity will be transferred to] retained profits/other equity. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible loan notes using the effective interest method.

Financial Liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Bank, are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is

i. contingent consideration of an acquirer in a business combination,

ii. held for trading or

iii. it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term; or on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'Interest expense' line item in profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Bank that are designated by the Bank as at FVTPL are recognised in profit or loss.

Fair value is determined in the manner described in note 28.

Financial Liabilities Measured Subsequently at Amortised Cost

Financial liabilities that are not

i. contingent consideration of an acquirer in a business combination,

ii. held-for-trading, or

iii. designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Financial Guarantee Contract Liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9 (see financial assets above); and
- The amount recognised initially less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

Financial Guarantee Contract Liabilities

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the in profit or loss for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognised in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Derecognition of Financial Liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3.6 Cash and Cash Equivalents

Cash and cash equivalents comprise treasury bills maturing within 3 months, cash balances and funds with Reserve Bank of Malawi and call deposits with other banks and discount houses that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3.7 Other Receivables

Other receivables comprise prepayments and sundry non-trade receivables and are stated at their cost less impairment losses.

3.8 Provisions

Provisions are recognised when the Bank has a present obligation (constructive or legal) as a result of a past event, and it is probable that the Bank will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Liabilities that do not meet this recognition criteria are disclosed in the financial statements as contingent liabilities.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.9 Assets Classified as Held for Sale

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as completed within one year from the date of classification.

Assets classified as held for sale are measured at the lower of the asset's previous carrying amount and fair value less costs to sell.

3.10 Revenue recognition

3.10.1 Net Interest Income

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, see 'Net trading income' and 'Net income from other financial instruments at FVTPL'.

The Effective Interest Rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

3.10.2 Net fee and commission Income

Fee and commission income and expense include fees other than those that are an integral part of EIR. The fees included in this part of the Bank's statement of profit or loss include among other things fees charged for servicing a loan, non-utilisation fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and loan syndication fees.

Fees and commissions are generally recognised on an accrual basis when the service has been provided.

3.10.3 Sale of foreign exchange

Revenue from the sale of foreign currency is recognised once the foreign currency cash or cheques are delivered and consideration received.

3.10.4 Other grouping services

Revenue from the provision of other grouping services is recognised once the related service is completed.

3.11 Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Bank, supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.12 Retirement benefit costs

The Bank operates a defined contribution retirement benefit plan. Contributions to the scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

3.13 Leases

(a) The Bank as lessee

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and

- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Administrative expenses" in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(b) The Bank as lessor

Leases for which the Bank is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Bank is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

When a contract includes both lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration under the contract to each component.

3.14 Earnings per share

The calculation of earnings per share is based on the profit for the year and the weighted average number of shares in issue throughout the year. Where new equity shares have been issued by way of capitalisation or subdivision, the profit is apportioned over the shares in issue after the capitalisation or subdivision and the corresponding figures for all earlier periods are adjusted accordingly.

3.15 Classification and measurement of financial instruments under IFRS 9

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Bank determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank classifies its financial assets in the following measurement categories:

- Amortised cost;
- Fair value through the profit or loss (FVTPL); or
- Fair value through other comprehensive income (FVOCI)

Debt and loan instruments that are held by the Bank whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are measured at amortised cost. For an asset to be classified and measured at amortised cost, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with the basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to the basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

The Bank recognises loss allowances for expected credit losses on the financial instruments that are not measured at FVTPL but are carried at amortised cost: No impairment loss is recognised on equity investments. IFRS 9 eliminates impairment assessment requirements for investments in equity instruments as they are only measured at FVPL or FVOCI without recycling of fair value changes to profit and loss.

Below is a table that shows how all the assets have been classified

Categories	Business Model Criterion	Assets classified under this category
Amortised cost (Lending / customer financing activity)	Must meet all of the following: • Contractual cash flows solely payments of principal and interest on the principal outstanding. • Manage through customer financing or lending activities with a primary focus on collection of substantially all contractual cash flows. • Holder has ability to manage credit risk by negotiating any potential adjustment of contractual cash flows with the counterparty in the event of a potential credit loss. Sales or settlements limited to circumstances that would minimise losses due to deteriorating credit, or to exit a particular market. • Not held for sale	Assets classified under this category 1. Loans and advances to customers; 2. Placements with other banks; 3. Government Securities 4. Loan commitments and letters of credit issued; 5. Financial guarantee contracts issued; 6. Staff Loan; and 7. Debt investment securities;
FVOCI (Investing activity)	Must meet all of the following: • Investing either to: a. Maximise total return by collecting contractual cash flows or selling b. Manage the interest rate or liquidity risk of the entity by holding or selling • Not held for sale	Equity investments
FVPL (Held for sale/ trading activity)	Must meet either of the following: • Held for sale • Actively managed and monitored internally on a fair value basis	None

Reclassification

Reclassifications will only be required when the business model changes. The change in business model must be;

1. Determined by senior management.
2. A result of external or internal changes.
3. Significant to the entity's operations.
4. Demonstrable to external parties –Expected to be "very infrequent".

Impairment and methodology

Overview of the ECL principles

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank performs an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Bank banks its loans into Stage 1, Stage 2, Stage 3 and POCI as described below:

- **Stage 1:** When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2. Reclassifications from Stage 2 are however subject to 'cooling off' period of 2 months;
- **Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3. Reclassifications from stage 3 are however subject to a 'cooling off" period of 12 months;
- **Stage 3:** Loans considered credit-impaired. The Bank records an allowance for the LTECLs.
- **POCI:** Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) de-recognition of the financial asset.

The calculation of ECLs

The Bank calculates ECLs based on a four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral.

When estimating the ECLs, the Bank considers four scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2'). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of overdrafts, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

- **Stage 1:** The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.
- **Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- **Stage 3:** For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- **POCI:** POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit-adjusted EIR.
- **Loan commitments and letters of credit:** When estimating LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the

expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For overdrafts and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.

- **Financial guarantee contracts** - The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within Provisions.

- **Overdrafts and other revolving facilities** - The Bank's product offering includes a variety of corporate and retail overdraft facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, as explained, but greater emphasis is also given to qualitative factors such as changes in usage. The interest rate used to discount the ECLs for overdrafts is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that some facilities are repaid in full each month and are consequently charged very little interest.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, on an individual basis for corporate and on a collective basis for retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

Incorporation of forward-looking information

The Bank uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Bank employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities. The Bank applies probabilities to the forecast scenarios identified such as.

- GDP growth
- Unemployment rate
- Reserve Bank policy rate
- Inflation rate
- Exchange rate

The base case scenario is the single most-likely outcome and consists of information used by the Bank for strategic planning and budgeting. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Bank has not made changes in the estimation techniques or significant assumptions made during the reporting period.

3.15 Classification and measurement of financial instruments under IFRS 9 (Continued)

The table below summarizes the principal macroeconomic indicators included in the economic scenarios used at 31 December 2019 for the years 2020 to 2023, for Malawi which is the country where the Bank operates and therefore economic scenario of the country has a material impact in ECLs.

	2019	2020	2021	2022	2023
GDP growth					
Base scenario	4.5	4.7	5.1	5.3	5.5
Range of upside scenarios	6.0	6.1	6.1	6.3	6.5
Range of downside scenarios	4.0	4.1	4.1	4.3	4.5
Unemployment rates					
Base scenario	6.3	6.5	6.0	6.0	6.0

Range of upside scenarios	4.8	5.0	4.5	4.5	4.5
Range of downside scenarios	7.8	8.0	7.5	7.5	7.5
Benchmark interest rates (RBM Policy Rate)					
Base scenario	13.5	13.5	11	11	11
Range of upside scenarios	11.0	11.0	8.5	8.5	8.5
Range of downside scenarios	15.5	15.5	13.0	13.0	13.0
USD: Kwacha Exchange Rate					
Base scenario	739	750	750	800	850
Range of upside scenarios	720	710	705	695	680
Range of downside scenarios	786	790	800	870	900

The macroeconomic indicators above were obtained mainly from three different sources; the base case was obtained from Ministry of Economic Planning and the upside was obtained from the Malawi Development Growth Strategy paper and the downside from the Economic Intelligence Unit.

FDH Bank has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by 25%. The table below outlines the total ECL per portfolio as at 31 December 2019, if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if each of the key assumptions used change by plus or minus 25%. The changes are applied in isolation for illustrative purposes, and are applied to each probability weighted scenarios used to develop the estimate of expected credit losses. In reality there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

[Portfolio 1]		Average PD	Average LGD	ECL CumK
	As expected			
GDP growth	+25%	0.4583	0.9753	781 128 773
	-25%	0.4583	0.9753	843 542 138
Unemployment rates	+25%	0.4583	0.9753	813 282 428
	-25%	0.4583	0.9753	814 656 554
Benchmark interest rates (Policy Rate)	+25%	0.4583	0.9753	813 818 917
	-25%	0.4583	0.9753	813 818 917
USD: Kwacha Exchange Rate	+25%	0.4583	0.9753	814 196 139
	-25%	0.4583	0.9753	812 884 608

Measurement of ECL

The key inputs used for measuring ECL are:

Probability of default (PD); this is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.

Loss given default (LGD); an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral.

Exposure at default (EAD): an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

Estimation / calculation of ECL, PDs, LGDs and EADs

Estimation of PDs

The Bank's independent Credit Risk Department operates the internal rating model. The internal rating model incorporates both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from an international credit rating agency. These information sources are first used to determine the PDs and the internal credit grades are assigned based on these grades.

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data e.g., the rating from S & P, and assigns the internal rating.

For Corporate and Transaction Banking loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model (SME Rate) that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention;
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports or press releases and articles;
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates;
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Retail lending and some of the less complex small business lending are rated by a scorecard tool primarily driven by days past due.

Estimation of Exposure at Default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12months ECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments. The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

Estimation of Loss Given Default

For Corporate and Transaction Banking financial instruments, LGD values are assessed at least every quarter by account managers and reviewed and approved by the Bank's specialised Credit Risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each Bank of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the Bank. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

The ECL calculation for accounting purposes is different to the ECL calculation for regulatory purposes, although many inputs used are similar. The Bank has ensured that the appropriate methodology is used when calculating ECL for both accounting and regulatory purposes. The main differences between the methodologies used to measure ECL in accordance with IFRS 9 versus the ones applied for regulatory purposes are:

- Period within which collateral can be used to reduce ECL for regulatory purposes is only 18 months while there is no limitation in the standard.
- For regulatory purposes you can only use either collateral or expected cash flows to reduce the ECL and not both.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below.

Groupings based on shared risks characteristics (Portfolio segmentation)

The Bank performs portfolio segmentation for collective assessment of ECL based on shared risk characteristics of different portfolios such that risk exposures within a Bank are homogeneous. In performing this segmentation, there must be sufficient information for the portfolio or banking to be statistically credible. Where sufficient information is not available internally, the Bank considers benchmarking internal/external supplementary data to use for modelling purposes.

The Bank banks exposure into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

For Personal and Business Banking these are:

- Product type (overdraft, unsecured personal loan, agricultural loan, etc.)
- Internal grade
- Utilisation
- In the case of overdrafts, whether or not borrowers repay their balances in full every month
- Exposure value

For Corporate and Transaction Banking exposures:

- Borrower's industry;
- Internal credit grade;
- Geographic location;
- Exposure value; and
- Collateral type.

Individual and collective assessment

The Bank calculates ECLs either on a collective or an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets;
- The Corporate and Transaction Banking lending portfolio;
- The large and unique exposures of the SME lending portfolio;
- The treasury, trading and interbank relationships (such as Due from Banks, Cash collateral on securities borrowed and reverse repurchase agreements and debt instruments at amortised cost/FVOCI; and
- Exposures that have been classified as POCI when the original loan was de-recognised, and a new loan was recognised as a result of a credit driven debt restructuring.

Asset classes where the Bank calculates ECL on a collective basis include:

- The smaller and more generic balances of the Bank's SME lending portfolio;
- Stage 1 and 2 Personal lending portfolios; and
- Purchased POCI exposures managed on a collective basis.

ECL computation use the following factors when estimating future changes

GDP Growth

Gross Domestic Product (GDP) grew by 4.5% in 2019 compared to 4.0% in 2018. It is expected to grow further by 4.7% in 2020 which is slightly higher than 2019. The increase reduced credit risk in the year under review, and the same impact is expected in 2020. Hence reducing the expected loss.

Unemployment Rate

The unemployment rate slightly reduced from 6.75% in 2018 to 6.30% in 2019. This had a small positive impact on employer supported loans in 2019 but the rate is expected to increase to 6.50% in 2020. This is expected to slightly increase default rates mainly in employer supported loans hence improving the ECL position.

RBM Policy Rate

The policy rate declined from 17% in 2018 to 13.5% in 2019. It had positive impact on the ECL and the rate is not expected to change in 2020. As such, there will not be any significant increase or decrease in credit risk.

USD: Kwacha Exchange Rate

The exchange rate (Kwacha to US Dollar Rate) has been stable for the past 2 years. However, the changes that may happen in 2020 depend on the agricultural (Tobacco) output and Tobacco sales

Probability of Default

The PD is affected by the credit history of the account as well as the forward looking macroeconomic factors above. However, Stage 3 facilities bear 100% PD since the account has defaulted. With NPL ratio at 0.8% as at 31 December 2019 compared to 1.41% as at 31 December 2018, the ECL is expected to be minimal since the above macroeconomic factors are favorable.

Loss Given Default (LGD)

The loss given default is declining due to integral credit enhancements as well as usage of collateral.

Assets	Type of Collateral
Derivative Assets	Government Securities
Loans & Advances to banks	Property
Mortgage lending	Property, Cash & AGF
Personal Lending	Property, Cash & Guarantee
Corporate Lending	
Investment securities	
Lease receivables	
Other	

Qualitative Factors

Factor	Item
Economy, wider environment, Industry & Competition	1. Position within industry rapidly eroding Industry may be mature and in long term decline, and / or in a cyclical downturn. 2. Catastrophic events such as flooding or drought in an area may negatively affect performance of assets in that particular area. 3. Falling gross domestic production, rising inflation and interest rates, movements in rates of unemployment, and balance of payments. 4. Government policy toward certain industries.
Ownership/Management	1. Concerns over the ability of management to effectively manage existing operations, and/ or the business expansion plans. 2. Owners show lack of commitment to support business operations. Environmental Risk: Causing pollution or destruction of the natural environment (land, water, air, natural habitats, animal and plant species) either through accidents or deliberate actions. 3. Social Risk: Customer not meeting acceptable standards for employment and business ethics within his business or by his actions.
Balance Sheet	1. Delay in submission, stale financials and / or continued weakness and/or deterioration. Operating results are deteriorating and/or working capital cycle deteriorating.Highly geared relative to peers / industry and on upward trend. Rapid acquisition of assets without proper financial structuring. Declining asset cover for short term debt.

Cash Flow/Repayment Source	1. Liquidity strained and there is a need for additional borrowing or capital now or in the near future. The working capital needs ratio of greater than 50% 2. .Cash flow is unlikely to cover both mandatory debt service (principal plus interest) and other business needs (e.g. Capex). 3. Ability to reduce working capital bank lines is limited or non-existent. The client diverted funds to other usages other than purpose specified in loan application
Performance/T24 Reports	1. Interest or principal 30 days overdue. Temporary overdraft 30 days or more which has not been regularised via formal limit and security documentation.
General economic and/or market conditions.	1. Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates. 2. Other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments.. 3. An actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations, such as a decline in the demand for the borrower's sales product because of a shift customer tastes. 4. Significant increases in credit risk on other financial instruments of the same borrower.

Additional qualitative factors that are considered include the following:

Qualitative Factor	Description
Operating performance of the borrower	1. An actual or expected significant change in the operating results of the borrower. Examples include actual or expected declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of business or organisational structure (such as the discontinuance of a segment of the business) that results in a significant change in the borrower's ability to meet its debt obligations.
Breaches of covenant	1. Expected changes in the loan documentation including an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees, or other changes to the contractual framework of the instrument.
Changes to contractual terms	1. Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated or issued at the reporting date (such as more stringent covenants, increased amounts of collateral or guarantees, or higher income coverage) because of changes in the credit risk of the financial instrument since initial recognition.
Cash flow or liquidity issues	1. Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Bank (for example, an increase in the expected number or extent of delayed contractual payments). 2. Liquidity strained and there is a need for additional borrowing or capital now or in the near future. The working capital needs ratio of greater than 50%.. 3. Cash flow is unlikely to cover both mandatory debt service (principal plus interest) and other business needs (e.g. Capex). 4. Ability to reduce working capital bank lines is limited or non-existent. 5. The client diverted funds to other usages other than purpose specified in loan application.
Credit Rating	1. An actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally. Internal credit ratings and internal behavioural scoring are more reliable when they are mapped to external ratings or supported by default studies. 2. An actual or expected significant change in the financial instrument's external credit rating.

Payment delays and past due information	1. Past due information, including the rebuttable presumption Interest or principal 30 days overdue.
Changes in Collateral Value/Quality of Parent Guarantee	1. Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to make scheduled contractual payments or to otherwise have an effect on the probability of a default occurring. For example, if the value of collateral declines because house prices decline, borrowers in some jurisdictions have a greater incentive to default on their mortgages. 2. A significant change in the quality of the guarantee provided by a shareholder (or an individual's parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion.

Low risk assets

In applying the IFRS 9 model, the Bank identified the following as assets having a low credit risk;

1. Malawi Government Securities;
2. Intercompany receivables;
3. Interbank placements;
4. Off balance sheet assets; and
5. Staff loans.

The banks evaluated both internal and external factors related to the assets and concluded that as at the reporting date the risk of default for these assets was low, the borrowers had a strong capacity to meet their contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but would not necessarily, reduce the ability of the borrowers to fulfil their contractual cash flow obligations.

The above factors coupled with extensive evaluation of credit histories resulted in classifying these assets in the investment grade.

Based on the assessment per each classification of assets, Probabilities of Default were assigned to these assets and an Expected Credit Loss was computed.

Movement in allowance for impairment in low risk assets are as follows:

Loss allowance – low risk assets	Government securities	Interbank placements	Staff loans	Off-balance assets	Intercompany receivables	Total
	K'000	K'000	K'000	K'000	K'000	K'000
Loss allowance as at 1 January 2019 – on adoption of IFRS 9	4 542	2 609	9 485	1 326	79	18 041
Changes in the loss allowance	-	-	-	-	-	-
Transfer to stage 1	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-
Changes due to modifications that did not result in derecognition						
Other movements	112	546	(3 629)	1 923	(79)	(1 127)
Loss allowance as at 31 December 2019	4 654	3 155	5 856	3 249	-	16 914

Movement in low risk assets balances is as follows:

Low credit risk assets	Government securities	interbank Placements	Staff loans	Off-balance assets	Intercompany receivables	Total
	K'000	K'000	K'000	K'000	K'000	K'000
Gross Carrying Amount as at 1 January 2019	39 556 675	26 086 651	936 460	15 588 105	791 604	82 959 416
Changes in the gross carrying amount	7 403 128	5 667 165	208 669	16 911 163	(791 525)	29 398 600
Transfer to stage 1	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-
Changes due to modifications that did not result in derecognition	-	-	-	-	-	
Gross Carrying Amount at 31 December 2019	46 959 803	31 753 816	1 145 129	32 499 268	-	112 358 016
Loss allowance as at 31 December 2019	(4 654)	(3 155)	(5 856)	(3 249)		(16 914)
Transfer to loan and advances	-	-	-	3 249	-	3 249
Carrying Amount at 31 December 2019	46 955 149	31 750 661	1 139 273	32 499268	-	112 344 351

Government Securities (Treasury bills, promissory notes and Reserve Bank of Malawi bonds) loss Allowance

Low credit risk assets	Government securities	Interbank placements	Staff loans	Off-balance assets	Intercompany receivables	Total
	K'000	K'000	K'000	K'000	K'000	K'000
Loss allowance as at 1 January 2018 – on adoption of IFRS 9	3 327	3 326	10 178	1 602	63	18 496
Changes in the loss allowance						
Transfer to stage 1						
Transfer to stage 2						
Transfer to stage 3						
Increases due to change in credit risk						
Write-offs						
Changes due to modifications that did not result in derecognition						
Other movements	1 215	(717)	(693)	(276)	16	(455)
Loss allowance as at 31 December 2018	4 542	2 609	9 485	1 326	79	18 041

Summary Low risk assets carrying amounts

Low credit risk assets	Government securities	Placements with other banks	Staff loans	Off-balance assets	Intercompany receivables	Total
	K'000	K'000	K'000	K'000	K'000	K'000
Gross Carrying Amount as at 1 January 2018 – on adoption of IFRS 9	33 270 727	33 252 712	984 522	20 063 726	626 154	88 197 841
Transfer to loan and advances				1 602		1 602
Changes in the gross carrying amount	6 285 948	(7 166 061)	(48 062)	(4 477 223)	165 450	(5 239 948)
Transfer to stage 1						
Transfer to stage 2						
Transfer to stage 3						
Changes due to modifications that did not result in derecognition						
Gross Carrying Amount at 31 December 2018	39 556 675	26 086 651	936 460	15 588 105	791 604	82 959 495
Loss allowance as at 31 December 2018	(4 542)	(2 609)	(9 485)	(1 326)	(79)	(18 041)
Transfer to loan and advances				1 326	-	1 326
Carrying Amount at 31 December 2018	39 552 133	26 084 042	926 975	15 588 105	791 525	82 942 780

Staff loans loss allowance

Staff loans at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
	K'000	K'000	K'000	K'000	K'000
Loss allowance as at 1 January 2019	10 178				10 178
Changes in the loss allowance					
Transfer to stage 1					
Transfer to stage 2					
Transfer to stage 3					
Increases due to change in credit risk					
Write-offs					
Changes due to modifications that did not result in derecognition					
Other movements	(3 629)				(3 629)
Loss allowance as at 31 December 2019	6 549				6 549

Off balance sheet assets at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	K'000	K'000	K'000	K'000	K'000
Loss allowance as at 1 January 2019	1 326				1 326
Changes in the loss allowance					
Transfer to stage 1					
Transfer to stage 2					
Transfer to stage 3					
Increases due to change in credit risk					
Write-offs					
Changes due to modifications that did not result in derecognition					
Other movements	1 923				1 923
Loss allowance as at 31 December 2019	3 249				3 249

Amounts due from related parties loss allowance

Amounts due to related parties at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	K'000	K'000	K'000	K'000	K'000
Loss allowance as at 1 January 2019	79				79
Changes in the loss allowance					
Transfer to stage 1					
Transfer to stage 2					
Transfer to stage 3					
Increases due to change in credit risk					
Write-offs					
Changes due to modifications that did not result in derecognition					
Other movements	(79)				(79)
Loss allowance as at 31 December 2019					

Movement in low risk assets balances is as follows:

Government Securities (Treasury bills, promissory notes and Reserve Bank of Malawi bonds) at amortised cost

Government Securities at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
	K'000	K'000	K'000	K'000	K'000
Gross Carrying Amount as at 1 January 2018 – on adoption of IFRS 9	39 556 675				39 556 675
Transfer to loan and advances	7 403 128				7 403 128
Changes in the gross carrying amount					
Transfer to stage 1					
Transfer to stage 2					
Transfer to stage 3					
Changes due to modifications that did not result in derecognition					
Gross Carrying Amount at 31 December 2018	46 959 803				46 959 803
Transfer to loan and advances	(4 654)				(4 654)
Carrying Amount at 31 December 2018	46 955 149				46 955 149

Placements with other banks at amortised cost

Placements with other banks at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
	K'000	K'000	K'000	K'000	K'000
Gross Carrying Amount as at 1 January 2018 – on adoption of IFRS 9	26 086 651				26 086 651
Transfer to loan and advances	5 667 165				5 667 165
Changes in the gross carrying amount					
Transfer to stage 1					
Transfer to stage 2					
Transfer to stage 3					
Changes due to modifications that did not result in derecognition					
Gross Carrying Amount at 31 December 2018	31 753 816				31 753 816
Transfer to loan and advances	(3 155)				(3 155)
Carrying Amount at 31 December 2018	31 750 661				31 750 661

Staff loans at amortised cost (included in note 11)

Placements with other banks at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
	K'000	K'000	K'000	K'000	K'000
Staff loans at amortised cost	936 460				936 460
Gross Carrying Amount as at 1 January 2019	208 669				208 669
Changes in the gross carrying amount					
Transfer to stage 1					
Transfer to stage 2					
Transfer to stage 3					
Changes due to modifications that did not result in derecognition					
Gross Carrying Amount at 31 December 2019	1 145 129				1 145 129
Loss allowance as at 31 December 2019	(5 856)				(5 856)
Transfer to loan and advances					
Carrying Amount at 31 December 2019	1 139 273				1 139 273

3.16 Adoption of new and revised Standards

Impact of initial application of IFRS 16 Leases

In the current year, the Bank has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 3. The impact of the adoption of IFRS 16 on the Bank's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Bank is 1 January 2019.

The Bank has applied IFRS 16 using the cumulative catch-up approach which:

- Requires the Bank to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- Does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

(a) Impact of the new definition of a lease

The Bank has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4. The Bank applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Bank has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Bank.

(b) Impact on Lessee Accounting

i. Former operating leases IFRS 16 changes how the Bank accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Bank:

a. Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii)

b. Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

c. Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows. Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Impact of initial application of IFRS 16 Leases

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36. For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the Bank has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

- The Bank has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.
- The Bank has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Bank has adjusted the right-of-use asset at the date of initial application by the amount of provision for onerous leases recognised under IAS 37 in the statement of financial position immediately before the date of initial application as an alternative to performing an impairment review.
- The Bank has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application. • The Bank has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Bank has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

ii. Former finance leases

For leases that were classified as finance leases applying IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application is reclassified to right-of-use assets and lease liabilities respectively without any adjustments, except in cases where the Bank has elected to apply the low-value lease recognition exemption.

The right-of-use asset and the lease liability are accounted for applying IFRS 16 from 1 January 2019.

(c) Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets. Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of- use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). Because of this change, the Bank has reclassified certain of its operating sublease agreements as finance leases and accounted for them as new finance leases entered into at the date of initial application. As required by IFRS 9, an allowance for expected credit losses has been recognised on the finance lease receivables

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 was 25%.

Right-of-use assets

The Bank entered into leasing arrangements for most of its premises. The average term of the leases entered into is 2 years.

	Buildings	Plant	Equipment	Total
	K'000	**K'000**	**K'000**	**K'000**
31 December 2019				
Cost				
At 1 January 2019 – Restated	1 659 855	-	-	1 659 855
Additions	1 516 556	-	-	1 516 556
At 31 December	3 176 411	-	-	3 176 411
Accumulated depreciation				
At 1 January 2019 – Restated	-	-	-	-
Charge for the year	1 484 031	-	-	1 484 031
At 31 December 2019	1 484 031	-	-	1 484 031
Carrying amount	-	-	-	-
As at 31 December 2019	1 692 380		-	1 692 380

Operating lease commitments at 31 December 2018	2 059 820
Short-term leases and leases of low value assets	-
Effects of discounting the above amounts	(399 965)
Finance lease liabilities recognised under IAS 17 at 31 December 2018	-
Present value of the variable lease payments that depend on a rate or index	59 855
Present value of the lease payments due in periods covered by extension options that are included in the lease term and not previously included in operating lease commitments	-
Lease liabilities recognised at 1 January 2019	1 659 855

Amounts recognised in profit and loss	
	2019
	K'000
Finance costs	
Interest expense on lease liabilities	357 142
Interest on obligations under finance leases	-
Maturity analysis	
Total interest expense for financial liabilities not classified as at FVTP	357 142
Less: amounts included in the cost of qualifying assets	-
Loss/(gain) arising on derivatives as designated hedging instruments in fair value hedges	-

(Gain)/loss arising on adjustment for the hedged item attributable to the hedged risk in a designated fair value hedge accounting relationship	-
Total Finance costs	**357 142**
Amounts recognised in profit and loss	
Depreciation expense on right-of-use assets	1 484 031
Interest expense on lease liabilities	357 142
Expense relating to short-term leases	-
Expense relating to leases of low value assets	-
Expense relating to variable lease payments not included in the measurement of the lease liability	-
Income from subleasing right-of-use assets	-
Total lease expense recognised in profit and loss	**1 841 173**
Lease liabilities as at 31 December 2019	
Analysed as:	
Non-current	349 119
Current	1 369 923
	1 719 042
Maturity analysis	
Year 1	1 369 923
Year 2	150 850
Year 3	31 448
Year 4	85 564
Year 5	16 947
Onwards	64 310
	1 719 042

The Bank does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities as monitored within the Bank's treasury function.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies described above (note 3) management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which an estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgements in applying the Bank's accounting policies

Critical judgements made by the Directors during the current period which would have a material impact on the financial statements relate to the recoverability of loans and advances to customers. The credit risk management policies are outlined in note 29 (b) below.

4.1.1 Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of note 3). The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

4.1.2 Significant increase in credit risk

As explained in note 3, Expected Credit Losses (ECL) are measured as an allowance equal to 12-month ECL for stage 1 assets, or life time ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

4.1.3 Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that Bank of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

4.1.4 Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

4.2 Key sources of estimation uncertainty

4.2.1 Useful lives and residual values of property and equipment

The Bank reviews the estimated useful lives and residual values of plant and equipment at the end of each reporting period. These estimates are subjective by nature as they require assessment of financial and non-financial information in arriving at the residual values and useful lives which can only be borne out by future events.

4.2.2 Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment, at least, on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Key assumptions used:

a. Cash flows arising from repayment agreement are aggregated over yearly intervals and assumed to arise at the end of the period;

b. Where there is an agreement but no security in place and cash flows in the subsequent years are doubtful, total future estimated cash flows are assumed to be nil;

c. Unsupported guarantees are assumed to result in nil cash flows;

d. No cash flows are assumed to arise where there is no repayment agreement and no security and repayments are erratic or unpredictable; and

e. Cash flows arising from security realisation have been assumed to arise at the end of the calendar year in which they are expected.

4.2.3 Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario

When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to note 28 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward-looking information.

4.2.4 Probability of Default (PD)

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See note 3.16 for more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.

4.2.5 Loss Given Default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See note 3.16 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

4.2.6 Fair value measurement and valuation process

In estimating the fair value of a financial asset or a liability, the Bank uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Bank uses valuation models to determine the fair value of its financial instruments. Refer to note 27 for more details on fair value measurement.

5. CASH AND FUNDS WITH RESERVE BANK OF MALAWI

	2019	2018
	K'000	K'000
Cash on hand	6 389 007	7 458 535
Balances with Reserve Bank of Malawi	673 286	7 427 234
Total	**7 062 293**	**14 885 769**

Balances held at Reserve Bank of Malawi are denominated in Malawi Kwacha and various other currencies (as detailed in note 29e) and are non-interest bearing.

6. MALAWI GOVERNMENT TREASURY BILLS, PROMISSORY NOTES AND RESERVE BANK OF MALAWI BONDS

	2019	2018
	K'000	K'000
Malawi Government Treasury bills	46 959 803	38 548 604
Promissory notes	-	1 008 071
Gross	46 959 803	39 556 675
Loss allowance (see note 3.16)	(4 654)	(4 542)
Net	**46 955 149**	**39 552 133**

Bills, bonds and promissory notes are due to mature as follows:		
Within 3 months	25 186 752	17 788 279
Over 3 months	21 773 051	21 768 396
Total	**46 959 803**	**39 556 675**

Average interest rate on Treasury bills was 10.6% (2018: 15%). Average interest rate on the Reserve Bank of Malawi bond was 9.6% (2018: 15.8%).

7. PLACEMENTS WITH OTHER BANKS

	2019	2018
	K'000	K'000
Balances with banks abroad	20 921 448	26 086 651
Balances with local banks	10 832 368	-
Gross amount	31 753 816	26 086 651
Loss allowance (see note 3.15)	(3 155)	(2 609)
Net amount	**31 750 661**	**26 084 042**

The balances with banks abroad were denominated in foreign currency as follows:

US Dollar denominated	17 901 887	22 669 786
GBP denominated	325 407	72 704
Euro denominated	2 686 152	3 337 275
ZAR denominated	5 440	5 604
JPY denominated	84	604
DKK denominated	2 478	678
	20 921 448	26 086 651

Balances with banks abroad earn interest at an average rate of 1.5% (2018: 1. 5%). Placements with local banks earned average interest rate of 13.5% (2018: 14.6%).

8. OTHER SHORT-TERM INVESTMENTS - OMO

	2019	2018
	K'000	K'000
Short-term investments with Reserve Bank of Malawi	-	5 496 484

The short-term investments represented investments in Open Market Operations held at Reserve Bank of Malawi denominated in Malawi Kwacha and matured on 18 January 2019.

9. LOANS AND ADVANCES TO CUSTOMERS

	2019	2018
	K'000	K'000
Term loans	38 084 678	24 763 197
Overdrafts	19 530 517	16 474 073
Gross loans and advances	57 615 195	41 237 270
Expected credit losses allowance	(801 300	(547 929)
Net loans and advances	56 813 895	40 689 341

Movement in expected credit loss allowances		
At the beginning of the year	547 929	11 534 197
Transfer from off balance sheet assets (IFRS 9 transition)	-	1 602
Effects of change in accounting policy (IFRS 9 transition)	-	5 234 217
As restated	547 929	16 770 016
Write offs relating to prior years	(229 263)	(11 029 835)
Outstanding expected credit losses	318 666	5 740 181
Gross current year loss allowances	1 370 118	2 483 401
Transfer from off balance sheet assets (See note 3.16)	(3 249)	(276)
Recoveries	(884 235)	(1 046 760)
Net current year charge	482 634	1 436 365
Current year write-offs	-	(6 628 617)
At the end of the year	801 300	547 929
Principal and interest past due		
Amounts past due	451 202	464 661
Amounts past due and impaired	(451 202)	(464 661)
Amounts past due but not impaired	-	-

The maturity profile of loans and advances is outlined in note 28c to the financial statements. The Malawi Kwacha base-lending rate for the Bank as at 31 December 2019 was 23.6% (2018: 26.0%).

The Bank's credit risk is primarily attributed to overdraft and other loan facilities extended to its customers. The amounts presented in the statement of financial position are net of expected credit losses as shown above. The provision represents allowances for estimated irrecoverable amounts when there is objective evidence that the asset is impaired.

Movement in allowance for impairment in loans and advances are as follows:

Loss allowance – Loans and advances to customers at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
	K'000	K'000	K'000	K'000	K'000
Loss allowance as at 1 January 2019	177 012	67 696	303 221		547 929
Changes in the loss allowance					
– Transfer to stage 1	369	(341)	(28)		
– Transfer to stage 2	(4 625)	4 974	(349)		
– Transfer to stage 3	(6 388)	(16 658)	23 046		
– Increases due to change in credit risk	(51 223)	(579 459)	2 000 800		1 370 118
– Write-offs	(26 030)	571 188	(774 421)		(229 263)
Recoveries			(884 235)		(884 235)
Changes in loss allowance for guarantees	(3 249)	-	-		(3 249)
Closing Balance	**85 866**	**47 400**	**668 034**		**801 300**

Loss allowance – Loans and advances to customers at amortised cost	Stage 1	Stage 2	Stage 3	POCI	Total
	K'000	K'000	K'000	K'000	K'000
Loss allowance as at 31 December 2017	-	-	11 534 197		11 534 197
Restatement of the prior year	2 566 414	69 612	2 598 191		5 234 217
Restatement of the prior year (from off balance sheet assets) (see note 3.15)	1 602				1 602
Loss allowance as at 1 January 2018	2 568 016	69 612	14 132 388		16 770 016
Changes in the loss allowance					
– Transfer to stage 1	24 115	(24 115)			
– Transfer to stage 2	(22 199)	22 199			
– Transfer to stage 3	(2 587 568)		2 587 568		
– Increases due to change in credit risk	194 924		2 288 298		2 483 222
– Write-offs			(17 658 273)		(17 658 273)
Recoveries			(1 046 760)		(1 046 760)
Changes in loss allowance for guarantees	(276)				(276)
Closing Balance	**177 012**	**67 696**	**303 221**		**547 929**

The table below summarises the loans and advances to customers by days past due:

	As at 31 December 2019		**As at 31 December 2018**	
Days past due	**Gross carrying amount**	**Loss allowance**	**Gross carrying amount**	**Loss allowance**
	K'000	**K'000**	**K'000**	**K'000**
0-29 days	53 412 823	85 866	36 812 572	177 012
30-90 days	3 741 026	298 787	3 556 799	67 696
91-180 days	100 440	69 740	242 068	93 072
181-360 days	60 414	46 414	182 682	70 238
More than 360 days	300 492	300 493	443 149	139 911
Total	**57 615 195**	**801 300**	**41 237 270**	**547 929**

There are modified (restructured) loans amounting to K3.083 billion included in the closing book balance of loans and advances. These are mostly loans modified on the payment terms so that the instalment pattern suits the customer cash flow pattern. There were no gains or losses on these modified loans as interest was capitalised on the date of modification and the loans continued to charge interest.

10. RELATED PARTIES

Related party relationships exist between the Bank and its parent company, FDH Financial Holdings Limited (FDHFHL) and other subsidiaries of the FDHFHL Group. Related party balances as at period end were as follows:-

	Amounts due to related parties	Amounts due from related parties
	K'000	K'000
31 December 2019		
First Discount House Limited	-	-
MSB Properties Limited	-	-
FDH Money Bureau Limited	-	-
Net amount	**-**	**-**
Bank Balances		
FDH Money Bureau Limited	70 007	-
MSB Properties Limited	40 000	-
First Discount House Limited	422 803	-
FDH Financial Holdings Limited	55 971	-
	588 781	**-**

	Amounts due to related parties	Amounts due from related parties
	K'000	K'000
31 December 2018		
First Discount House Limited	-	21 199
MSB Properties Limited	-	8 241
FDH Money Bureau Limited	3 444	762 164
Gross amount	3 444	791 604
Loss allowance (see note 3.15)	-	(79)
Net amount	**3 444**	**791 525**
Bank Balances		
FDH Money Bureau Limited	27 183	-
MSB Properties Limited	49 003	-
First Discount House Limited	39 245	-
FDH Financial Holdings Limited	6 206	-
	121 637	**-**

The bank balances are deposits with FDH Bank Plc included in liabilities to customers.

Included in FDH Bank Plc expenses is financial advisory fees amounting to K1.092 billion (2018: K1.014 million) paid to FDH Financial Holdings Limited.

Amounts due to and from related parties relate to payments made to third parties by one company on behalf of the other. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current period or prior years for bad or doubtful debts in respect of the amounts owed by related parties.

	2019	2018
	K'000	K'000
Included in loans and advances at period end are the following related party balances:		
Orascon Continental Security Services	109	-
Electricity Supply Commission of Malawi	3 262 053	4 524 967
Mbendera & Nkhono Associates	6 041	-
Chisapi Limited	130 372	31 403
Saan Investments	285 296	205 622
Senior Management	90 246	110 595
Directors	136 521	53 246

Included in liabilities to customers are related party deposits by Old Mutual Malawi Limited amounting to K5.8 billion (2018: K1.3 billion). Interest payable to Old Mutual Malawi Limited amounted to K37.7 million (2018: K10.4 million).

The following transactions were conducted with related parties: -

	2019	2018
	K'000	K'000
Interest Payable		
FDH Discount House Limited	**-**	**22**
Interest Receivable		
FDH Money Bureau Limited	-	-
FDH Financial Holdings Limited	314	50
FDH Discount House Limited	-	25
Orascon Continental Security Services	402	19
Malawi Property Investment Company Limited	28 392	14 520
A & J Construction	-	3 229
Mbendera & Nkhono Associates	3 411	9 025
Artish General Dealers	-	32
Chisapi Limited	7 867	2 583
Senior management	18 967	17 201
Directors	8 343	9 562
Total	**67 696**	**56 246**
Rent Payable		
T. F. Mpinganjira Trust	**101 174**	**97 476**
Compensation Of Key Management Personnel		
Current period earnings and short-term benefits	2 089 671	1 824 973

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Included in interest expense is preference share interest of K1.296 billion. K154.271 million was paid in July 2019 and the balance was paid subsequent to year end on 24 January 2020 to First Equity Limited.

Directors' fees, allowances and expenses paid during the year amount to K236.247 million (K154.327 million in 2018).

Included in administrative expense is K39.325 million paid to MSB Properties Ltd as property management fees as they manage properties for the Bank.

The following are the types of the relationships with the related parties;

Name of related party	Type of relationship
A & J Construction	Member of senior management has a stake in the company
Artish General Dealers	Director of FDH Bank has a stake in the company
Chisapi Limited	Director of FDH Bank has a stake in the company
First Discount House Limited	Fellow subsidiary
FDH Financial Holdings Limited	Parent company
FDH Money Bureau Limited	Fellow subsidiary
MSB Properties Holdings Limited	Subsidiary
MSB Properties Limited	Subsidiary through MSB Properties Holdings Limited
Old Mutual Malawi Limited	Shareholder of FDH Financial Holdings Limited
Malawi Property Investment Company	Subsidiary of Old Mutual, who is shareholder of FDH Limited Financial Holdings Limited
Mbendera & Nkhono Associates	Director of FDH Bank has a stake in the firm.
Orascon Continental Security Services	Director of FDH Bank has a stake in the company
Reunion Insurance Limited	Members of senior management have stakes in the company
Saan Investments	Head of Risk of FDH Bank has a stake in the firm.
T.F. Mpingangira Trust	Owned by the FDH Group Chief Executive Officer
First Equity Limited	Investment vehicle managed by Old Mutual Limited

11. OTHER RECEIVABLES AND PREPAYMENTS

	2019	2018
	K'000	**K'000**
Sundry receivables	13 341 748	9 069 770
Staff loans	1 139 273	936 460
Settlement accounts	14 698 139	312 650
Prepayments	4 239 564	2 253 438
Gross amount	**33 418 724**	**12 572 318**
Loss allowance (see note 3.15)	(5 856)	(9 485)
Net other receivables and prepayments	**33 412 868**	**12 562 833**

Sundry receivables largely relate to clearing accounts and prepayments mainly relate to prepaid rentals and license fees for systems. Staff loans are recovered through payroll. Average interest rate on staff loans is 6.25% (2018: 6.25%). No interest is charged on prepaid rentals and license fees.

12. OTHER INVESTMENTS

	2019	2018
	K'000	**K'000**
Other Investments	**31 032**	**26 032**

The other investments balance includes K30 million in the National Switch and the other K1 million is investment in shares on the Malawi Stock Exchange.

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Computer Equipment	Motor Vehicles	Furniture and Fittings	Capital Work in Progress	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
31 December 2019							
Cost							
At the beginning of the year	-	175 903	7 445 115	2 339 020	3 426 372	1 425 037	14 811 447
Transfers for CWIP	-	637 611	451 674	-	295 320	(1 384 605)	-
Additions	-	-	849 322	359 032	130 870	1 028 103	2 367 327
Disposals	-	-	(495)	(121 047)	-	-	(121 542)
At the end of the year	-	813 514	8 745 616	2 577 005	3 852 562	1 068 535	17 057 232
Depreciation							
At the beginning of the year	-	-	4 286 313	885 417	1 553 789	-	6 725 519
Charge for the year	-	15 152	1 084 155	393 260	314 912	-	1 807 479
Disposals	-	-	(495)	(106 780)	-	-	(107 275)
At the end of the year	-	15 152	5 369 973	1 171 897	1 868 701	-	8 425 723
Net book value At the end of the year	**-**	**798 362**	**3 375 643**	**1 405 108**	**1 983 861**	**1 068 535**	**8 631 509**
31 December 2018							
Cost							
At the beginning of the year	-	-	5 922 443	1 767 572	2 847 839	591 377	11 129 231
Transfers for CWIP	-	175 903	507 376	-	524 075	(1 207 354)	-
Additions	-	-	1 015 894	879 430	54 458	2 041 014	3 990 796
Disposals	-	-	(598)	(307 982)	-	-	(308 580)
At the end of the year	-	175 903	7 445 115	2 339 020	3 426 372	1 425 037	14 811 447
Depreciation							
At the beginning of the year	-	-	3 302 292	745 534	1 265 102	-	5 312 928
Charge for the year	-	-	984 340	321 123	288 687	-	1 594 150
Disposals	-	-	(319)	(181 240)	-	-	(181 559)
At the end of the year	-	-	4 286 313	885 417	1 553 789	-	6 725 519
Net book value							
At the end of the year	**-**	**175 903**	**3 158 802**	**1 453 603**	**1 872 583**	**1 425 037**	**8 085 928**

14. INTANGIBLE ASSETS

	Computer Software	progress Work in	Total
	K'000	K'000	K'000
31 December 2019			
Cost			
At the beginning of the year	4 534 658	89 253	4 623 911
Additions	20 967	988 719	1 009 686
Transfers	560 502	(560 502)	-
At the end of the year	5 116 127	517 470	5 633 597
Amortisation			
At the beginning of the year	2 613 448	-	2 613 448
Charge for the year	669 530	-	669 530
At the end of the year	3 282 978	-	3 282 978
Net book value At the end of the year	**1 833 149**	**517 470**	**2 350 619**
31 December 2018			
Cost			
At the beginning of the year	4 049 663	209 124	4 258 787
Additions	225 224	139 900	365 124
Transfers	259 771	(259 771)	-
At the end of the year	4 534 658	89 253	4 623 911
Amortisation			
At the beginning of the year	1 992 369	-	1 992 369
Charge for the year	621 079	-	621 079
At the end of the year	2 613 448	-	2 613 448
Net book value At the end of the year	**1 921 210**	**89 253**	**2 010 463**

The computer software is amortised over a period of five years. Included in work in progress (WIP) are developments for various software-based products such as AML software, developing business intelligent dashboards, integration costs with other systems and billers to improve customer experience. A significant portion of WIP in 2019 was the software developments on the MasterCard project.

15. SHAREHOLDER LOAN

	2019	2018
	K'000	**K'000**
Shareholder Loan 1:		
Current portion	-	80 785
Shareholder Loan 2:		
Long-term portion	1 785 714	1 763 383
Current portion	820 829	884 976
Total	2 606 543	2 729 144
Shareholder's loan movement		
At beginning of the year	2 729 144	505 374
Additions	-	2 500 000
Interest charged	375 735	405 541
Repayment	(498 336)	(681 771)
At the end of the year	**2 606 543**	**2 729 144**

Shareholder Loan 1:

The shareholder loan was in respect of a borrowing from FDH Financial Holdings Limited. This loan was repaid on 2 January 2019.

Shareholder Loan 2:

The shareholder loan is in respect of a borrowing from FDH Financial Holdings Limited. The borrowing is repayable by 28 February 2023 on an amortising basis in half yearly installments, with a moratorium on principal of one year. Interest on the loan is payable based on the simple average yield for the past six months for the 364 day Treasury bills (or its equivalent) as per Treasury bills auction results plus 2%. The loans are secured by Treasury bills (see note 6).

During the current year, the Bank was late in paying the first principal repayment on one of its loans with a carrying amount of K2.6 billion as at 31 December 2019. The delay arose because of a temporary lack of funds on the date the first principal repayment was payable. The lender did not request accelerated repayment of the loan and the terms of the loan were not changed. Management has reviewed the Bank 's settlement procedures to ensure that such circumstances do not recur.

16. LONG TERM LOAN

	2019	2018
	K'000	**K'000**
Long-term portion	5 099 566	4 828 428
Current portion	661 353	626 190
Total	**5 760 919**	**5 454 618**
Long-term loan movement		
At the beginning of the year	5 454 618	-
Addition	181 375	5 441 250
Interest charged	408 938	13 368
Repayments	(284 012)	-
At the end of the year	**5 760 919**	**5 454 618**

The long-term loan was obtained from a Dutch Bank FMO. The loan of US$ 7,500,000 was granted in December 2018. The Loan is repayable in five years' time with the last installment payable on 31 December 2023. The foreign currency amount is fully hedged through a swap with RBM covering the same period of the loan amount. The Bank also obtained a US$250,000 long term loan from Land O Lakes. The Loan is repayable in five years time with the last installment payable on 31 December 2024.

17. LIABILITIES TO CUSTOMERS

	2019	2018
	K'000	K'000
Current accounts	44 555 536	39 332 339
Foreign currency accounts	17 402 272	18 040 122
Deposit accounts	35 289 595	27 498 300
Savings accounts	39 893 427	27 699 503
Total liabilities to customers	**137 140 830**	**112 570 264**

The maturity profile of liabilities to customers is included in note 27(c) to the financial statements.

The average interest rate on deposits was 3.5% (2018: 4.71%).

18. LIABILITIES TO FINANCIAL INSTITUTIONS

	2019	2018
	K'000	K'000
National Bank of Malawi plc	3 001 134	-
CDH Investment Bank	1 800 675	-
EcoBank Limited	4 899 249	4 504 286
Mybucks Bank Limited (Formely New Finance Bank)	600 227	-
Total money markets liabilities	**10 301 285**	**4 504 286**

The maturity profile of liabilities to financial institutions is given in note 29(c) to the financial statements.Interest on interbank borrowings was 13.5% (2018: 14.9%).

19. PAYABLES AND ACCRUALS

	2019	2018
	K'000	K'000
Settlement account	4 366 958	10 795 945
Sundry accruals	1 424 490	340 812
Local payables	269 184	59 206
Inter branches payables	274 030	104 297
Bank cheques	163 715	99 615
Audit fees	101 280	114 837
Gratuity	-	46 582
Staff pension payable	-	6 603
Withholding tax payable	53 800	53 481
Total payables and accruals	**6 653 457**	**11 621 378**

The average credit period on payables is 30 days and no interest is charged on overdue balances. The directors consider that the carrying amount of payables and accruals approximates their fair value.

20. DEFERRED TAX

	2019	2018
	K'000	K'000
Deferred tax asset		
At the beginning of the year	2 009 226	3 926 623
Tax effect of IFRS 16 and 9 transition adjustment	7 999	1 575 815

As restated	2 017 225	5 502 438
Income tax charge	(2 303 979)	(2 191 098)
Deferred tax that has passed through equity	(7 999)	(1 575 815)
Deferred tax asset transferred on transfer of properties	-	273 701
At the end of the year	(294 753)	2 009 226
Deferred tax asset analysed as follows:		
Accelerated capital allowances	(545 948)	655 498
Other temporary differences	251 195	1 353 728
Total deferred tax asset	**(294 753)**	**2 009 226**

21. GUARANTEES AND LETTERS OF CREDIT

	2019	2018
	K'000	K'000
Local guarantees and performance bonds	15 655 535	12 454 129
Letters of credit	16 730 807	3 133 976
	32 386 342	**15 588 105**

In the normal course of its business, the Bank has issued guarantees in favour of third parties on behalf of their clients. These guarantees only give rise to a liability for the Bank in the event that the clients default on payment to the third parties. As a result, and after due assessment, these guarantees have not been recognised as liabilities at the year-end.

22. NET INTEREST INCOME

	2019	2018
	K'000	K'000
Interest income	15 655 535	12 454 129
Interest on loans and advances	8 121 381	8 518 851
Interest on money market investments	8 222 064	6 262 164
Total interest income	16 343 445	14 781 015
Interest expense		
Preference share dividend	(871 081)	(311 952)
Interest on shareholders' loan	(375 735)	(407 326)
Money market and customers	(6 519 740)	(6 015 321)
Total interest expense	(7 766 556)	(6 734 599)
Net interest income	**8 576 889**	**8 046 416**

23. COMMISSIONS AND OTHER FEE INCOME

	2019	2018
	K'000	K'000
Commissions	17 004 739	15 515 562
Arrangement fee income	1 058 043	675 993
Other income	7 749 900	4 828 230
Total commissions and fee income	**25 812 682**	**21 019 785**

24. PROFIT BEFORE TAX AND NET IMPARTMENT LOSSES

	2019	2018
	K'000	**K'000**
Profit before tax is arrived at after taking into account the following:		
Auditor's remuneration	117 035	114 838
Depreciation of plant and equipment	1 807 479	1 594 150
Amortisation of intangible assets	669 530	621 079
Profit on disposal of equipment	14 162	48 909
Directors' fees and expenses	236 247	154 327
Pension contributions	750 501	660 710

25. TAXATION

	2019	2018
	K'000	**K'000**
Income tax	1 592 705	-
Deferred tax	2 303 979	2 191 098
Total taxation	**3 896 684**	**2 191 098**
Profit before tax	**11 743 048**	**8 156 540**
Reconciliation of rate of tax	%	%
Standard rate of tax	30.0	30
Permanent differences	3.0	(3)
Effective rate of tax	33.0	27

26. BASIC EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Bank is based on the following data:

	2019	2018
	K'000	**K'000**
Profit		
Profit for the purposes of basic/diluted earnings per share	7 846 364	5 965 442
	Nos	**Nos**
	'000	**'000**
Number of shares		
New average number of ordinary shares for the purposes of basic/diluted earnings per share (Note 31)	6 901 031	6 901 031
Earnings per share (tambala)	113.7	86.4

The earnings per share are based on the number of shares after the listing.

27. FINANCIAL ASSETS AND LIABILITIES

	At fair value through profit or loss	At amortised cost	Carrying amount	Fair value
	K'000	K'000	K'000	K'000
At 31 December 2019				
Assets				
Cash and bank balances with Reserve				
Bank of Malawi	-	7 062 293	7 062 293	7 062 293
Malawi Government Treasury				
Bills and Reserve Bank bond	-	46 955 149	46 955 149	46 955 149
Placements with other banks	-	31 750 661	31 750 661	31 750 661
Loans and advances to customers	-	56 813 895	56 813 895	56 813 895
Other investments	-	31 032	31 032	31 032
Sundry receivables	-	29 173 303	29 173 303	29 173 303
Total financial assets	**-**	**171 786 333**	**171 786 333**	**171 786 333**
Liabilities				
Shareholder's loan	-	2 606 543	2 606 543	2 606 543
Long term loan		-5 760 919	5 760 919	5 760 919
Liabilities due to customers	-	137 140 830	137 140 830	137 140 830
Liabilities to financial institutions	-	10 301 285	10 301 285	10 301 285
Payables and accruals	-	6 653 457	6 653 457	6 653 457
Total financial liabilities	**-**	**162 463 034**	**162 463 034**	**162 463 034**
At 31 December 2018				
Assets				
Cash and bank balances with Reserve				
Bank of Malawi	-	14 885 769	14 885 769	14 885 769
Malawi Government Treasury				
Bills and Reserve Bank bond	-	39 552 133	39 552 133	39 552 133
Placements with other banks	-	26 084 042	26 084 042	26 084 042
Other short term investments – OMO	-	5 496 484	5 496 484	5 496 484
Loans and advances to customers	-	40 689 341	40 689 341	40 689 341
Other investments	-	26 032	26 032	26 032
Amounts due from related parties	-	791 525	791 525	791 525
Sundry receivables	-	10 309 395	10 309 395	10 309 395
Total financial assets	**-**	**137 834 721**	**137 834 721**	**137 934 721**
Liabilities				
Shareholder's loan	-	2 729 144	2 729 144	2 729 144
Long term loan	-	5 454 618	5 454 618	5 454 618
Liabilities due to customers	-	112 570 264	112 570 264	112 570 264
Liabilities to financial institutions	-	4 504 286	4 504 286	4 504 286
Amounts due to related parties	-	3 444	3 444	3 444
Payables and accruals	-	11 621 378	11 621 378	11 621 378
Total financial liabilities	**-**	**136 883 134**	**136 883 134**	**136 883 134**

28. FAIR VALUE MEASUREMENTS

This note provides information about how the Bank determines fair values of various financial assets and financial liabilities.

28.1 Valuation techniques and assumptions applied for the purposes of measuring fair value

The directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

28.2 Fair value measurements recognised in the statement of financial position

Fair value hierarchy levels 1 to 3 are based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

28.3 Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis

The Bank had no financial assets and financial liabilities that were measured at fair value at the end of each reporting period.

28.4 Fair value of the Bank's financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

29. FINANCIAL RISK MANAGEMENT

a) Introduction and overview

FDH Bank Plc board of directors is ultimately responsible for management of risk in the Bank. The board delegates certain functions and responsibilities relating to risk and capital management to the Risk and Capital Management Committee, the Board Credit Committee and the Board Finance and Audit Committee.

Day-to-day risk management responsibility is delegated to Exco and its sub-committees which comprise of Assets and Liabilities Committee (ALCO), Operational Risk and Compliance Management Committee (ORCC), Credit Risk Management Committee (CRMC) and New Products Committee (NPC). The line management functions within the Bank are responsible for managing the risks that arise from the respective operations.

The role of the CRMC is to ensure compliance with the board's directives which are based on the Bank's credit standard. CRMC effectively enhances the credit discipline within the Bank and is responsible for controlling inter alia delegated authorities, concentration risk, non-performing debt, regulatory issues that pertain to credit, credit audits, policy and governance.

Effective risk management should provide complete, timely, accurate and relevant information to enhance senior management decision making ability to:

- Calculate risk adjusted performance measures;
- Manage volatility in earnings;
- Minimise financial distress; and
- Help appraise new business initiatives on a comparable basis.

Governance standards have been established as key components of good governance and business practice in FDH Bank Plc. The standards form an integral part of the control infrastructure and represents a high-level description of the expectations and requirements of the board in respect of risk appetite, risk reporting and key areas of control activity within FDH Bank Plc and business units.

FDH Bank has approved policies and procedures in place which have been approved by the board and these include:

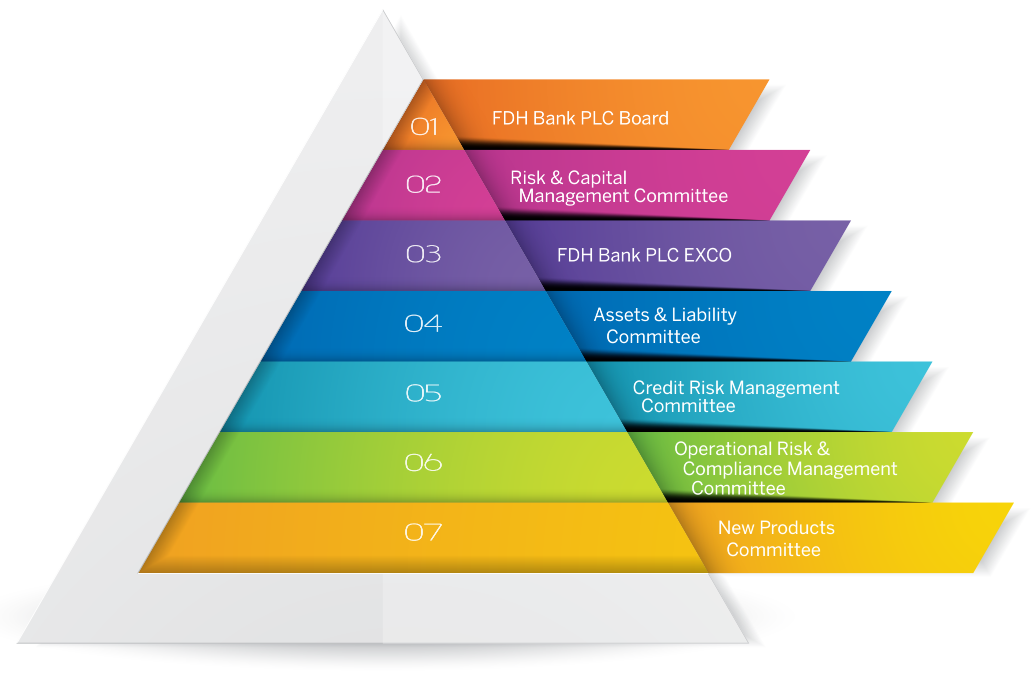
- Credit policy;
- Market and Trading book policy
- Liquidity risk policy;
- Market risk policy; and
- Operational risk policy.

Identification of material risks is a process overseen by the Chief Risk Officer, with involvement from the business units. In addition, the approach to quantifying the capital requirements for each of the risks will be discussed and noted at a quarterly review meeting, as well as at the monthly ALCO. Risk and Capital Management Committee is responsible for the analysis of capital requirements and the effective utilisation of capital. In the determination of what risks are considered material to the Bank, cognizance is taken of:

- Regular risk and control self-assessments performed by management which identify risks that could threaten the achievement of business objectives;
- History of losses as well as potential future losses;
- Those risks to which significant amounts of regulatory capital is allocated; and
- The definition of materiality thresholds which are advised by the regulations.

Based on the above-mentioned criteria the following primary risk types are considered by FDH Bank Plc to be material:

- Credit risk, including country and concentration risk;
- Market risk, including interest rate risk in the banking book;
- Operational risk;
- Capital risk;
- Liquidity risk; and
- Business risk, including strategic risk, reputational risk



The Board of Directors (The Board)

The board takes ultimate responsibility for management of risk and is required to ensure that an effective risk management process exists and is maintained throughout the Bank. The board appoints board members to four separate board sub-committees to assist in discharging its duties in relation to the management of risk. The sub-committees are chaired by a non-executive director to maintain, as best practice requires, the independence and objectivity of the function. The Chief Risk Officer, Heads of Credit, Internal Audit, IT and Compliance also have direct access to the Chairpersons of the relevant sub-committees.

Executive management committee (Exco)

The Managing Director (MD) has the authority to manage the Bank within the constraints laid down by the board of directors. Therefore, the executive management committee is constituted to assist the MD to manage the Bank. Exco meets at least monthly.

The Finance and Audit Committee (F&A)

The committee meets at least four times a year. The committee is comprised of five non-executive directors. The role of the committee is to provide an independent evaluation of the adequacy and efficiency of the Bank's internal control systems, accounting practices, information systems and auditing processes. Communication between the Board, executive management, internal audit, and external audit is encouraged. The committee liaises with the external and internal auditors on accounting procedures and on the adequacy of controls and information systems, and reviews the financial statements, considers loss reports on major defalcations, and the Bank's compliance plan for effectiveness.

Board Credit Risk Committee (CRC)

This committee meets quarterly. The committee is comprised of five non-executive directors. The Board Credit Committee is tasked with the overall review of the Bank's lending policies. At each meeting, the committee directs, monitors, reviews and considers all issues that may materially impact on the present and future quality of the Bank's credit risk management. It ensures that there are effective procedures to identify irregular credit facilities, minimise credit losses and maximise recoveries. The committee analyses and authorizes any transactions above the authorised limits of the credit risk management committee.

Appointments and Remuneration Committee (ARM)

The committee meets four times a year. The committee is comprised of five non-executive directors. The committee considers all human resources issues including recruitment policy, industrial relations, succession planning, safety and health and remuneration terms and packages for management and staff.

Risk & Capital Management Committee (RCMC)

The committee meets four times a year. The committee is comprised of five non-executive directors. The committee reviews and assesses the integrity of the risk control systems and ensures that risk policies and strategies are effectively identified, managed and monitored in order to contribute to a climate of discipline and control, which will reduce the opportunity of risk, including fraud, in all areas of operation. The RCMC also reviews the capital position and approves risk appetite; reviews stress testing results and consider the adequacy of mitigating actions if required.

Management Committees

Credit Risk Management Committee (CRMC)

The Board Credit Committee recognises the expertise of appointed credit functions and expert committees of FDH Bank Plc. Accordingly certain oversight functions and management participations are authorised and delegated to the credit risk management committee by the board credit risk committee.

The CRMC is a senior management credit decision-making function within a defined delegated authority as determined by the board from time to time. This committee effectively enhances the credit disciplines within the Bank and is responsible for controlling inter alia delegated authorities, concentration risk, distressed debt, regulatory issues that pertain to credit, credit audits, policy and governance. The committee meets at least once a month – on a scheduled or ad hoc basis depending on business imperatives – and is chaired by the Head of Credit.

Asset and Liability Management Committee (ALCO)

ALCO meets on a monthly basis to monitor and control and manage all trading book risk and banking book liquidity risk and interest rate risk in accordance with the Bank's risk appetite, review limit, guideline or trigger breaches and agree remedial actions in order to align exposures with agreed appetite, approve Market Risk, Liquidity Risk and Banking Book Interest Rate Risk Policies; together with key procedure documents, set market risk limits and monitors compliance thereto, but does not take decisions on trading or banking book positioning, designate certain positions which should be held as endowment hedges , approve the Bank's Liquidity Contingency Plan, review regulatory capital adequacy, review and note the impact of internal and external factors on the net interest margin for the Bank within the scope of ALCO, ensure that effective capital management governance is in place, ensure that FDH Bank Plc is adequately capitalized given risks assumed (including stressed), minimum regulatory capital requirements and business plans, ensure that capital requirements are structured in a way that optimizes current and future returns to shareholders. ALCO members consist of senior management and the committee is chaired by the Managing Director.

New Products Committee (NPC)

The New Products Committee is a senior management committee chaired by the Head of Operations. The Committee meets as and when required to facilitate the introduction of new products, services, businesses, legal entities, systems or processes in a coordinated and effective manner that is consistent with the Bank's overall strategic, business, and risk management focus.

The Committee exercises proper oversight and ensures action has been taken to ensure that any significant risks that could arise from the introduction or amendment of businesses, products or services, systems and processes are properly identified and appropriately addressed by the relevant parties prior to implementation.

Operational Risk and Compliance Management Committee (ORCC)

The Risk Management and Compliance teams provide the day to day oversight on compliance and management of risk and promotes the risk/compliance culture across the Bank. The ORCC is responsible to create and maintain the risk and compliance practices across the Bank as defined by Bank risk and to ensure that controls are in place for all risk categories. The compliance and risk management teams maintain objectivity by being independent of operations and in addition they have dual direct reporting lines into the Managing Director of the Bank and Chief Executive Officer of the FDH Financial Holdings Limited.

Internal Audit

The primary purpose of Internal Audit is to prevent the demise of the Bank by highlighting potential and emerging risks to management and ensuring that the Bank is not put unduly in harm's way. This entails that Internal Audit should understand the business environment, strategy and operating models in order to determine what controls should be in place to manage the risk profile within acceptable norms and where the Bank takes on risk, it should be informed and managed. Internal Audit is directly accountable to the Board Finance and Audit Committee. Internal Audit provides a continuous assessment on the adequacy and effectiveness of the Bank's processes for controlling its activities, managing its risks and ensuring good governance. It reports and provides recommendations on significant issues related to the risk management, control and governance processes within the Bank.

b) Credit risk

Credit risk is the probability that a financial obligation will not be honoured by a counterparty and exists in lending and other trading activities. The risk covers both statement of financial position and off statement of financial position activities. The Bank's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Bank considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

The Bank mitigates credit risk by proactively managing it. Lending and other facilities are granted only if the level of risk is acceptable. This is achieved by thoroughly evaluating customers' credit worthiness before facilities are granted. Even after the facilities are granted, the Bank continues to monitor customers' performance so that timely corrective action can be taken should circumstances demand. Various committees and structures are in place for sanctioning large facilities and monitoring customers' performances.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit Committee and is responsible for oversight of the credit risk, including:

- ***Formulating credit policies*** in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- ***Establishing the authorisation structure*** for approvals and renewals of credit facilities. Authorisation limits are provided to credit officers. Larger credit limits require approval by the head of credit department, the credit committee or the Board.
- ***Reviewing and assessing credit risk***. The credit committee assesses all credit exposures and prepares a watch list which includes all those that have exceeded their limits and repayments are lagging behind.
- ***Limiting concentrations of exposure*** to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- ***Reviewing compliance*** so that exposure limits remain within the acceptable range.
- ***Providing advice, guidance and specialist skills*** to business units to promote best practice throughout the Bank in the management of

credit risk.

The Bank's credit committee is responsible for managing the Bank's credit risk by:

- Ensuring that the Bank has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Bank's stated policies and procedures, IFRS and relevant supervisory guidance;
- Identifying, assessing and measuring credit risk across the Bank, from an individual instrument to a portfolio level;
- Creating credit policies to protect the Bank against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits;
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc;
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities;
- Developing and maintaining the Bank's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews;
- Developing and maintaining the Bank's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL;
- Ensuring that the Bank has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL; and
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

Significant increase in credit risk

The Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings

In order to minimise credit risk, the Bank has tasked its credit management committee to develop and maintain the Bank's credit risk grading to categorise exposures according to their degree of risk of default. The Bank's credit risk grading framework comprises ten categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Bank's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilisation of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, market data such as prices of credit default swaps (CDS) or quoted bonds where available, changes in the financial sector the customer operates etc.

The Bank uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the Bank's internal credit risk grades to external ratings.

The Bank's principal financial assets are cash and balances with banks, treasury bills and other loans and advances and corporate lending. The Bank's credit risk is primarily attributable to these assets. The credit risks on balances with banks and treasury bills are limited because the counterparties are institutions with high credit ratings.

The Nature & Extent of Credit Risk

The Bank's exposure as at 31 December 2019 was at K56.813billion with NPL standing at 0.80% while in 2018, the bank closed the year with a loan book worth K40.689billion with NPL ratio of 1.41%. With default rate declining from the previous reporting period and the Bank's enhanced credit risk management, it is expected to reduce further in 2020.

Incorporation of Forward Looking

Apart from the macroeconomic factors above, the qualitative factors are considered when estimating the PD. These factors include general customer behaviour and changes in the customer business sector.

Payment record, including payment ratios and ageing analysis;

The loan repayment rate in 2019 was 98.75% (2018: 94%). The rate has increased due to enhanced credit risk management and recoveries. The Bank closed the year with an exposure of K57.615 billion (2018: K41.237 billion). Out of the gross loans, K53.724 billion was in stage 1 (2018: 36.813 billion), K3.439 billion was in stage 2 (2018: K3.557 billion) and K0.451 billion was in stage 3 (2018: K0.868 billion). Based on this ageing analysis, there is no significant increase in credit risk.

Extent of utilization of granted limit

The bank closed 2019 with unutilized overdrafts of K200 million against limits of K17.925 billion representing 1.12% of the total limits compared to the unutilized limits of K1.343 billion against limits of K18.540 billion were reported in December 2018 representing 7.2% of the total limits. The reduction in the unutilized overdrafts shows an increase in limits utilisation as a result of liquidity squeeze in the market. The unutilized ratio is expected to decline further in 2019 due to new measures that have been put in place to ensure customers use up the commitments.

Forbearances (both requested and granted)

There are no significant forbearances in the reporting period.

Changes in business, financial and economic conditions;

The business condition was stable in the reporting period due to stability of the economy driven by stable exchange rates and inflation rate. The inflation rate is expected to decline in 2020 due to recent reduction in fuel price which a cost driver for many commodities.

Credit rating information supplied by external rating agencies;

The Bank uses the credit reference Bureau to obtain credit history of all the loan applications it gets before approving the loans. This enhances the credit risk management in that loans are only given out to customers who have the capability to pay.

Loans and Advances to customers at amortised cost categorised per industry

The tables below show Loans and Advances categorised in two main categories, Corporate and Retail, and then further categorised into the industry sectors;

	As at 31 December 2019	As at 31 December 2018
	K'000	**K'000**
Retail		
1. Agriculture, Forestry, Fishing and Hunting	1 751 458	361 136
2. Mining and Quarrying	1 273	538 448
3. Manufacturing	36 396	149 757
4. Electricity, Gas, Water and Energy	117 811	65 931
5. Construction	977 752	891 376
6. Wholesale and Retail Trade	1 162 157	1 045 660
7. Restaurants and Hotels	269 361	-
8. Transport, Storage and Communications	682 791	486 742
9. Financial Services	219 758	222 301

10. Community, Social and Personal Services	8 957 263	4 176 737
Corporate:		
1. Agriculture, Forestry, Fishing and Hunting	937 600	491 605
2. Mining and Quarrying	467 060	-
3. Manufacturing	9 732 158	9 994 987
4. Electricity, Gas, Water and Energy	5 387 880	4 845 357
5. Construction	3 926 112	2 477 689
6. Wholesale and Retail Trade	10 756 266	11 107 157
7. Restaurants and Hotels	400 000	-
8. Transport, Storage and Communications	2 287 137	1 787 483
9. Financial Services	8 580 320	2 498 528
10. Community, Social and Personal Services	964 642	96 376
Total	**57 615 195**	**41 237 270**

Loans and Advances to customers at amortised cost concentration by region

Concentration by region

South	43 666 675	33 451 791
Centre	13 230 338	7 111 414
North	718 182	674 065
Total	**57 615 195**	**41 237 270**

Loans and Advances to customers at amortised cost categorised by Stages

Stage 1	53 724 240	36 812 572
Stage 2	3 439 753	3 556 799
Stage 3	451 202	867 899
	57 615 195	41 237 270
Total Gross Carrying Amount	57 615 195	41 237 270
Loss Allowance	(801 300)	(547 929)
Carrying amount	**56 813 895**	**40 689 341**

Maximum exposure to credit risk without taking into account any collateral or other credit enhancements

The table below shows the maximum exposure to credit risk by class of financial instrument. Financial instruments include financial instruments defined and recognised under IFRS 9 *Financial Instruments: Recognition and Measurement.* The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	2019	2018
	K'000	K'000
Gross maximum exposure		
Funds with Reserve Bank of Malawi	7 062 293	14 885 769
Placements with other local banks	31 750 661	26 084 042
Malawi Government Treasury Bills and Reserve Bank of Malawi bond	46 955 149	39 552 133
Other short term investments – OMO	-	5 496 484
Other investments	31 032	26 032
Loans and advances	56 813 895	40 689 341
Amounts due from related parties	-	791 525
Other receivables and prepayments	29 173 304	10 309 395

Total credit risk exposure	**171 786 334**	**137 834 721**

Collateral held as security and other credit enhancements in respect of the exposure through loans and advances above is as follows:

Commercial property	3 187 310	3 539 910
Residential property	26 872 332	25 791 425
Cash deposits	542 404	520 586
Guarantees	3 914 467	3 757 012
Investments	400 000	650 000
Equipment and vehicles	512 008	871 948
	35 428 521	**35 130 881**

The Bank's policy is to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding loans.

Net exposure to credit risk without taking into account any collateral or other credit enhancements

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

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit by sector is presented below:

	2019	2018
	K'000	K'000
Loans and advances to customers		
Segmental analysis-industry		
Agriculture	2 690 059	5 685 113
Construction	4 903 864	3 322 933
Finance, real estate and other business services	9 268 413	2 683 573
Transport, storage and communications	2 969 928	2 243 084
Wholesale and retail trade	11 918 424	12 005 128
Individuals	9 910 757	8 847 895
Manufacturing	9 768 554	1 687 014
Other services	5 383 896	4 214 601
	56 813 895	**40 689 341**

The risk that counter-parties 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 counter-parties of good credit standing, and when appropriate, obtains collateral.

Internal credit ratings

In order to minimise credit risk, the Bank has tasked its Credit Management Committee to develop and maintain the Bank's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the Credit Management Committee uses other publicly available financial information and the Bank's own trading records to rate its major customers and other debtors. The Bank's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

c) Liquidity risk

Liquidity risk arises where the operations of the Bank cannot be funded due to mismatches in the cash flows of assets and liabilities within the statement of financial position. The Asset and Liability Committee reviews the potential for these mismatches and takes measures to alter certain maturity profiles where necessary with a view to minimising the impact of such mismatches.

Management of Liquidity risk

The Bank has access to a diverse funding base. Funds are raised mainly from deposits and shareholders. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business objectives. In addition the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy. The table below analyses assets and liabilities into relevant maturity profiles based on the remaining period at 31 December 2019 to the contractual maturity date.

	Up to 1 month	1-3 months	3-12 months	Over 1 year	Carrying total
	K'000	K'000	K'000	K'000	K'000
As at 31 December 2019					
Assets					
Cash and funds with Reserve Bank of Malawi	7 062 293	-	-	-	7 062 293
Placements with other banks	31 750 661	-	-	-	31 750 661
Malawi Government Treasury Bills and Reserve Bank of Malawi bond	521 696	24 664 360	13 560 000	8 209 093	46 955 149
Loans and advances to customers	7 711 529	10 314 140	25 444 720	13 343 506	56 813 895
Other investments	-	-	-	31 032	31 032
Other receivables and prepayments	10 851 671	5 098 244	11 777 448	1 445 941	29 786 334
Total assets	57 897 850	40 076 744	50 782 168	23 029 572	171 786 334
Liabilities					
Shareholder's loan	-	410 414	410 414	1 785 714	2 606 543
Liabilities to customers	83 557 257	24 914 205	27 956 542	712 826	137 140 830
Liabilities to financial institutions	10 301 285	-	-	-	10 301 285
Long term loan	-	82 107	-	5 678 813	5 760 919
Payables and accruals	3 297 656	3 355 801	-	-	7 078 442
Total assets	97 156 198	28 762 527	28 366 956	8 177 353	162 888 019
Contractual liquidity mismatch	(39 258 348)	11 314 218	22 415 212	14 852 218	9 323 300
Cumulative liquidity mismatch	(39 258 348)	(27 944 100)	(5 528 918)	9 323 500	9 323 300

	Up to 1 month	1-3 months	3-12 months	Over 1 year	Carrying total
	K'000	K'000	K'000	K'000	K'000
As at 31 December 2018					
Assets					
Cash and funds with Reserve Bank of Malawi	14 885 769	-	-	-	14 885 769
Placements with other banks	26 084 042	-	-	-	26 084 042
Malawi Government Treasury Bills and Reserve Bank of Malawi bond	2 305 500	9 935 633	1 876 071	25 434 929	39 552 133
Other short term investments – OMO	5 496 484	-	-	-	5 496 484
Loans and advances to customers	7 075 019	11 443 458	9 968 476	12 202 388	40 689 341
Other investments	-	-	-	26 032	26 032
Amounts due from related parties	791 525	-	-	-	791 525
Other receivables and prepayments	10 309 395	-	-	-	10 3089 395
Total assets	66 947 734	21 379 091	11 844 547	37 663 349	137 834 721
Liabilities					
Shareholder's loan	80 823	2 648 321	-	-	2 729 144
Liabilities due to customers	87 064 977	16 068 707	9 436 580	-	112 570 264
Liabilities to financial institutions	4 504 286	-	-	-	4 504 286
Long term loan	-	-	-	5 454 618	5 454 618
Amounts due to related parties	3 444	-	-	-	3 444
Payables and accruals	11 621 378	-	-	-	11 621 378
Total assets	103 274 908	18 717 028	9 436 580	5 454 618	136 883 134

Contractual liquidity mismatch	(36 327 174)	2 662 063	2 407 967	32 208 731	951 587
Cumulative liquidity mismatch	(36 327 174)	(33 665 111)	(31 257 144)	951 587	951 587

The contractual liquidity mismatch shows the mismatch before any adjustments are made for product and customer behavioural assumptions. The Bank's Assets and Liabilities Committee (ALCO) manages this mismatch by setting guidelines and limits for anticipated liquidity gaps and monitors these gaps weekly. The committee reviews the product and customer behavioural assumptions when there is indication that there is a shift in one or more of the variables.

d) Market risk

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

Market risk review

The following table sets out the allocation of the carrying value of assets and liabilities subject to market risk between trading and non-trading portfolios:

	Carrying amount	Trading portfolio	Non-trading portfolios
	K'000	K'000	K'000
31 December 2019			
Assets subject to market risk			
Cash and cash equivalents	7 062 293	-	7 062 293
Placements with other banks	31 750 661	-	31 750 661
Loan and advances to customers	56 813 895	-	56 813 895
Investment securities	46 955 149	-	46 955 149
	142 581 998	-	142 581 998
Liabilities subject to market risk			
Deposits from banks	10 301 285	-	10 301 285
Deposits from customers	137 140 830	-	137 140 830
Debt securities issued	5 760 919	-	5 760 919
Subordinated liabilities	2 606 543	-	2 606 543
	155 809 577	-	155 809 577

	Carrying amount	Trading portfolio	Non-trading portfolios
	K'000	K'000	K'000
31 December 2018			
Assets subject to market risk			
Cash and cash equivalents	14 885 769	-	14 885 769
Other short term investment - OMO	5 496 484	-	5 496 484
Placements with other banks	26 084 042	-	26 084 042
Loan and advances to customers	40 689 341	-	40 689 341
Investment securities	39 552 133	-	39 552 149
	126 707 769	-	126 707 769
Liabilities subject to market risk			
Deposits from banks	4 504 286	-	4 504 286
Deposits from customers	112 570 264	-	112 570 264

Debt securities issued	5 454 618	-	5 454 618
Subordinated liabilities	2 729 144	-	2 729 144
	125 258 312	-	125 258 312

Management of market risks

Overall authority for market risk management is vested in the ALCO.

Interest rate risks

Bank's interest rate risk exposure is related to money market investments, advances to customers, customer deposits and money market liabilities.

(e) Currency Risk

The Bank undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The Bank has the following currency positions:

	USD	GBP	Euro	ZAR	JYP	Other currencies	MK	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
At 31 December 2019								
Assets								
Cash and bank balances with Reserve Bank of Malawi	26 557	-	-	-	-	-	7 035 736	7 062 293
Placement with other banks	16 846 886	459 271	3 473 855	6 290	526	656	10 963 177	31 750 661
Malawi Government Treasury Bills	-	-	-	-	-	-	46 955 149	46 955 149
Loans and advances to customers	2 266 562	-	-	328	-	-	54 547 005	56 813 895
Other investments-		-	-	-	-	-	31 032	31 032
Other receivables and prepayments	-	-	-	-	-	-	29 173 304	29 173 304
Total assets	19 140 005	459 271	3 473 855	6 618	526	656	148 705 403	171 786 334
Liabilities								
Liabilities to customers	14 277 813	463 337	3 309 994	4 765	-	-	119 084 921	137 140 830
Liabilities to financial institutions	2 203 379	-	-	-	-		8 097 906	10 301 285
Shareholders' loan	-	-	-	-	-		2 606 543	2 606 543
Long-term loan	-	-	-	-	-	-	5 760 919	5 760 919
Payables and accruals	52 594	-	-	-	-	-	6 600 803	6 600 803
Total liabilities	16 533 786	463 337	3 309 994	4 765	-	-	142 151 152	162 462 974
Net balance	(2 606 219)	(4 066)	163 861	1 853	526	656	6 554 251	9 323 300

	USD	GBP	Euro	ZAR	JYP	Other currencies	MK	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
At 31 December 2018								
Assets								
Cash and bank balances with Reserve Bank of Malawi	-	-	-	-	-	-	14 885 769	14 885 769
Placement with other banks	22 665 928	73 628	3 337 599	5 604	604	679	-	26 084 042

Malawi Government Treasury Bills	-	-	-	-	-	-	39 552 133	39 552 133
Other short term investments – OMO	5 496 484	-	-	-	-	-	-	5 496 484
Loans and advances to customers	64 341	-	-	-	-	-	40 625 000	40 689 341
Other investments	-	-	-	-	-	-	26 032	26 032
Amounts due from related parties	-	-	-	-	-	-	791 525	791 525
Other receivables and prepayments	-	-	-	-	-	-	10 318 880	10 318 880
Total assets	28 226 753	73 628	3 337 599	5 604	604	679	106 199 339	137 844 206
Liabilities								
Liabilities to customers	14 665 133	82 888	3 287 973	4 129	-	-	94 530 141	112 570 264
Liabilities to financial institutions	-	-	-	-	-	-	4 504 286	4 504 286
Shareholders' loan	-	-	-	-	-	-	2 729 144	2 729 144
Long-term loan	5 454 618	-	-	-	-	-	-5 454 618	
Amount due to related parties	-	-	-	-	-	-	3 444	3 444
Payables and accruals	-	-	-	-	-	-	11 621 378	11 621 378
Total liabilities	20 119 751	82 888	3 287 973	4 129	-	-	113 388 393	136 883 134
Net balance	8 107 002	(9 260)	49 626	1 475	604	679	(7 189 054)	961 072

The impact of a 5% movement in foreign currency exchange rates in both directions is K268 million as at 31 December 2019 (2018: K406 million).

(f) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Bank has an internal audit department with the mandate of conducting audits to provide independent assurance on the adequacy and effectiveness of the management of operational risk, including, but not limited to, the processes, systems and controls.

(g) Compliance risk

This refers to the risk of non-compliance with any statutory requirements of central or local government, including regulations imposed by the Reserve Bank of Malawi and other regulatory bodies.

The management of compliance risk is a distinct discipline within the Bank's overall risk management framework. Ultimate responsibility for this risk lies with the Board of Directors. A combination of key activities are undertaken to manage the risk such as identifying the regulatory environment and developing compliance management plans, training staff and other stakeholders on relevant regulatory requirements, and monitoring compliance.

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.

Statutory requirements

In accordance with Section 38 of the Banking Act, 2009, the Reserve Bank of Malawi has established the following requirements as at the reporting date:

Liquidity reserve requirement

The Bank is required to maintain a liquidity reserve with the Reserve Bank of Malawi equivalent to no less than 5% (2018: 7.5%) of total customer deposits. At the end of the year, the liquidity reserve was equivalent to 5% of customer deposits.

Capital adequacy requirement as per Section 10 (1) of the Banking Act, 2009

Capital adequacy requirements are discussed in section 'h' below.

Prudential aspects of bank liquidity

As a compliment to Section 38 of the Banking Act, 2009, the Reserve Bank of Malawi had issued the following guidelines on the management of liquidity as at the end of the reporting period:

- Liquidity Ratio I - Net liquidity (total liquid assets less suspense accounts in foreign currency) divided by total deposits must be at least 30%; and
- Liquidity Ratio II - Net liquidity (total liquid assets less suspense accounts in foreign currency and cheques in the course of collection) divided by total deposits must be at least 20%.

Liquidity Ratios

At the end of the period the Bank's liquidity ratio I was 68.58% (2018: 60.74%) and liquidity ratio II was 68.08% (2018: 60.27%).

(h) Capital management

Reserve Bank of Malawi sets and monitors the capital requirements for banks. In implementing current capital requirements, Reserve Bank of Malawi requires the Bank to maintain a minimum ratio of 10% core (tier 1) capital and 15% of total (tier 2) capital to risk-weighted assets. The Bank's regulatory capital is analysed as follows:-

- Tier I capital, which comprises ordinary share capital, share premium, retained profits from prior periods, and 60% of after-tax profits in the current period-to-date, less any unconsolidated investment in financial companies; and
- Tier II capital, which also includes share revaluation reserves, investment revaluation reserve, property revaluation reserve and loan loss reserve.

The calculation of the above ratios is given below:-

	2019	2018
	K'000	K'000
Tier 1 capital		
Share capital	462 706	462 706
Share premium	7 450 660	7 450 660
Preference shares	3 111 000	3 111 000
Capital reserve	2 716 230	2 716 230
Retained earnings	591 437	(4 110 997)
60% of net income/(100% of loss) for the period	4 707 818	3 579 265
Unconsolidated investment	(15 000)	(13 016)
Deferred tax asset	-	(2 009 226)
Total Tier 1 capital	19 024 851	11 186 622
Loan loss reserve	495 078	290 733
Unconsolidated investment	(15 000)	(13 016)
Shareholders' loan	2 606 543	2 729 144
Total capital (Tier I & II)	22 111 472	14 193 483
Risk weighted assets	112 861 264	87 920 793
Capital ratio		
Total regulatory capital (Tier II) expressed as a percentage of total risk weighted assets	19.59%	16.14%
Total Tier I capital expressed as a percentage of total risk weighted assets	16.86%	12.72%

Over and above the tier 1 and tier 2 ratios, the Reserve Bank of Malawi has also set a minimum share capital, share premium and retained earnings requirements. The sum of share capital, share premium must be at least K1,640 million as from 1 January 2015 for all registered banks. FDH Bank complies with this regulatory requirement.

30. CONTINGENT LIABILITIES

The Bank is a defendant in several cases arising from employment contracts by former employees as well as litigation taken up by the Bank against customers defaulting on their loan obligations with the Bank which are outstanding in the courts of Malawi. While liability is not admitted, if the defense against the actions is unsuccessful, then the Bank would pay the claims estimated at K1.037 billion (2018: K461 million). The outcome of these cases are subject of the determination by the courts.

31. SUBSEQUENT EVENTS

COVID-19 pandemic

There was an outbreak of Corona Virus in China. This, however, became widespread in a number of countries after the reporting date. World Health Organization (WHO) subsequently declared COVID 19 as global pandemic in March 2020. The potential impact of COVID-19 on FDH Bank Plc has been disclosed in the profit forecasts on pages 127 to 128.

Change of shareholding structure

1. In accordance with Section 87(3) of the Companies Act, 2013, the shareholders of FDH Bank Plc approved through a special resolution to convert the existing 462 706 000 (four hundred sixty two million seven hundred and six million) ordinary shares of K1 each, into 6 500 000 000 (six billion and five hundred million) ordinary shares of no par value.

   The Board authorized the issue of fully paid up shares of no par value to the existing shareholders of the Bank in proportion to their respective shareholding as at the time immediately preceding the conversion:

   a. 6 089 200 200 shares were issued to FDH Financial Holdings Limited;

   b. 327 600 000 shares were issued to the Malawi Government; and

   c. 83 200 000 shares were issued to MSB ESOP Limited.

   The impact of change in shareholding structure on basic earnings per share has been disclosed in note 26.

   The shareholders also passed a special resolution to increase the ordinary share capital of the Bank to K10 billion shares of no par value.

2. At the same meeting the shareholders agreed that pursuant to the Preference Share Agreement executed by and between the Company and First Private Equity Fund Limited (the "Agreement") the Board be authorized to facilitate the exit of First Private Equity Fund Limited in line with the Agreement. The preference shareholders have the option to buy FDH Bank Plc shares, by way of exchange for the preference shares, at the IPO price.

3. At its meeting held on 17 March 2020 the Board of the Bank approved the acquisition of 100% of the equity of MSB properties Limited from FDH Money Bureau Limited. On 31 March 2020, FDH Bank Plc purchased 100% of the equity of MSB properties Limited from FDH Money Bureau Limited

32. EXCHANGE RATES AND INFLATION

The average of the period-end buying and selling rates of the foreign currencies most affecting the performance of the Bank are stated below, together with the increase in the National Consumer Price Index, which represents an official measure of inflation.

	2019	2018
	K'000	K'000
Kwacha/GBP	968.02	923.75
Kwacha/Rand	51.57	50.73
Kwacha/US Dollar	736.66	725.50
Kwacha/Euro	815.47	831.58
Inflation rate (%)	11.5	9.9

As at 17 February 2020, the above noted rates had moved as follows:

Kwacha/GBP	959.98
Kwacha/Rand	50.59
Kwacha/US Dollar	736.66
Kwacha/Euro	812.89
Inflation rate (%)	11.5

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The Directors
FDH Bank Plc
Umoyo House
P.O Box 512
BLANTYRE

Members of the Board

REPORTING ACCOUNTANT'S REPORT ON THE PROFIT FORECAST OF FDH BANK Plc

We have examined the profit forecast of FDH Bank Plc for the years ending 31 December 2020 and 31 December 2021 in accordance with the International Standard on Assurance Engagements (ISAE) 3400, *the examination of prospective financial information*. This standard requires us to obtain sufficient appropriate evidence as to whether or not:

- Management's best-estimate assumptions on which the forecast information is based are not unreasonable and are consistent with the purpose of the information;
- The forecast information is properly prepared on the basis of the assumptions;
- The forecast information is properly presented and all material assumptions are adequately disclosed; and
- The forecast information, is prepared and presented on a basis consistent with the accounting policies of the Bank for the period concerned.

DIRECTORS' RESPONSIBILITY

The Directors are responsible for the forecast information, including the assumptions and explanatory notes set out on pages 127 to 131, on which it is based, and for the financial information from which it has been prepared, in line with the Listings Requirements of the Malawi Stock Exchange.

RESPONSIBILITY OF THE REPORTING ACCOUNTANT

Our responsibility is to express an opinion on the reasonableness of the forecast. Since the forecast relates to the future, actual results are likely to be different from the forecast results because events and circumstances frequently do not occur as expected, and the differences may be material.

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that the underlying assumptions do not provide a reasonable basis for the forecast. Further, in our opinion, the forecast is properly prepared on the basis of the assumptions and is presented on a basis consistent with the accounting policies normally adopted by FDH Bank Plc.

We consent to the inclusion of this report which forms part of the prospectus to be issued on 29th June 2020 in the form and content in which it appears.

Deloitte

Chartered Accountants

Nkondola Uka

Partner
18th June 2020

Partners: NT Uka VW Beza CA Kapenda MC Mwenelupembe (Mrs) KCD Msimuko
Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

PROFIT FORECASTS FOR THE YEARS ENDING 31 DECEMBER 2020 AND 31 DECEMBER 2021

	Notes	2020	2021
		K'000	K'000
INCOME			
Interest earned	3	18 652 172	28 920 363
Interest expense	4	(5 235 378)	(6 136 908)
Net interest income		13 416 794	22 783 455
Commissions and fee income	5	20 155 443	18 669 853
Total income		**33 572 237**	**41 453 308**
EXPENDITURE			
Administrative costs		(12 043 596)	(13 247 955)
Staff costs		(10 171 788)	(11 757 729)
Impairment losses		(409 791)	(793 643)
Finance costs		(832 720)	(586 083)
Total expenditure		(23 457 895)	(26 385 410)
Profit before tax		10 114 342	15 067 898
Taxation		(3 034 303)	(4 520 369)
PROFIT FOR THE YEAR		**7 080 039**	**10 547 529**
Earnings per share (tambala)		**102.59**	**152.84**

ASSUMPTIONS

FDH Bank Plc has prepared the above profit forecasts for 2020 and 2021 based on the following assumptions:

- Deposits are projected to increase at an average growth of 20% per annum and digital offering will drive this.
- The loans are expected to grow by an average rate of 30% year on year in the next 5 years due to future economic activities.
- Interest income is expected to increase on the back of the increasing loan book.
- Interest expense is expected to increase year on year due to the increase in deposits.
- Exchange rate is expected to remain relatively stable against the US Dollar and only depreciate by 5% year on year.
- Non-interest income is expected to decrease year on year as a result of the decrease in commissions by 18%.
- Bad debt provision is expected to increase in line with the growth in the loan book due to the fact that IFRS 9 provisions are also done on performing loans.
- The NPL ratio is expected to be at an average rate of 1.2%.
- On 31st March 2020, FDH Bank Plc purchased 100% of the equity of MSB Properties Ltd from FDH Money Bureau Limited. The above profit forecasts for the Bank do not incorporate financial information for MSB Properties Ltd for the years ending 31st December 2020 and 31st December 2021. The Bank's assessment is that these properties are now owner-occupied and the related depreciation does not have a significant impact on profit forecasts as there will also be a reduction in rental income on the properties rented from MSB Properties on consolidation.

NOTES TO THE PROFIT FORECASTS

For the years ending 31 December 2020 and 31 December 2021

1. General information

FDH Bank Plc is engaged in the business of commercial banking. The Bank is incorporated in Malawi and is registered under the Companies Act. The Bank is also registered under the Banking Act.

The Bank's registered office and principal place of business is Upper Ground Floor, Umoyo House, 8 Victoria Avenue North, P. O. Box 512, Blantyre, Malawi. The Bank is owned by FDH Financial Holdings Limited, an investment holding company registered under the Companies Act (93.7%); Government of Malawi (5%) and Malawi Savings Bank (MSB) ESOP (1.3%).

1.1 Basis for preparation of the profit forecasts

The profit forecasts have been prepared in accordance with Section 4.95 and 8.8 to 8.14 of the Listings Requirements and in accordance with the accounting policies as outlined in the Reporting Accountant's Report on the historical financial information.

2. COVID-19

The novel coronavirus (COVID-19) was first reported in Wuhan in China at the end of December 2019. The outbreak has spread at a fast rate to the rest of the world, and the World Health Organisation (WHO) declared the virus as a global pandemic on 11 March 2020.

2.1. The economic effects of the COVID-19 Outbreak

The World Economic Forum COVID Action Platform reported that macroeconomic and financial outcomes of the coronavirus have materialized in a period of less than three weeks, compared to the three years taken for the 2008 financial crisis. It is also noted that the financial markets have declined by 35%, the credit markets have almost ceased, and the credit spreads have spiked to 2008 levels. A world recession that has the possibility of reaching the magnitude of the Great Depression has therefore started.

The rate of unemployment for the USA is predicted to reach its highest peak of 32.1% as compared to the unemployment rate witnessed during the great depression of 23.6% in 1929.

The FDH Bank Plc economic review indicates the following:

- A reduction in the Global GDP growth rate. This has been revised downwards from 2.9% as earlier projected, to 2.4%.
- The US GDP growth is forecasted to drop to around 2.0% from an earlier 3.3% projection. The Chinese economy is also expected to have a reduced growth rate of around 4.0% to 5.0%. It is worth noting that for the past few years, China has been growing at an average rate of 6.1% per annum.
- The price of crude oil is currently on a slump at the international commodities markets. The selling price of a barrel was USD23.1 in May 2020 as compared to the price of USD68 per barrel at the beginning of the year 2020.
- There are currently no revised projected GDP growth rate numbers for Malawi, the GDP growth rate for 2020 is likely to be revised downwards as well. It is worth noting that this was projected to be at the rate of 5.0% to 6.0% for 2020 before Covid-19 outbreak.

Governments around the globe have implemented lockdown measures restricting international trade, travel, and other major economic activities. The cause of the negative revision of the global as well as local growth rates is therefore a direct impact of the stoppage of the key drivers of the economic performances. The goals of the lockdowns are to increase social distancing and thereby enable people and institutions to survive, and to resuscitate normal life either after the pandemic slows down, or as people and institutions adapt to live with the Covid-19 as any other disease in the world.

The Bank foresees that Covid-19 will have a negative impact on its Key Performance Areas (KPAs). We note however that the Covid-19 will also present some opportunities in some areas such as transactions income. The Bank's review indicates that these will increase bearing in mind the presence of the digital platforms that the Bank has put in place. It is worth noting that FDH Bank Plc has been recognized before as one of the pioneers of digital banking in the Malawi banking market. The Bank scooped two consecutive awards for being a highly innovative bank in 2016 and in 2017 successively from the Information and Communications Technology of Malawi (ICTAM). In 2019, the Bank scooped nine (9) marketing awards on digital platforms. This demonstrates the Bank's substantial investment in its digital channels.The Bank's digital infrastructure, human resources, and business experiences in digital banking is in place and is improving day by day. Therefore, while noting that COVID-19 has disrupted business, there will be some compensations in some sectors of the Bank. The Bank therefore anticipates a slight reduction in some key performance parameters, enabling the business to take off after the pandemic.

2.2 Potential impact of COVID-19 on the Bank

The Bank considered the impact of Covid-19 in the review of the revised financial forecast in March 2020, and the following assumptions have been incorporated when coming up with the forecasts for the year ending 31 December 2020:

2.2.1 Credit

- Cash flows: The cash flows of many consumers and businesses will be challenged as lack of demand flows into lower businesses and individuals affected by this Covid-19 virus. This will impact negatively on the bank's customers and will lead to lower business revenues and employee layoffs.

- Most manufacturing businesses currently have stocks of raw materials to cover for the short-term business. However, should the pandemic partial lock down period extend beyond 90 days, then some business production activities would be curtailed and the demand for credit may slow down.

- SME borrowing is generally driven by trading in imported goods and in exporting raw material resources to the rest of the world. The Bank notes that a good number of the Bank's SME customers are also in the construction industry and that Government spending will prioritize recurring expenditure as opposed to investments, and therefore, the reduced demand for construction may result in low demand for the Bank's services.

- The businesses that rely on imported goods will be impacted in the period as the neighbouring countries have closed their borders, hence, low production and business activity.

- For the Bank's customers that are in regular salaried employment, the short-term impact will be minimal. The Bank, however foresee layoffs in some of our customers operations if the pandemic prolongs, and therefore the Bank may also be affected in the personal banking sector.

2.2.2 Deposits

- The Bank anticipates a mild reduction of deposits in the personal segment. For the salaried segment, the impact will be felt gradually as the pandemic prolongs. The Bank foresees some pressure to make one off large withdrawals of salaries as people might want to limit their visits to the bank: visits to the bank. These will therefore reduce the verage daily balances.

- The Bank may also experience reduced deposit inflows from SME's because of the slowdown of the economic activities.

2.2.3 Liquidity

- The drop in deposits mentioned above will have an effect on the liquidity of the Bank. There will be reduced deposits and there may also be delays in loan repayments from some customers which may lead to liquidity gaps.

2.2.4 Foreign exchange trading

- In the short term, the Bank anticipates that there will be no impact on foreign exchange trading as there is already a huge backlog of bills that needs to be cleared and the tobacco season has opened.

- In the medium term, the Bank anticipates a slow down on Trade Finance Business. This will slowdown Letters of Credit (LCs) drawings and consequently establishment of new LCs.

2.2.5 Credit impairments

- As a result of increased business stress; in the short term, most businesses will survive but the challenge will come if the pandemic prolongs. Some sectors will be heavily affected like tourism and education. Players in these industries are experiencing challenges in the immediate term. Some hotel establishments have since partly shut down and sent some workers on unpaid leave including redundancies. The Bank does not have much exposure in this sector.

- The State President directed that Banks should give a three-month moratorium to SMEs on both principal and interest. While the restructuring or the extension of the credit terms will offer the temporary relief in the next three months, this will not remove the obligations. In considering the stressed economy, slowed businesses, the Bank envisages repayment problems after the moratoriums lapse. There is therefore a likelihood for impairments to increase after the three months' grace period.

- As a result of the above points, the Bank has factored in additional impairment losses of around MK671 million, revising these up from the initial 2020 budget that was at K588 million to K1.260 Billion by December 2020 representing an increase of 114%.

The Bank considers that the additional expected impairments are sufficient to cushion the expected credit losses to be met from the negative impacts of the Covid-19. This is also based on the Bank's current NPL ratio of 0.8%. However, the Bank will continuously review the loan book performance in line with any economic changes.

2.2.6 Capital ratios

The Capital ratios are expected to drop by about 1.1% from the initial budget considering the revised forecast with COVID-19 impact. The capital ratios are expected to move from 20.21% for Tier 1 and 22.03 for Tier 2 to 19.98% for Tier 1 and 21.78% for Tier 2 respectively. This will be due to the following reasons:

- The Bank's budgeted profitability will reduce by 14% considering the Covid-19 impact and this will have the impact of reducing the retained earnings which forms part of core capital.
- The Covid-19 negative impact will be offset by the decrease in Risk Weighted Assets (RWAs) as there will be a drop in the loan book by 4%.

The ratios will still be way above the minimum regulatory requirements of 10% for Tier 1 and 15% for Tier 2 respectively.

2.3 Measures Taken by the Government of Malawi, the Reserve Bank of Malawi and Other Multilateral Institutions

The following are the key measures taken by the Government of Malawi and the Reserve Bank of Malawi in trying to mitigate the effects of Covid-19:

- SME lending: Government will inject fresh capital into the economy via SME lending through MEDEF and will offer direct support for the hardest-hit industries.
- The Government has implemented macro stimulus measures such as reductions in interest rates, income support programs, and direct monetary transfers
- Reduction in fuel prices to give a breather to consumers
- Tax relief by opening a voluntary tax window without penalties
- There is removal of import duty on other items to mitigate local hardship
- The Government has opened up produce markets such as for the sale of maize and are offering competitive prices
- There is a reduction in the liquidity reserve requirement (LLR) on domestic currency thereby releasing MK12bn as available liquidity to directly support borrowers that are financially distressed
- RBM has also activated Emergency Liquidity Assistance Facility and made it available to banks
- Loan restructuring which includes moratorium on both interest and principal for a period of three months on case by case basis for industries impacted.
- Further to this, the IMF Executive Board approved a USD 91million disbursement under the Rapid Credit Facility for Malawi to meet the urgent balance of payment needs stemming from the Covid-19 pandemic.
- The authorities have proactively responded to the pandemic with a national response plan, supported by the World Health Organisation and other development partners. These measures are aimed at preserving the macroeconomic stability while protecting the vulnerable. The key elements of the Malawi Government and the Multilateral Institutions support includes increases in health sector outlays, supporting incomes and food security of the most vulnerable households with expanded social assistance, grain purchases programs, and easing up of the liquidity constraints in the banking system.

2.4. FDH Bank Plc response to Covid-19

The Bank has evoked its business continuity plan to minimise disruption of business. This includes staff working from home and other off-site locations away from densely populated areas. Work from home tools have been provided to key staff to ensure continuity of services to customers in events of a total lockdown, or indeed general business disruption. The Bank continues to monitor the developments around Covid-19 and is constantly engaging key stakeholders such as the regulatory bodies and the Government. The Bank is confident in its short to midterm prospects because of the actions taken to date and the diversity of its portfolio which includes some entities in essential services.

The Bank has also taken some measures to mitigate the impact of the Covid-19 on its business and some of these are discussed below:

Digital Services

- Efforts are focused on increasing the digital transactions as customers seek an alternative to physical branch transactions. This is being reinforced with the various staff and customer promotions to influence/change customer behavior to go digital. The bank is also sending SMS notifications/reminders to its customers to be using digital banking platforms for their needs like bill payments, funds transfers, shopping, and others. This is expected to increase the activity ratio to around 35% on the Bank's digital platforms. The Bank, therefore expect the digital platform to lead to an increase in the digital transactional revenues. The Bank understands that the increased revenues to be driven by the growth of the digital platform will be offset by the Presidential Directive on reducing fees on electronic transactions.

However, the resultant marginal revenue will be positive for this line come December 2020, based on the assumption that the charges will be back to normal after the 3 month break.

- There might also be increases in social cash transfers by non-governmental organizations through the digital platforms to assist those in the rural areas. The Bank is closely following up opportunities in this space.

Loans and advances

There may also be need for funding from Government agents and Parastatals, as the Government's funding may delay due to allocation of funds to Covid-19 Response. The Bank will carefully assess such potential business opportunities.

Business opportunities will also be available in sectors which are most likely going to benefit from this pandemic and this include Pharmaceuticals, ICT, Agriculture, E-Commerce, Food Processing and Retail.

Cost of funding

Significant part of deposits will be re-priced downwards on the account of drop in Lombard rate. It is anticipated that some corporate customers will be more liquid with excess funds in the short term due to lock downs from the partner economies. As a result, these excess funds will be invested at lower costs while waiting for possible remittances.

Government securities

The Government is currently restructuring its short term debt by borrowing to fund long term projects. The Bank is monitoring the situation with the objective of taking advantage of such longer term and better yielding investment opportunities.

The Bank forecasts that Covid-19 will have an impact on various lines of the business but will also present compensating opportunities from the other lines of business. The Bank will restrict expenditure and will only spend in areas where spending will also lead to additional revenue.

At the time of issuing this prospectus, there has been considerable progress in the fight against Covid-19 and expectations are that the pandemic will be contained worldwide before the end of the year 2020, with the possibility of a vaccine within an eighteen-month time horizon.

The Bank has factored the matters in the preceding paragraphs in preparing the forecasts for 2020 and 2021.

3. INTEREST INCOME

	2020	2021
	K'000	**K'000**
Interest on loans and advances	12 020 293	20 728 015
Interest on money market investments	6 631 879	8 192 348
Total interest income	**18 652 172**	**28 920 363**

4. INTEREST EXPENSE

Interest on shareholders' loan	(391 808)	(450 310)
Money market and customers	(69 718)	(72 508)
Interest on deposits	(4 773 852)	(5 614 090)
Total interest expense	**(5 235 378)**	**(6 136 908)**

5. COMMISSIONS AND OTHER FEE INCOME

Commissions	14 565 492	12 004 822
Arrangement fee income	1 289 951	1 715 031
Other income	4 300 000	4 950 000
Total commissions and fee income	**20 155 443**	**18 669 853**

APPENDIX 3
RECEIVING BANKS AND BRANCHES

FDH BANK PLC

Umoyo House Service Centre	City Centre Service Centre	Bwaila Service Centre
Umoyo House, Victoria Avenue	Centre Arcade	Mangochi Building
P.O Box 512, Blantyre	P.O Box 30432, Lilongwe	P.O Box 1555, Lilongwe
Tel: +265 (0)1 832377	Tel: +265 (0)1 774609	Tel: +265 (0) 885503842
Fax: +265 (0)1 823044	Fax: +265 (0)1 770528	
Email:umoyobranch@fdh.co.mw	Email:citycentre@fdh.co.mw	Email: bwaila@fdh.co.mw
Old Town Service Centre	**Mzuzu Highway Service Centre**	**Karonga Service Centre**
P.O Box 1372, Lilongwe	Orton Chirwa Avenue	Bank Street, New Town
Tel: +265 (0)1 757445	P.O Box 402, Mzuzu	P.O Box 440, Karonga
Fax: +265 (0)1757446	Tel: +265 (0)1 311 290	Tel: +265 (0)1 362 400/413
	Fax: +265 (0)1 311 289	Fax: +265 (0)1362 417
Email:oldtowncluster@fdh.co.mw	Email: mzuzuhighway@fdh.co.mw	Email:karonga@fdh.co.mw
Mangochi Service Centre	**Luchenza Service Centre**	**Mponela Service Centre**
P.O Box 285, Mangochi	P.O Box 99, Luchenza	P.O. Box 31, Mponela
Tel: +265 (0) 1 593 111	Tel: +265 (0) 1 476482/488/390	Tel: +265 (0) 1 286 466/484
Fax: +265 (0)1 593 117		Fax: +265 (0)1 286360
Email: mangochi@fdh.co.mw	Email: luchenza@fdh.co.mw	Email: mponela@fdh.co.mw
Nchalo Service Centre	**Blantyre Main Service Centre**	**Nsanje Service Centre**
P.O. Box 12, Nchalo	MSB House, Victoria Avenue	P.O Box 15, Nsanje
Tel: +265 (0) 1 424407/418	P.O Box 521, Blantyre	Tel: +265 (0)1 456 251
Fax: +265 (0)1 424489	Tel: +265 (0)1 831 218	Fax: +265 (0)1 456 251
	Fax: +265 (0)1 831 2174	
Email: nchalo@fdh.co.mw	Email: btbranch@fdh.co.mw	Email: nsanje@fdh.co.mw
Limbe Churchill Service Centre	**Chikwawa Service Centre**	**Ntcheu Service Centre**
Aram Mall	P.O Box 281	P.O Box 7
Private Bag 5395, Limbe	Chikwawa	Ntcheu
Tel: +265 (0)1 846 364/365/366	Tel: +265 (0)1 420 294	Tel: +265 (0)1 235 227
Fax: +265 (0)1 846 367		Fax: +265 (0)1 235 227
Email: churchillroad@fdh.co.mw	Email: chikwawa@fdh.co.mw	Email: ntcheu@fdh.co.mw
Phalombe Service Centre	**Lunzu Service Centre**	**Zomba Main Service Centre**
C/O FDH Bank Head Office	C/O FDH Bank Head Office	P.O Box 893,
P.O. Box 512,	P.O Box 512, Blantyre	Zomba
Blantyre	Tel: +265 (0) 1 1162 0369	Tel: +265 (0) 1 526 278
Tel: +265 (0)1 480 111/203	Fax: +265 (0)1 694 493	Fax: +265 (0)1 526 278
Fax: +265 (0)1 480 203		
Email:phalombe@fdh.co.mw	Email: lunzu@fdh.co.mw	Email: zomba@fdh.co.mw
Mwanza Service Centre	**Nkhotakota Service Centre**	**Chichiri Service Centre**
P.O. Box 230	P.O. Box 43	P.O. Box 30187
Mwanza	Nkhotakota	Chichiri, Blantyre 3
Tel: +265 (0) 1 432 343	Tel: +265 (0) 1 292 550	Tel: +265 (0) 1 874 440
Fax: +265 (0)1 432 343	Fax: +265 (0)1 292 550	Email: chichiriservicecentre@fdh.co.mw
Email: mwanzaforex@fdh.co.mw	Email: nkhotakota@fdh.co.mw	
Chilumba Service Centre	**Goliati service centre**	**Balaka Service Centre**
P.O. Box 38, Chilumba	P.O Box 15, Thyolo	P.O Box 315, Balaka
Tel: +265 (0) 1 364 253	Tel: + 265 (0) 996 674 222	Tel: + 265 (0) 1 543 399
Fax: +265 (0)1 364 253		Fax: + 265 (0) 1 543 399
Email: chilumba@fdh.co.mw	Email: goliati@fdh.co.mw	Email: balaka@fdh.co.mw

Chitipa Service Centre	**Kanengo Service Centre**	**Bangula Service Centre**
P.O Box 42	C/O FDH Bank Head Office	P.O Box 3
Chitipa	P.O Box 512	Chiromo,Nsanje
Tel: + 265 (0) 1 382 306	Blantyre Tel: + 265 (0) 1 975 963	Tel: + 265 (0) 1 453 297
Email: chitipa@fdh.co.mw	Email: kanengo@fdh.co.mw	Email: bangula@fdh.co.mw
Neno Service Centre	**Monkey Bay Service Centre**	**Chiponde Service Centre**
P.O BOX 51	C/O FDH Bank Head Office	C/O FDH Bank Head Office
Neno	P.O Box 512	P.O Box 512
Tel: + 265 (0) 1 432 390	Blantyre	Blantyre
	Tel: + 265 (0) 1 587 216	Tel: + 265 (0) 1 586 140
Email: neno@fdh.co.mw	Email: monkeybay@fdh.co.mw	Email: chiponde@fdh.co.mw
Chiradzulu Service Centre	**Gateway Mall Service Centre**	**Liwonde Service Centre**
P.O Box 22, Chiradzulu	C/O Old Town Branch	P.O Box 49, Liwonde
Tel: + 265 (0) 1 693 309	P.O Box 1372, Lilongwe	Tel: + 265 (0) 1 542 298
	Tel: 265 (0) 1 762 752	
Email: chiradzulu@fdh.co.mw	Email: gateway@fdh.co.mw	Email: liwonde@fdh.co.mw
Ntaja Service Centre	**Mulanje Service Centre**	**Rumphi Service Centre**
C/O FDH Bank Head Office	P. O Box 149, Mulanje	C/O FDH Bank Head Office
P.O Box 512, Blantyre	Tel: + 265 (0) 1 466 566	P.O Box 512, Blantyre
Tel: + 265 (0) 1 554 780		Tel: + 265 (0) 1 330 365
Email: ntaja@fdh.co.mw	Email: mulanje@fdh.co.mw	Email: rumphi@fdh.co.mw
Cross Roads Service Centre	**Thyolo Service Centre**	**Nkhatabay Service Centre**
C/O FDH Bank Head Office	C/O FDH Bank Head Office	P.O Box 402, Nkhatabay
P.O Box 512, Blantyre	P.O Box 512, Blantyre	Tel: + 265 (0) 1 352 313
Tel: +265 (0) 1 750 875	Tel: + 265 (0) 1 473 493	
Email: crossroads@fdh.co.mw	Email: thyolo@fdh.co.mw	Email: nkhatabay@fdh.co.mw
Bvumbwe Service Centre	**Mtunthama Service Centre**	**Ntchisi Service Centre**
C/O FDH Bank Head Office	C/O FDH Bank Head Office	C/O FDH Bank Head Office
P.O Box 512, Blantyre	P.O Box 512, Blantyre	P.O Box 512, Blantyre
Tel: + 265 (0) 1 471 122	Tel: + 265 (0) 1 253 567	Tel: + 265 (0) 1 285 217
Email: bvumbwe@fdh.co.mw	Email: mtunthama@fdh.co.mw	Email: ntchisi@fdh.co.mw
Dedza Service Centre	**Salima Service Centre**	**Dowa Service Centre**
C/O FDH Bank Head Office	C/O FDH Bank Head Office	C/O FDH Bank Head Office
P.O Box 512, Blantyre	P.O Box 512, Blantyre	P.O Box 512, Blantyre
Tel: + 265 (0) 1 223 071	Tel: + 265 (0) 1 262 123	Tel: + 265 (0) 1 282 375
Email: dedza@fdh.co.mw	Email: salima@fdh.co.mw	Email: dowa@fdh.co.mw
Mzimba Service Centre	**Kasungu Service Centre**	**Jenda Service Centre**
C/O FDH Bank Head Office	P.O Box 2, Kasungu	C/O FDH Bank Head Office
P.O Box 512, Blantyre	Tel: + 265 (0) 1 253 607	P.O Box 512, Blantyre
Tel: + 265 (0) 1 342 351		Fax: + 265 (0) 881 769 325
Email: mzimba@fdh.co.mw	Email: kasungu@fdh.co.mw	Email: jenda@fdh.co.mw
Mchinji Service Centre	**Chiringa Service Centre**	**KIA**
C/O FDH Bank Head Office	C/O FDH Bank Head Office	C/O FDH Bank Head Office
P.O Box 512, Blantyre	P.O Box 512, Blantyre	P.O Box 512, Blantyre
Tel: + 265 (0) 1 275 077	Tel: + 265 (0) 882 775 891	Tel: + 265 (0) 999 600 532
Email: mchinji@fdh.co.mw	Email: chiringa@fdh.co.mw	Email: kia@fdh.co.mw
Mzuzu city centre service centre		
Private bag 130 Mzuzu		
Tel: + 265 (0) 1 275 077		
Fax: +265 (0) 1311 342		
Email: mzuzu@fdh.co.mw		

STANDARD BANK PLC

Balaka Service Centre	**Gateway Mall Service Centre**	**Mponela Service Centre**
P.O. Box 306, Balaka	P.O. Box 522, Lilongwe	P.O. Box 109, Mponela
Tel: +265 (1) 552 422	Tel: +265 (1) 762002	Tel: +265(1) 286422
Fax: +265 (1) 552 593	Fax: +265(1) 755738	Fax: +265(1) 286381
sbmw.balaka@standardbank.co.mw	sbmw.gateway@standardbank.co.mw	sbmw.mponela@standardbank.co.mw
Blantyre branch	**Ginnery Corner branch**	**Mwanza Service Centre**
P.O. Box 1297, Blantyre	P.O. Box 30050, Blantyre 3	P.O. Box 158, Mwanza
Tel: +265 (1) 820222	Tel: +265 (1) 871255	Tel: +265(1) 432341
Fax: +265 (1) 824107	Fax: +265(1) 786497	Fax: +265(1)432351
sbmw.blantyre@standardbank.co.mw	sbmw.ginnerycorner@standardbank.co.mw	sbmw.mwanza@standardbank.co.mw
Bwaila Service Centre	**Kanengo Service Centre**	**Mzimba Service Centre**
P.O. Box 26, Lilongwe	P.O. Box 40137, Kanengo	P.O. Box 138, Mzimba
Tel: 265 (1) 724616	Tel: +265(1) 711770	Tel: +265(1) 342400
Fax: 265 (1) 724614	Fax: +265 (1) 711740	Fax: +265(1)342466
sbmw.bwaila@standardbank.co.mw	sbmw.kanengo@standardbank.co.mw	sbmw.mzimba@standardbank.co.mw
Capital City branch	**Karonga Service Centre**	**Mzuzu branch**
P.O. Box 30386, Lilongwe 3	P.O. Box 44, Karonga	P.O. Box 104, Mzuzu
Tel: +265 (1) 770988	Tel: +265(1) 362455	Tel: +265(1) 312366
Fax: +265 (1) 773497	Fax: +265 (1)362 433	Fax: +265(1)312574
sbmw.capital@standardbank.co.mw	sbmw.karonga@standardbank.co.mw	sbmw.mzuzu@standardbank.co.mw
Chichiri Service Centre	**Kasungu Service Centre**	**Mzuzu Digital**
P.O. Box 32070, Blantyre 3	P.O. Box 100, Kasungu	P.O. Box 104, Mzuzu
Tel: +265 (1) 878170	Tel: +265(1) 253225	Tel: +265(1) 312375
Fax: +265(1)873462	Fax: +265(1)253570	Fax: +265(1)312574
sbmw.chichiri@standardbank.co.mw	sbmw.kasungu@standardbank.co.mw	sbmw.mzdigital@standardbank.co.mw
City Mall Service Centre	**Lilongwe branch**	**Nchalo Service Centre**
P.O. Box 32070, Lilongwe	P.O. Box 522, Lilongwe	P.O. Box 30050, Blantyre 3
Tel: +265 (1) 754605	Tel: +265 (1) 755277	Tel: +265(1) 424417
Fax: +265 (1) 754606	Fax: +265(1) 755738	Fax: +265(1)424333
sbmw.citymall@standardbank.co.mw	sbmw.lilongwe@standardbank.co.mw	sbmw.nchalo@standardbank.co.mw
Corporate Banking Centre	**Limbe branch**	**Ntcheu Service Centre**
P.O. Box 1353, Blantyre 3	P.O. Box 5091, Limbe	P.O. Box 312, Ntcheu
Tel: +265 (1) 870802	Tel: +265(1) 01 840166	Tel: +265(1) 235455
Fax: +265 (1) 876591	Fax: +265(1) 844406	Fax: +265(1)235332
sbmw-cbc@standardbank.co.mw	sbmw.limbe@standardbank.co.mw	sbmw.ntcheu@standardbank.co.mw
Dedza Service Centre	**Luchenza Service Centre**	**Salima branch**
P.O. Box 5, Dedza	P.O. Box 154, Limbe	P.O. Box 26 Salima
Tel: +265 (1) 223346	Tel: +265(1) 476448	Tel: +265(1) 262544
Fax: +265 (1) 223634	Fax: +265(1)476078	Fax: +265(1)262024
sbmw.dedza@standardbank.co.mw	sbmw.luchenza@standardbank.co.mw	sbmw.salima@standardbank.co.mw
Dwangwa Service Centre	**Mangochi Service Centre**	**Zomba branch**
P.O. Box 62, Dwangwa	P.O. Box 106, Mangochi	P.O. Box 302, Zomba
Tel: +265 (1) 295255	Tel: +265(1) 594377	Tel: +265(1) 524144
Fax: +265 (1) 295525	Fax: +265(1) 594764	Fax: +265(1)524088
sbmw.dwangwa@standardbank.co.mw	sbmw.mangochi@standardbank.co.mw	sbmw.zomba@standardbank.co.mw

APPENDIX 4
TERMS AND CONDITIONS OF THE OFFER

FDH Bank Plc ('FDH' or 'the Company') hereby offers its Offer Shares for subscription by the general public through this IPO as follows:

- **Number of Offer Shares and Pricing**
  - The Company will offer a total of 1,380,206,250 shares in the IPO, made up of 979,175,000 shares for sale and 401,031,250 shares for subscription in FDH
  - The IPO consists of a public offer to the general public
  - The subscription price for the Offer Shares is MK10.00 price per share
- **Offer Period**
  - The offer period begins on 29th June 2020 at 09:00 and ends on 17th July 2020 at 17:00. The Company's Board of Directors is entitled to extend the offer period if deemed necessary and a press release will be published in the event of such an extension
- **Category of Offer Shares**
  - The Offer Shares comprise of ordinary shares at no par value

Participation in the Offer

- Applicants may obtain a copy of the Prospectus, Application Forms and Central Securities Depository ('CSD') Forms either from https://www.fdh.co.mw/investor or from any branch of the Receiving Banks listed in Appendix 4 of the Prospectus
- Duly completed Application Forms will be deemed submitted once lodged with the Receiving Banks in accordance with the Terms and Conditions of this Offer together with the Applicant's proof of payment for the number of shares applied for
- Alternatively, Applicants can submit duly completed Application Forms as follows:
  - OneClick & Mobile Smart App
    - Applicants who are customers of FDH will be required to activate OneClick or Mobile Smart App accounts
    - Click 'Payments' then 'FDH shares'
    - Proceed to fill in the digital Application Form which is displayed
    - Once all mandatory fields on the Application Form have been completed a proof of payment will be generated and sent to the OneClick or Mobile Smart App account owner via e-mail
    - Applicants who already have a CSD account number should send the proof of payment to invest@fdh.co.mw or WhatsApp number: +265 880 89 80 21
    - Applicants who do not have a CSD account number will need to download a CSD form from the FDH investor page: https://www.fdh.co.mw/investor and send the scanned completed CSD form together with the proof of payment to invest@fdh.co.mw or WhatsApp number: +265 880 89 80 21
  - WhatsApp and/or email
    - Applicants will be required to have active email and/or WhatsApp accounts
    - Applicants can obtain a copy of the Prospectus, CSD Forms and Applications Forms from any branchs of the Receiving Banks listed in Appendix 4 of the Prospectus or https://www.fdh.co.mw/investor
    - Scanned duly completed Application Forms must be sent to invest@fdh.co.mw or WhatsApp number: +265 880 89 80 21 together with the proof of payment

Submission of the Application Form to the Receiving Banks does not constitute an acceptance of the shares applied for

Payments for Subscription

- Monies for the Offer Shares can be transferred by Applicants through:
  - FDH Mobile banking, FDH Wallet, Ufulu USSD digital, OneClick and WhatsApp Banking (hereinafter referred to as the 'FDH Bank Digital Payment Methods')
  - 247 Mobile, 247 App and 247 Online (hereinafter referred to as the 'Standard Bank Digital Payment Methods')
  - Digital payment systems available via other banking platforms
- Payments must be made in MWK in favour of "FDH Bank IPO Account" detailed on the Application Form and submitted to any branch of the Receiving Banks no later than 17th July 2020 at 17:00
- Applicants must ensure that payments through a bankers' cheque/draft are cleared before the close of the Offer on 17th July 2020
- Foreign investors should attach a copy of the swift confirmation of their funds transfer supporting their application together with their Application Form and ensure funds are credited to the appropriate account prior to the closing of the Offer through close liaison with the Receiving Banks
- Foreign application funds will be held in trust in a US$ denominated account pending announcement of the results of the Offer

Application Forms

By completing and delivering the Application Form, each Applicant:

- Agrees to subscribe for the number of Offer Shares according to the Terms and Conditions of the Offer
- Warrants that he/she has read this Prospectus and understood all its content
- Accepts the provisions and all relevant laws mentioned in this Prospectus
- Accepts that the number of Offer Shares that will be allocated to him/her at the end of the IPO may be reduced
- Acknowledges that he/she has fulfilled all the requirements and conditions relating to the IPO and the laws of Malawi
- Confirms that all information provided on the Application Form is true, complete, up to date, and not misleading and acknowledges that he/she shall bear full legal responsibility in the event that it is proved otherwise

- Changes to or withdrawal of an Application Form will not be permitted once submitted to the Receiving Banks
- Application Forms submitted during the IPO offer period should be accompanied (where applicable) with the following documents:
  - A true copy of the Applicant's National Identification card (national ID) as the preferred ID. Passports and driver's licence will only be considered for those applicants without a national ID
  - A true copy of valid passport for foreign investors
  - A true copy of the certificate of incorporation for corporate applicants
- Applicants can apply for the shares as individuals or as Joint Applicants
- Deceased or insolvent estates may not apply for the Offer Shares
- Executors, trustees and individual partners may apply for the Offer Shares in their own name
- Applications on behalf of minors (persons below the age of 18) and people under legal incapacity should be executed by their legal representatives

- Application Forms that are not in compliance with the Terms and Conditions of the Offer set herein can be rejected in full or in part at the sole discretion of the Company

- The Applicant shall accept any number of Offer Shares allocated to him/her

- Discrepancies between the number of shares applied for and the value thereof, will be adjusted to the value received for the application at the sole discretion of the Company

- Applications received after the close of the Offer Period will not be considered

- Neither FDH, nor any of its Advisors nor any of the Authorised Brokers shall be under any liability whatsoever should an Application Form not be received by the Closing Date unless it is proven beyond doubt that the delay was caused by FDH or any of its agents during the Offer Period

- Multiple applications are permitted per Applicant and all Application Forms received from a one Applicant will be aggregated and treated as a single application

- Incomplete and incorrectly filled Application Forms will not be considered

- The value of the number of shares being applied for by foreign investors shall be determined on the basis of the ruling RBM mid-rate of exchange on the closing date of the Offer rounded down to the nearest 1,000 shares

- FDH's Board of Directors will decide on the allocation of Offer Shares to Applicants. Approved allocation of shares will be communicated by 28th July 2020

Nominee Accounts

- An authorized representative such as nominees accounts may apply on behalf of their clients on one Application Form clearly stating on a separate schedule, the name, address, country of residence and number of shares applied for by each beneficial owner. The schedule must be accompanied by a declaration of the representative indicating that Know Your Customer (KYC) procedures have been completed satisfactorily in line with Financial Crimes Act No. 14 of 2017

Minimum Subscription

- Applications must be in multiples of 100 shares with a minimum application of 500 shares

- There is no maximum number of shares or maximum subscription amount that can be applied for by Applicants

Right to Cancel the Subscription

- The Company's Board of Directors is entitled to cancel the IPO at any time prior to the completion of the IPO due to, among other things, market circumstances, the Company's financial condition, a material change in the Company's business, a decision by the Malawi Stock Exchange (MSE) regarding the listing or any other reason

- Application monies will be refunded to the Applicants in the event that the IPO is cancelled. No interest will be paid on the refunded amount

Allocation of Shares and Refunds

- **Allocation Method**
  - Shareholders will be able to obtain a statement of shares allocated to them from their appointed broker
  - The Company's Board of Directors will approve in full or in part of the Applications given in the Offer period by the 24th July 2020 and submit the results to MSE
  - The Company's Board of Directors will decide how to proceed in case of an under or over subscription of the IPO

- **Refunds**
  - If an Application is dismissed or only partially approved, the paid amount or part thereof will be refunded to the stated bank account by 28th July 2020. No interest will be paid on the refunded amount
  - If the Applicant's bank account details are not included or invalid bank details are provided on the Application Form, refund cheques will be posted to the applicant's address detailed on the Application Form
  - Direct transfers of refunds or subsequent dividend payments will only be possible if the name of the Applicant and name of the related bank account are identical
  - FDH will not be liable for any refunds or payment of subsequent dividends paid into a wrong bank account provided by the Applicant
  - Refunds to foreign investors, if applicable will be determined on the basis of the ruling RBM midrate of exchange for the US$ on the Closing Date of the Offer

Entry of Allocated Shares in Central Securities Depository ('CSD') Account

- Applicants are encouraged to open a CSD account
- Applicants will be required to complete a CSD Securities Account Opening Form (CSD 1 Form) available from any branch of the Receiving Banks to open a CSD account
- Applicants with CSD accounts will receive issued Shares in electronic or book entry form by way of a credit to their CSD Accounts with the allocated number of Shares
- Joint Applicants should have a CSD account in the name of the Joint Applicants
- The Sponsoring Broker on behalf of FDH will authorise the CSD to credit the respective CSD accounts with the number of Shares allocated to each Applicant within the dates set out in the Offer Timetable
- **Applicable Law**
  - The Offer is governed by the laws of Malawi. Any disputes arising in connection with the Offer shall be settled by a court of competent jurisdiction in Malawi

APPENDIX 5
INVESTOR APPLICATION FORM

FDH Bank

SHARE APPLICATION FORM

For the public offer of 1,380,206,250 ordinary shares of
FDH Bank Limited at MWK10.00 per ordinary share
Offer opens 29 June 2020, at 09:00 and closes on 17th July 2020, at 17:00

FDH Bank Plc
Incorporated in Malawi on 16th May 2007
("FDH", "Bank", or "Company")

Please read the Prospectus including the Terms and Conditions of the Offer and refer to the guide on the reverse side before completing this form. The form should be completed in CAPITALS and all fields must be completed. Incomplete or erroneously completed applications may be rejected.

Applicant's declaration to the Directors of FDH Bank

I/We hereby declare that I/we have read and understood in full (a) this Application Form including the instructions on the reverse of this form (b) the Terms and Conditions of the Offer and (c) the Prospectus which was prepared and published by the Company in relation to the IPO. I/We understand that this is the Application Form referred to in the Prospectus. In particular, I/We do hereby accept the Terms and Conditions set out in the Prospectus pertaining to the IPO and declare that all details and statements made by me/us on this Application Form are complete and accurate.

I/We represent, warrant and undertake to the Company that our subscription for the below shares will not cause the Company or me/us to violate the laws of Malawi or any other jurisdiction which may be applicable to this subscription for shares in the Company. Accordingly, I/We do hereby submit this application to subscribe for the number of shares set out below.

Signatures: ______________________________

Date: ___ / ___ / _____ (dd/mm/yyyy)

Assisted by (in case of minors): ______________________________

Application Type (Tick the appropriate one):	Individual	Joint Individuals	Corporate	Other Specify:

1. APPLICANT DETAILS

Title(s): (circle appropriate title(s), or fill in the blank if not listed)	Dr.	Mr.	Mrs.	Miss.	Rev.	Other (Specify)
Name of Applicant:	First Name		Other Names		Surname	
Identification Details: (Choose one)	National ID Number		Passport Number		Other ID	
Nationality:						
Date of Birth:	Day		Month		Year	

Legal Name of Applicant: (if a Corporate or Other Entity)	Name	Registration Number

Postal Details:		
Email Address:		
Phone Number:		
Physical Address:		

2. APPLICATION FOR SHARES

(NOTE: Minimum of 500 shares are to be applied for and thereafter in multiples of 100 shares)

Number of Shares Applied for (In figures)	Total Amount Payable (In figures)	Total Amount Payable (In words)

3. APPLICANT'S ACCOUNT DETAILS

(in the event of a refund due to you, the refund will be sent to the account details here)

Account Details of Applicant	Bank Name	Branch Name	Account Name	Account Number
Mode of payment for Shares (Tick appropriate box)	Cash ☐	Banker's cheque ☐	Bank Draft ☐	Electronic Transfer ☐ (Insert FT Number below) / Internet Banking/ Mobile Money ☐
FT Number (In the case of electronic transfer)				

4. PREFERRED BROKER

(Tick the box next to your preferred broker)

Alliance Stockbrokers Limited ☐	Cedar Capital Limited ☐
Continental Capital Limited ☐	Stockbrokers Malawi Limited ☐

5. CSD ACCOUNT NUMBER DETAILS

CSD Account Number	

Please fill in CSD Form 1 to accompany this Application Form if you do not have a CSD account

GUIDE TO THE APPLICATION FORM

You should read the Prospectus carefully including the Terms and Conditions of the Offer before completing this Application Form.

Instructions:

1. Please fill out all relevant fields of the Application Form in CAPITAL LETTERS
2. Write your full name. Initials are not acceptable for first name and surname of individual applicants. The application must be in the name of natural persons, companies or other legal entities acceptable to the Company. At least one full given name and surname is required for each natural person
3. Insert the number of shares that you wish to apply for (not less than 500 shares and in multiples of 100 shares thereafter). Insert the corresponding amount payable for shares applied for in words and figures under Section 2 "Application for Shares"
   An illustrative number of shares applied for andcorresponding monies:

No. of shares	Application monies	No. of shares	Application monies	No. of shares	Application monies
500	5,000	25,000	250,000	5,000,000	50,000,000
1,000	10,000	50,000	500,000	10,000,000	100,000,000
2,500	25,000	100,000	1,000,000	50,000,000	500,000,000
5,000	50,000	500,000	5,000,000	100,000,000	1,000,000,000
10,000	100,000	1,000,000	10,000,000	500,000,000	5,000,000,000

4. Enter your contact details including postal address, mobile phone number and email address for all correspondence regarding your Application Form or Application Monies or other correspondence in regards to this IPO. All communications to you from the Company will be mailed to the person and address shown on the Application Form. For joint applicants, only one address should be included

5. Ensure that you provide your correct CSD account number. If you do not have a CSD account number complete the CSD Form 1, clearly indicating your preferred broker in order to have a CSD account number created for you. Shares that may be allotted to you at the end of the IPO will be credited to this CSD account

6. Provide your ID details, preferably the Malawi National ID number or at least a passport number as these are key for the creation of your CSD account number (if you do not have a CSD account already). Applicants without a CSD account are required to submit a duly completed CSD form

7. Insert your correct account details for purposes of refund of a portion of the monies you paid for the shares in the event of an oversubscription but also for purposes of payment of any dividends in future

Payments should be made to the following bank account for investors within Malawi:

FDH Bank

Bank Name:	FDH Bank Plc
Account number:	1850001027996
Account name:	FDH Bank Plc IPO
Branch:	Umoyo

Payments should be made to the following bank account for international investors:

Correspondent bank Name	Crown Agents Bank	**Beneficiary bank name**	FDH Bank	**Final beneficiary Name**	FDH Bank IPO
Account number:	36391488	**Account number:**	33058101	**Account number:**	1850001027996
Swift code	CRASGB2L	**Swift code**	FDHFMWMW		
		IBAN	GB11CRAS60836833058101		

Standard Bank:

Bank Name:	Standard Bank
Account number:	9100003285062
Account name:	FDH Bank IPO
Branch:	Blantyre Branch
Swift code	SBICMWMX

Payments should be made to the following bank account for international investors:

Correspondent bank name:	Deutsche Bank Trust Company Americas, NY
Account number:	04429218
Swift code	BKTRUS33

Submission of the Application Forms

Submit your Application Form accompanied by payment for the shares applied for at any Receiving Bank Branch or agency near you

Details of Receiving Banks and respective branches

FDH Bank

Balaka	Chikwawa	City Centre	Jenda	Liwonde	Mponela	Mzuzu Highway	Ntaja	Salima
Bangula	Chilumba	Cross Roads	Kanengo	Luchenza	Mthuntama	Nchalo	Ntcheu	Thyolo
Blantyre Main	Chiponde	Dedza	Karonga	Lunzu	Mulanje	Neno	Ntchisi	Umoyo House
Bvumbwe	Chiradzulu	Dowa	Kasungu	Mangochi	Mwanza	Nkhatabay	Old Town	Zomba Main
Bwaila	Chiringa	Gateway Mall	KIA	Mchinji	Mzimba	Nkhotakota	Phalombe	
Chichiri	Chitipa	Goliati	Limbe Churchill	Monkey Bay	Mzuzu city centre	Nsanje	Rumphi	

Standard Bank

Balaka	Capital City	Corporate	Gateway Mall	Karonga	Limbe	Mponela	Mzuzu	Ntcheu
Blantyre	Chichiri	Dedza	Ginnery Corner	Kasungu	Luchenza	Mwanza	Mzuzu Digital	Salima
Bwaila	City Mall	Dwangwa	Kanengo	Lilongwe	Mangochi	Mzimba	Nchalo	Zomba

APPENDIX 6
OTHER DIRECTORSHIPS OF BOARD MEMBERS

Name	Entity	Role on Board
Mr. Arthur Oginga	UAP Holdings PLC	Executive Director
	Old Mutual Holdings Ltd	Executive Director
	Faulu Microfinance Bank Limited	Non-Executive Director
	UAP Investments Limited	Executive Director
	UAP Properties (Kenya) Limited	Executive Director
	UAP Old Mutual Insurance Uganda Limited	Non-Executive Director
Mrs. Edith Jiya	Old Mutual Malawi Ltd	CEO and Director
	Old Mutual Life Assurance Co (Mw) Ltd	Director
	Old Mutual Investment Group Malawi Ltd	Chairperson of the Board
	Old Mutual Unit Trust Ltd	Chairperson of the Board
	Old Mutual Pensions Services Co. Ltd	Director
	FDH Financial Holdings Ltd	Director
	FDH Discount House Ltd	Director
	MPICO Plc	Director
	Shire River Basin Environmental Financing Project	Chairperson of the Board
	Archdiocese of Blantyre Social Directorate	Trustee
	Insurance Institute of Malawi	Trustee
	Malawi University of Science and Technology	Member of University Council
	Ubuntu Limited	Director and Member
Mr. Mark Mikwamba	Old Mutual Investment Group	Director
	MPICO Limited	Director
	Open Connect Limited	Director
Mr. Patrice Nkhono, SC	Britam Insurance Company (Malawi) Limited	Director
	Carrick Wealth Limited	Director
	MSB Properties Limited	Director
	FDH Money Bureau Limited	Chairman
	FDH Financial Holdings Limited	Director
Mr. Harold Kuchande	AMREF Health Africa	Director, Chairperson of HR Committee
Dr. Ulemu Katunga	TIL Company Limited (a subsidiary company of AHL Company)	Director
	Mwaiwathu Private Hospital	Member of Finance & Audit Committee
Mrs. Judith Chirwa	Independent Schools Association of Malawi	Vice President and Director
Mrs. Gertrude L. Hiwa, SC	EGENCO Limited	Ex officio member of the Board
	Public Private Partnership Commission	Ex officio member of the Board
Dr. E. J. Sankhulani	Orascon Continental Security Services	Chairperson of the Board
	Soche Technical College	Director
	FDH Money Bureau	Director
	First Discount House	Director
	FDHFDHL	Director
Dr. Charity Mseka	Tilitonse Foundation	Director and Member of the Finance and Audit Committee
	Anglican Diocese of Lake Malawi	Board Chairperson
Dr. Ellias Everson Ngalande	Central African Conference of the Seventh Day Baptist Church	Member
William Mpinganjira	Malawi University of Science and Technology (MUST) Council	Member
	M. Development Ltd	Director
	PPPC	Commissioner

George Chitera	FDH Financial Holdings Ltd	Executive Director
	First Discount House Ltd	Executive Director
	FDH Money Bureau Ltd	Executive Director
	MSB Properties Ltd	Executive Director
Nathan Mpinganjira	M. Development Ltd	Director
	FDH Financial Holdings Ltd	Director
	First Discount House Ltd	Chairman
	FDH Money Bureau Ltd	Director
	MSB Properties Ltd	Director

APPENDIX 7
MSB PROPERTIES LTD

Nature of the business

- MSBP was incorporated in Blantyre, Malawi on 15th April 2016, with registration number MBRS1008375 under the Companies Act, 1984, as repealed by the Act, as a private limited liability company
- MSBP is a real estate investment company and currently owns 17 properties
- MSBP's registered address is FDH House, Corner Victoria Avenue and Chilembwe Road, P.O. Box 512, Blantyre, Malawi

Selected financial information

- Earnings record

Description	FY17A	FY18A	FY19A
Profit before tax (MWK'mn)	1,869	1,281	642
Profit after tax (MWK'mn)	2,167	709	489
Basic earnings per share before tax (MWK)	0.46	0.31	0.16
Basic earnings per share after tax (MWK) [a]	0.53	0.17	0.12
Dividends per share (MWK) [b]	0.00	0.07	0.02
Dividend cover (Times) [a/b]	-	2.36	4.89

- Summary comprehensive income statement

Currency: MWK 000	FY17A	FY18A	FY19A	CAGR
Rental income	540,015	620,272	872,239	27.1%
Other income	38,278	405,718	1,051,031	424.0%
Fair value adjustment on investment property	1,154,800	441,500	231,117	(55.3%)
Interest income from related parties	322,526	266,510	269,421	(8.6%)
Increase in fair value of shares	342,133	-	-	(100%)
Total revenue	**2,397,752**	**1,734,000**	**2,423,808**	**0.5%**
Property expenses	(189,998)	(35,462)	(57,746)	(44.9%)
Administration expenses	(338,768)	(417,201)	(1,723,882)	125.6%
Total expenses	**(528,766)**	**(452,663)**	**(1,781,628)**	**83.6%**
PBIT	**1,868,986**	**1,281,337**	**642,180**	**(41.4%)**
Interest expense	(325,660)	(266,510)	-	(100.0%)
Profit before tax	**1,543,326**	**1,014,827**	**642,180**	**(35.5%)**
Taxation	623,208	(306,271)	(152,952)	n.a
Profit for the year	**2,166,534**	**708,556**	**489,228**	**(52.5%)**

- Summary balance sheet

Currency: MWK 000	Dec17A	Dec18A	Dec19A
Investment properties	4,615,000	5,033,500	5,599,000
Other investments	972,466	-	-
Loans to related parties - FDH Financial Holdings	1,100,000	1,100,000	1,100,000
Deferred tax assets	637,126	559,705	572,580
Trade and other receivables	406,779	308,989	544,872
Loans to related parties - FDH Discount House	-	750,000	394,985
Money market investment	134,820	97,582	1,903
Cash and bank balances	3,881	45,911	3,349
Total assets	**7,870,072**	**7,895,687**	**8,216,689**
Loans from related parties - First Discount House	1,100,000	-	-

Trade and other payables	499,087	987,296	610,100
Amounts due to related parties	-	-	43,143
Dividend payable	-	-	100,000
Tax payable	13,918	242,768	408,595
Total liabilities	**1,613,005**	**1,230,064**	**1,161,838**
Net asset value	**6,257,067**	**6,665,623**	**7,054,851**
Shareholders' equity			
Share capital	1	1	1
Share premium	4,090,532	4,090,532	4,090,532
Retained earnings	2,166,534	2,575,090	2,964,318
Total shareholders' equity	**6,257,067**	**6,665,623**	**7,054,851**

- Summary cashflow statement

Currency: MWK 000	**Dec17A**	**Dec18A**	**Dec19A**
Profit before tax	1,543,326	1,014,827	642,180
Fair value gains, interest and working capital adjustments	(1,078,965)	(154,480)	(1,070,474)
Cash generated from operating activities	**464,361**	**860,347**	**(428,294)**
Interest paid	(325,660)	(266,510)	-
Net cash from operating activities	**138,701**	**593,837**	**(428,294)**
Loan repayment	(1,100,000)	(1,100,000)	-
Loan issued to First Discount House	-	(750,000)	-
Proceeds from disposal of shares in Lilongwe City Mall	-	1,271,945	-
Purchase of investment properties	-	-	(495,883)
Interest received - FDH Financial Holdings Limited	-	266,510	159,945
Interest received - First Discount House Limited	-	-	94,631
Principal amount received	-	-	369,860
Proceeds from disposal of property	-	22,500	161,500
Net cash from/(used in) investing activities	**(1,100,000)**	**(289,045)**	**290,053**
Dividend paid	-	(300,000)	-
Loan received from First Discount House	1,100,000		
Net cash used in financing activities	**1,100,000**	**(300,000)**	**-**
Net increase/(decrease) in cash and cash equivalents	**138,701**	**4,792**	**(138,241)**
Cash and cash equivalents at the beginning of the year	-	138,701	143,493
Cash and cash equivalents at the end of the year	**138,701**	**143,493**	**5,252**

MSBP Board of Directors – Refer to Part 2 of this Prospectus for detailed profiles

- Mr. Mark Mikwamba
- Mr. George Chitera
- Dr. Nathan F. Mpinganjira
- Mr. Patrice C. Nkhono SC

MSBP management

- Management of MSBP is subcontracted to FDHFHL as part of a Property and Investment Management Services Agreement ('PIMS') between MSBP and FDHFHL dated 18th April 2019 wherein FDHFHL provides the following management services to MSBP:
  - Investment management
  - Property management
  - Facilities management
  - Project management
  - Financial management

- Taxation and audit
- Company secretarial

- MSBP pays FDHFHL a PMIS fee equivalent to 4% of the total value of each invoice issued for the property being managed for MSBP

Statutory disclosures

- **MSBP property portfolio**
  - MSBP has the following property portfolio. The values of the properties listed below are based on the most recent valuations performed on 19th December 2019:

Property Name	Title deed and description	Total sqm	Lettable space
1. Blantyre Branch	Blantyre Central 748 (Freehold)	3,171	2,910
2. Nsanje Branch	Deed number 89139 (Lease Hold)	311	257
3. Chikhwawa Branch	Deed number 89140 (Lease Hold)	464	418
4. Zomba Branch	Zomba Central 151 (Lease Hold)	1,533	1,441
5. Liwonde Branch	Deed number 89144 (Lease Hold)	188	153
6. Ntcheu Branch	Deed number 89141 (Lease Hold)	260	222
7. Lilongwe Old Town Branch	Bwaila 4/169 (Lease Hold)	738	651
8. Ntchisi Branch	Deed number 89142 (Lease Hold)	257	222
9. Mchinji Branch	Deed Number 89143 (Leasehold)	256	222
10. Nkhotakota Branch	Deed Number 89137 (Leasehold)	253	222
11. Mzuzu Branch	Jombo 2/65 (Leasehold)	257	437
12. Rumphi Branch	Deed Number 89127 (Leasehold)	481	222
13. Karonga -Uliwa Branch	Deed Number 89126 (Leasehold)	259	401
14. Nkhatabay Agency	Deed Number 89125 (Leasehold)	222	222
15. Balaka	473	256	222
16. Mangochi Boma	212	256	222
17. Chiradzulu Branch		150	138
Total			8,582

- Disposals in 2019 involved the following properties:

Item	Cost	Year of Purchase	Sale Price
Lilongwe (Plot Alimaunde 19/44)	2,778,593	2011	150,000,000
Lilongwe (25/03/2980)	200,000	1995	11,000,000

- The following capital commitments have been made by MSBP in 2019 for FDH House refurbishments:

MWK'mn	2019
Buildings / branch renovations	451

- Borrowings
  - MSBP had the following material borrowing as 31st December 2019:

Borrower	Facility type	Currency	Approved amount	Tenor	Pricing	Carrying amount
FDH Financial Holdings Limited	Unsecured term loan	MWK	1,100,000,000	5 years	FDH Bank lending rate minus 1%.	1,114,845,000

- Directors renumeration

- The remuneration paid to the MSBP Board of Director in FY19A is as follows:

Currency: MWK'mn	FY19A
Fees	24
Sitting allowance	5
Total	29

- Memorandum and articles of association
  - The memorandum and articles of association including specific provisions in relation to the following are available for inspection:
    - Qualification of directors
    - Remuneration of directors
    - Any power enabling the director to vote remuneration to themselves or any members of their bod
    - The borrowing powers exercisable by the directors and how much they can be varied
    - Any exchange control or other restrictions on the borrowing powers
- Significant contracts
  - There are no material contracts outside the ordinary course of business currently in force or which have existed since the incorporation of MSBP
- Documents available for inspection
  - Copies of the following documents may be inspected at the head office of FDH by arrangement with the Company Secretary during normal business hours on any Business Day for 21 days from the date of this Prospectus:
    - MSBP's memorandum and articles of association
    - Certificate of incorporation
    - The audited financial statements of MSBP for the financial years ended 31st December 2019, 31st December 2018 and 31st December 2017 and the auditors' reports thereon
    - Written consent from Knight Frank
    - Property and Investment Management Services Agreement between MSBP and FDHFHL