National Bank of Malawi plc

48th ANNUAL GENERAL MEETING

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NOTICE OF 48TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE FORTY EIGHTH ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF NATIONAL BANK OF MALAWI PLC WILL BE HELD VIRTUALLY FROM THE NATIONAL BANK OF MALAWI PLC BOARDROOM ON 9TH JULY 2020 AT 14.00 HOURS

Procedures for the AGM will be as follows:

1. Shareholders have been requested to give their phone numbers and email addresses to a designated email address and phone number
2. The AGM Pack, proxy form, and voting form will be sent to shareholders through their email addresses and further shareholders can access the same by texting on 0888 810 626 and visiting the Company's website (www.natbank.co.mw) from 16 June 2020. Printed copies will be made available to shareholders on request.
3. Shareholders can raise their questions during a two-week period by e-mail, WhatsApp or post from 16 June to 30 June 2020.
4. The company will collate all questions and publish them on its website.
5. The company will hold the AGM online whose link will be provided to shareholders through their registered email addresses or WhatsApp numbers.
6. A selection of questions and answers shall be read out and commented upon during the online meeting.
7. Shareholders will be required to send the proxy forms and voting forms by 7th July 2020

THE FOLLOWING BUSINESS WILL BE TRANSACTED AT THE MEETING:

AS ORDINARY BUSINESS:

1. APPROVAL OF MINUTES

To approve the Minutes of the 47th Annual General Meeting held on 7th June 2019.

2. FINANCIAL STATEMENTS

To receive and consider the Directors' and Auditors' Report and the Financial Statements of the company for the year ended 31st December 2019.

3. DIVIDEND

To declare a final dividend amounting to K4.3 billion (K9.20 per share) making a total dividend of K8.3 billion in respect of 2019 profits representing K17.82 per ordinary share, having already paid a first interim dividend of K2.5 billion on 20th September 2019 and a second interim dividend of K1.5 billion on 30th March 2020.

4. APPOINTMENT OF AUDITORS

To re-appoint Deloitte. – Certified Public Accountants as Auditors for the ensuing year and to authorize the Directors to determine their remuneration.

5. DIRECTORS' APPOINTMENTS, RE-ELECTION AND RETIREMENT

5.1 To confirm the appointment of Mrs. Bessie Nyirenda who was appointed during the year to fill a casual vacancy.

Mrs. Bessie Nyirenda is a qualified ICT Specialist and leader with vast experience of over thirty years. She has a Bachelor of Science Degree (BSc.) majoring in Economics, Statistics and Computer Science, a Diploma in Business Systems Analysis and Design, a Masters Degree in Computing, a Graduate Diploma in Leadership Development in ICT and the Knowledge Society and an MBA in International Global Economy. She has skills in Project Management, Computers, Training and Stakeholder Facilitation, Requirements Gathering, Survey Data Collection and Analysis, Negotiations and Consultations, Monitoring and Evaluation, Analysis and Design and Design Management. She has made significant contribution towards the use of ICT in leadership, management as well as in regional development.

5.2 To confirm the appointment of Mr. Crispin Mzengereza who was appointed during the year to fill a casual vacancy.

Mr. Mzengereza has the following qualifications: Bachelor of Arts in Public Administration (B.A. Pub. Admin) University of Malawi, 1982, Post Graduate Diploma in Business Administration (University of Stirling) 1989 and Bachelor of Commerce in Money, Banking, University of the Free State, 2000 and Master of Commerce in Money and Banking, University of the Free State, 2001.

He has vast experience in financial sector regulation having worked with the Reserve Bank of Malawi.

5.3. To confirm the appointment of Mr. Macleod Nkhoma who was appointed during the year to fill a casual vacancy.

Mr. Nkhoma has an MBA from MANCOSA Graduate School of Business, a Post graduate Diploma in Management Studies from MANCOSA, a Degree in Business Studies (Major in Accountancy) from University of Malawi.

He is a professional of the following:

i. Chartered Governance Professional, Institute of Chartered Secretaries and Administrators (UK)
ii. Fellow of the Institute of Chartered Secretaries and Administrators (FCIS) UK. Institute of Chartered Secretaries and Administrators (UK)
iii. Chartered Secretary in Finance and Administration, Institute of Chartered Secretaries and Administrators (UK)

Some of his key achievements are:

- Coordinated consortium members to come up with the 5year project work-plans and budget at Stellenbosch University in South Africa that was approved by the donor (May 2019 to Mid-June 2019).

- Coordinated the Ag-Tech Challenge (involving basic, secondary and tertiary students to come up with agricultural innovations to prototype stage) that was the main event at the 2019 Agricultural Transformation Initiative Summit 2019 held at BICC (November 13-14, 2019).

- Led the Science, Technology and Innovation Team to conduct capability mapping of key project stakeholders like MUST and LUANAR and Department of Agriculture Research Services (DARS) to determine capacity to handle agricultural transformation through value chain market de-risking by establishing areas requiring interventions in the key value chains. Key goal is to recommend value chains that will help farmers diversify their livelihoods and value chains that can bring forex substitute to tobacco through value addition interventions. (April 2019).

5.4 To re-elect Mr Raymond Banda who retires by rotation in terms of Article 63 of the Articles of Association but being eligible, has offered himself for re-election.

5.5 To elect Mrs Dorothy Ngwira who retires by rotation in terms of Article 63 of the Articles of Association but being available has offered herself for re-election.

5.6 To re-elect Mrs. Maureen Kachingwe who retires by rotation in terms of Article 63 of the Articles of Association but being eligible, has offered herself for re-election

6. EXECUTIVE DIRECTORS' REMUNERATION

To authorize the Non-Executive Directors to determine the remuneration of Executive Directors.

7. NON-EXECUTIVE DIRECTORS' REMUNERATION

To approve an increase in the net fees and sitting allowances of the Chairman and Non-Executive Directors with effect from 1st January 2019 as follows:

DIRECTORS' FEES	
Chairman:	K11, 821,500 per annum (2019: K10, 650, 000)
Non-Executive Directors:	K7, 770,000 per annum (2019: K7, 000, 000)
SITTING ALLOWANCES	
Chairman:	K 367, 410 per sitting (2019: K 331, 000)
Non-Executive Directors:	K 326,340, 000 per sitting (2019: K294, 000)

8. AS SPECIAL BUSINESS:

Adoption of new Articles of Association
To consider and, if deemed fit, to pass with or without modification the following special resolution:

To adopt new Articles of Association of the company in substitution of the existing Articles of Association in compliance with Section 35 of the Companies Act, 2013. The Old Articles of Association are published on the company's website www.natbankmw.com and can also be obtained from the Company Secretary. The proposed Articles of Association are attached as an appendix hereto.

Reason and Effect of Adoption of the New Articles of Association:

The reason for adopting the new Articles of Association is that with the coming in of the Companies Act, 2013, all companies have had to be compliant with the new law.

The adoption of the new Articles of Association will neither reduce nor affect any shareholding.

9. OTHER BUSINESS

To transact such other business as may be transacted at an Annual General Meeting of Members and of which the Company Secretary will have been duly notified not less than 21 days before the date of the meeting.

Dated the 29th day of April 2020

BY ORDER OF THE BOARD

ZUNZO E. MITOLE
COMPANY SECRETARY

Registered Office
National Bank of Malawi plc
7 Henderson Street
P O Box 945
BLANTYRE

The register will close on the 10th to the 13th of July 2020. Only members whose names shall appear in the register as at the 10th July shall be eligible for the dividend, which will be payable by the 31st of July 2020.

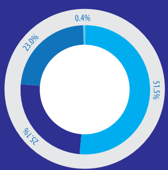
A member entitled to attend and vote at the meeting is entitled to appoint a proxy (or more than one proxy) to attend and vote in his/her stead. A proxy need not be a member of the company.

The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Company Secretary's Office, not less than forty eight (48) hours before the time for holding the meeting and in default the instrument of proxy shall not be treated as valid.


NB National Bank

DIRECTORS' **REPORT**

Consolidated
Profit Before Tax
K25 351m
(2018: K23 016m)



Shareholders and their respective shareholdings

The Directors have pleasure in presenting the consolidated and separate financial statements of National Bank of Malawi plc (NBM) for the year ended 31 December 2019.

CAPITAL

The authorised share capital of the Bank is K500mn (2018: K500mn) divided into 500,000,000 Ordinary Shares of K1 each. The issued capital is K467m (2018: K467m) divided into 466,931,738 (2018: 466,931,738) fully paid Ordinary Shares of K1 each.

The shareholders and their respective shareholdings are:

	2019 %	2018 %
Press Corporation plc	51.5	51.5
Old Mutual Group	25.1	25.1
Members of the public	23.0	23.0
Employees (ESOS)	0.4	0.4
	100.0	100.0

PROFIT AND DIVIDENDS

The Directors report a consolidated profit before tax of K25 351m (2018: K23 016m) for the year. A final dividend of K4 300m (2018: K3 500m) is proposed for the year. A first interim dividend of K2 498m (2018: K2 498m) was paid to shareholders in September 2019. A second interim dividend of K1 500m (2018: K1 500m) will be paid on 30 March 2020.

Proposed final dividend
K4,300m

DIRECTORS

The following directors, appointed in terms of Article 52 of the Articles of Association, served in office during the year:

Name		Tenure
Partridge, Dr. G B	>	Chairman-All year
Kambalame, E	>	Up to 15 May 2019
Biziwick, J	>	All year
Mhura, J	>	All year
Nsomba, J	>	All year
Banda, R	>	All year
Mafeni, E (Mrs)	>	All year
Kachingwe, M (Mrs)	>	All year
Ngwira, D (Mrs)	>	All year
Nyirenda, B (Mrs)	>	From 15 May 2019
Mzengereza, C	>	From 15 May 2019
Kawawa, M M	>	All year
Jiya, H	>	All year

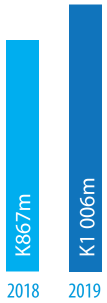
13
Directors

DIRECTORS' INTERESTS

The following Directors held shares in the Bank as at 31 December 2019:

Partridge, Dr. G B	846 507 (2018: 846 507) Ordinary Shares
Kawawa, M M	113 255 (2018: 113 255) Ordinary Shares
Biziwick, J	2 546 (2018: 2 546) Ordinary Shares
Nsomba, J	758 (2018: 758) Ordinary Shares
Kachingwe, M	1 935 (2018: 1 935) Ordinary Shares
Jiya, H	2 306 (2018: 2 306) Ordinary Shares

967,337
Total Directors' Ordinary Shares



The Directors' fees and remuneration for the Group and its subsidiaries

There were no other contracts between the Bank and its Directors nor were there any arrangements to enable the directors of the Bank to acquire shares in the Bank.

DIRECTORS' REMUNERATION

The Directors' fees and remuneration for the Group and its subsidiaries were as follows:

	Non-Executive Directors fees and expenses K'million	Executive Directors fees and expenses K'million	Total K'million
Entity			
For the year ended 31 December 2018			
National Bank of Malawi plc	201	546	747
NBM Capital Markets Limited	1	110	111
NBM Securities Limited	-	-	-
National Bank of Malawi Nominees Limited	-	-	-
Stockbrokers Malawi Limited	3	-	3
NBM Bureau de Change Limited	-	-	-
NBM Pension Administration Limited	6	-	6
NBM Development Bank Limited	-	-	-
Total	211	656	867
For the year ended 31 December 2019			
National Bank of Malawi plc	260	604	864
NBM Capital Markets Limited	5	116	121
NBM Securities Limited	-	-	-
National Bank of Malawi Nominees Limited	-	-	-
Stockbrokers Malawi Limited	3	-	3
NBM Bureau de Change Limited	-	-	-
NBM Pension Administration Limited	13	-	13
NBM Development Bank Limited	5	-	5
Total	286	720	1 006

DIRECTORS' TENURE POLICY

In accordance with the Articles of Association, non-executive Directors are appointed by the major shareholders namely Press Corporation plc and Old Mutual plc.

Unless a Director resigns, Non-Executive Directors appointed by the major shareholders serve on the Board up until they are recalled by the particular appointing major shareholder.

Executive Directors serve on the Board by virtue of their offices and their tenure is as per the terms of their contract of employment.

On termination of the contract, a three-month notice in writing must be given in case of Executive Directors whereas Non-Executive Directors, termination of their appointment is effective immediately when the notice of termination of their appointment is delivered to the Company Secretary. There is no predetermined compensation on termination of the appointment of Non-Executive Directors.

CORPORATE GOVERNANCE

The Group continues to embrace and abide by the main principles of modern corporate governance as contained in the Malawi Code II (Code of Best Practice for Corporate Governance in Malawi). In this regard, the Group has at Board level, a Board Audit Committee, Board Risk Committee, Board Credit Committee, Board Appointments and Remuneration Committee, IT Projects Oversight Committee and Board Committee on related parties. The Committees comprise of Non-Executive Directors.

OVERVIEW OF SUBSIDIARIES

Subsidiaries corporate governance

The subsidiaries have their own boards of directors having the rights and obligations to manage such companies in the best interest of the companies. The Bank has its representatives on the boards of subsidiary companies and monitors the performance of the companies regularly.

Subsidiaries board of directors

During the year ended 31 December 2019, none of the directors for the subsidiary companies had interest in any material contract relating to the businesses of the subsidiaries.

Information about subsidiaries Board of Directors and their interest in shares, if any, in the respective subsidiary is shown below:

Non-executive Directors are appointed by the major shareholders namely Press Corporation plc and Old Mutual plc

The Group continues to embrace and abide by the main principles of modern corporate governance as contained in the Malawi Code II

The subsidiaries have their own boards of Directors having the rights and obligations to manage such companies in the best interest of the companies

Subsidiary	Directors	Tenure	Directors interest in shares of the subsidiary
NBM Capital Markets Limited	Mr M Kawawa	All year- Chairman	None
	Mr. H Mukaka	All year	None
	Mr. B Jere	All year	None
	Mr. M Katsala	All year	None
	Mrs. M Mulele	All year- Company Secretary	None
	Mr. J Lipunga	From April 2019	None
Stockbrokers Malawi Limited	Mr. M Kawawa	All year- Chairman	None
	Mr. H Mukaka	All year	None
	Mr. D Kafoteka	All year	None
NBM Pension Administration	Mr. O Kasunda	All year- Chairman	None
	Mrs. Z Mitole	All year- Company Secretary	None
	Mr. H Jiya	All year	None
	Mr. G Munthali	All year	None
	Mr. E Namboya	All year	None
NBM Development Bank	Mr. M Kawawa	All year- Chairman	None
	Mrs. M Mulele	All year- Company Secretary	None
	Mr. H Jiya	All year	None
	Mr. M Katsala	All year	None
	Mr. A. Sukasuka	From June 2019	None
	Mr. F. Muula	From June 2019	None
	Mr. K. Aroni	From June 2019	None

DONATIONS

During the year, the Group made charitable donations of K80m (2018: K59m).

K80m worth of charitable donations

ACTIVITIES

The Group is engaged in the business of commercial banking, pension administration and stockbroking.

Subsidiaries of National Bank of Malawi plc	Percentage of control	Nature of operations
NBM Capital Markets Limited	100% (2018: 100%)	Investments and fund management
NBM Securities Limited	100% (2018:100%)	Dormant
National Bank of Malawi Nominees Limited	100% (2018:100%)	Holding of investments as nominee (Dormant)
Stockbrokers Malawi Limited	75% (2018:75%)	Registered stockbroker
NBM Bureau de Change Limited	100% (2018:100%)	Dormant
NBM Pension Administration Limited	100% (2018: 100%)	Pension administration
NBM Development Bank Limited	100% (2018: 100%)	SME and long-term financing

AREAS OF OPERATION

The Group has 33 (2018: 32) service centres throughout the country. The Bank and its subsidiaries' registered offices and principal places of business are in Blantyre.

33 service centres throughout the country

AUDITORS

The auditor, Deloitte, has signified willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting in relation to their appointment as auditor in respect of the year ending 31 December 2020.

AUDITORS' REMUNERATION

Group Auditor's remuneration including VAT and expenses for the year was K241m (2018: K234m).

BY ORDER OF THE BOARD

Chairman:__________ **Director:**__________

Date: 26th March 2020

CHAIRMAN'S **REPORT**

The Bank registered a group profit after tax of **K17.16b** from K15.97b reported in 2018, representing an increase of **7%.**

Non-interest income grew by
10%

Net Interest and Investment Income income grew by
12%

Overall Net Revenue grew by
11%

THE OPERATING ENVIRONMENT

The country witnessed pre and post-elections political tensions which negatively affected the general business environment. In addition, the economy experienced some negative shocks occasioned by Cyclone Idai which affected parts of the Southern Region of Malawi. Tobacco production and earnings, the major export commodity at 166 million kgs with proceeds of US$237m were respectively down 16% and 29% on prior year. These factors had a negative impact on our customers' disposable incomes and as a result, demand for banking services did not grow as envisaged.

Inflation has remained stable in the past three years, averaging 9.4% in 2019 compared to an annual average of 9.2% the previous year, although it closed at 11.5% because of increases in food inflation attributed to seasonal factors.

In response to the downward trending of inflation, the Reserve Bank of Malawi reduced the Policy Rate from 16% in January 2019 to the current 13.5%, to which commercial banks responded by reducing their base lending rates. In the second half of the year, the industry adopted the use of a reference rate, a weighted average of several factors, as a new basis for arriving at lending rates. Since its introduction, the reference rate has ranged from 12 % to 13.4%.

The Malawi Kwacha nominal exchange rate at K735 per USD largely remained stable throughout the year, just like in the previous three years, mainly supported by the confidence market players had on the import cover data, thus curbing speculation. The nominal stability caused the Malawi Kwacha Real Effective Exchange Rate (REER) to appreciate considerably, negatively affecting terms of trade and encouraging trading and imports against production and exports.

The loan book grew by

13%

Customer deposits increased by

8%

PERFORMANCE

The Bank registered a group profit after tax of K17.16b from K15.97b reported in 2018 representing an increase of 7%. Non-interest income grew by 10% while net interest and investment income grew by 12%. Overall net revenue grew by 11% while Operating expenses increased by 6%, notwithstanding staff rationalization costs that were incurred during the first half of the year. The loan book grew by 13% and customer deposits increased by 8% year-on-year.

STRATEGY AND PROSPECTS

The economy was expected to grow by 5.2 % in 2020 on account of the agriculture sector due to favourable weather conditions. Inflation was also expected to start declining towards the medium-term target of 5% by end of 2021.

The likelihood of achieving the above targets has now been undermined by a continuing unstable operating environment arising from political uncertainty following the nullification of the May 2019 Presidential Election results as this could affect effective policy making and implementation. The severe negative impact of the COVID-19 pandemic on productivity and supply chains on the world economies and on the country will significantly affect growth prospects.

In August 2019, the Bank successfully launched NBM Development Bank, the long-term lending arm of the Bank Group. The activities of the subsidiary are expected to increase in 2020 after surmounting some initial operationalisation challenges.

In its efforts to expand operations beyond the borders of the country, the Bank is in the process of acquiring a controlling stake of a bank in Tanzania. The process of securing regulatory approvals both locally and internationally is underway.

The Bank is implementing a strategy that seeks to embed customer centricity deeply into its culture with digitisation being one of the key pillars in the quest to excite its customers. We will in 2020 therefore, be launching various value adding digital services.

Despite the challenges ahead, the Board remains cautiously optimistic on the Bank's future performance given its ability to leverage on its core strengths to address challenges and exploit opportunities on the market.

BOARD OF DIRECTORS

Mr. Elias Kambalame retired from the Board in May 2019 after many years of service while Mrs. Bessie Nyirenda and Mr. Crispin Mzengereza joined the Board on 15th May 2019.

On behalf of the shareholders, and on my own behalf, I would like to welcome Mrs. Bessie Nyirenda and Crispin Mzengereza on the Board and thank Mr. Elias Kambalame for his valuable contribution and support during his long tenure on the Board. I would also like to thank fellow Directors for their counsel, direction, support, dedication and co-operation and look forward to a fruitful working relationship with them in 2020 and beyond.

MANAGEMENT AND STAFF

I would like to express my sincere gratitude to management and staff for their hard work, dedication and commitment during the year, the result of which has been the posting of satisfactory results amid an environment full of challenges. On behalf of my fellow Directors and shareholders, I pledge the Board's unwavering support as they work towards sustaining the current trend of performance. I am confident that the Board can count on their commitment to take the Bank to greater heights.

Dr. G B Partridge
CHAIRMAN

I would like to express my sincere gratitude to management and staff for their hard work, dedication and commitment during the year

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NATIONAL BANK OF MALAWI PLC AND ITS SUBSIDIARIES

Opinion

We have audited the consolidated and separate financial statements of National Bank of Malawi plc and its subsidiaries ("the Group"), set out on pages 10 to 118 which comprise the consolidated and separate statements of financial position as at 31 December 2019, and the consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Group as at 31 December 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants (Revised July 2016)*, parts 1 and 3 of the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including *International Independence Standards) (Revised July 2018)* and other independence requirements applicable to performing audits of financial statements in Malawi. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current year. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in the audit
Determination of Expected Credit Losses(ECL) for loans and advances (Separate financial statements)	
The Bank exercises significant judgement using subjective assumptions over both when and how much to record expected credit losses, and estimation of the amount of the impairment provision for loans and advances. Because loans and advances form a major portion of the Bank's assets, and due to the significance of the judgements used in classifying loans and advances into various stages stipulated in IFRS 9 *Financial Instruments* and use of complex specialised models in determining related provision requirements, this was a matter of most significance to the audit. As at 31 December 2019, the gross loans and advances to customers were K199.9 billion (2018: K173.2 billion) against which expected credit losses of K11.6 billion (2018: K6.6 billion) were recorded. This is disclosed in note 12 (Loans	We obtained an understanding of the Bank's key credit processes comprising granting, booking, monitoring and provisioning and tested the relevant internal controls over impairment of loans and advances. We examined a sample of exposures and performed procedures to evaluate the: • Timely identification of exposures with a significant deterioration in credit quality; and • For exposures determined to be individually impaired, we examined management's estimate of future cash flows, assessed their reasonableness and checked the resultant provision calculation. For provision against exposures classified as Stage 1, Stage 2 and Stage 3, we obtained an understanding of the Bank's provisioning methodology and assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by management. Our procedures in this regard are discussed in further detail below. With respect to impairment methodology, our audit procedures comprised the following: • We read the Bank's IFRS 9 based impairment provisioning policy for loans and advances and compared it with the requirements of IFRS 9; • With the involvement of our credit specialist, we reviewed changes in methodology and assumptions underlying the IFRS 9 impairment model.

Key Audit Matter	How the matter was addressed in the audit
Determination of Expected Credit Losses(ECL) for loans and advances (Separate financial statements) (Continued)	
and advances) to the financial statements. The impairment provision policy is presented in accounting policies in note 3 to the financial statements. Loans and advances are stated at amortised cost net of identified impairment losses.	• We further performed procedures to ensure the competence, objectivity and independence of the Bank's Consultant; • We reviewed the appropriateness and compliance with the standard regarding the methods used to determine ECL. We validated the data that was used to compute ECL; • For a sample of exposures, we checked the appropriateness of the Bank's staging; • We checked and understood the key data sources and assumptions for data used in the models (the Models) used by the Bank to determine impairment provisions; • For forward looking assumptions used by the Bank's management in its ECL calculations, we held discussions with management and corroborated the assumptions used to publicly available information; • We checked the appropriateness of determining Exposure at Default (EAD), Loss Given Default (LGD) and Probability of Default (PD); • We checked the completeness of the loans and advances as of 31 December 2019; • We understood the theoretical soundness and tested the mathematical integrity of the Model; • We checked consistency of various inputs and assumptions used by the Bank's management to determine impairment provisions; and • We performed a quantitative impact assessment based on the Bank's data using our standard approaches to determine the underlying assumptions (PD, LGD and EAD), ECL and compared to the balance per general ledger. We found that the judgements applied in determining expected credit losses against loans and advances were appropriate and that the amount raised was adequate.

Key Audit Matter	How the matter was addressed in the audit
Goodwill impairment assessment (consolidated financial statements)	
In October 2015, the Bank acquired 97.05% shareholding in Indebank Limited. In accordance with IFRS 3, *Business Combinations,* the Bank determined goodwill arising from acquisition which amounted to K4 billion as disclosed in note 19 to the financial statements. During the year, NBM assessed goodwill for impairment. We considered this as a key audit matter due to the following: • The significance of the amount; • The judgement and assumptions used in the determination of impairment for goodwill; and • The complexity of the value in use calculation.	We reviewed the accuracy of the value in use calculation as well as the discount factor used. We also checked if the assumptions that were used in determining the future cash flows were reasonable. The results of our assessment indicated that goodwill is not impaired.

Other Information

The Directors are responsible for the other information. The other information comprises the Directors' Report, as required by the Companies Act which we obtained prior to the date of this auditor's report and the Annual Report, which is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements
The Directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required

to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Deloitte

Chartered Accountants

Nkondola Uka
Partner

30 March 2020

	Notes	GROUP 2019 K'm	GROUP 2018 K'm	COMPANY 2019 K'm	COMPANY 2018 K'm
ASSETS					
Cash and funds with Reserve Bank of Malawi	5	18 345	25 023	18 345	25 267
Government of Malawi treasury bills and treasury notes	6	133 278	96 403	123 489	82 315
Government of Malawi promissory notes	7	-	1 441	-	1 441
Equity investments	8	4 102	3 891	4 102	3 891
Investment in associates	9	1 390	1 336	992	992
Investment in subsidiaries	10	-	-	6 444	6 444
Placements with other banks	11	17 826	22 899	17 826	22 899
Loans and advances	12	188 324	166 621	188 178	166 621
Other money market deposits	13	32 997	40 314	18 498	26 426
Other assets	14	5 424	9 761	4 790	9 178
Property and equipment	15	32 236	29 380	32 154	29 296
Intangible assets	16	10 274	8 436	10 160	8 320
Right-of-use assets	17	3 140	-	3 140	-
Deferred tax	18	7 861	7 866	7 816	7 827
Goodwill	19	3 959	3 959	-	-
Total assets		459 156	417 330	435 934	390 917
LIABILITIES AND EQUITY					
LIABILITIES					
Customer deposits	20	318 470	294 525	298 279	271 026
Amounts due to other banks	21	652	1 414	652	1 414
Current income tax liabilities	22	3 501	874	3 357	685
Loans	23	16 335	19 428	16 335	19 428
Provisions	24	2 954	1 933	2 745	1 735
Other liabilities	25	12 828	10 733	12 546	10 322
Lease liability	26	3 551	-	3 551	-
Deferred tax	18	5	9	-	-
Total liabilities		358 296	328 916	337 465	304 610
EQUITY					
CAPITAL AND RESERVES					
Share capital		467	467	467	467
Share premium		613	613	613	613
Revaluation reserve		22 395	19 845	23 706	21 156
Retained earnings		77 287	67 391	73 683	64 071
Equity attributable to equity holders of the parent		100 762	88 316	98 469	86 307
Non-controlling interests		98	98	-	-
Total equity		100 860	88 414	98 469	86 307
Total equity and liabilities		459 156	417 330	435 934	390 917
Memorandum items					
Letters of credit and guarantees	37	22 550	35 799	22 550	35 799

The financial statements were approved and authorised for issue by the Board of Directors on 26th March 2020 and were signed on its behalf by:

Director

Director

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	GROUP 2019 K'm	GROUP 2018 K'm	COMPANY 2019 K'm	COMPANY 2018 K'm
Income					
Interest and similar income	29	50 904	47 079	50 234	46 604
Interest expense and similar charges	29	(5 207)	(6 315)	(5 232)	(6 335)
Net interest income	29	45 697	40 764	45 002	40 269
Commission and other income	30	18 398	14 130	16 567	12 405
Profit from dealing in foreign currencies		5 249	4 645	5 249	4 645
Income from operating leases		715	834	715	834
Net gain on financial instruments classified as held for trading	8	144	796	144	796
Profit on disposal of financial instruments classified as held for trading		5	120	5	120
Share of profits of associate		100	254	-	-
Net (loss)/gains on modified and restructured loans		(198)	522	(198)	522
Dividend income		208	114	618	617
Profit on disposal of assets held for sale		-	115	-	115
Properties fair value (loss)/gains	33	(139)	(150)	(139)	(150)
Profit on disposal of Indetrust Holdings Limited	-		719	-	-
Profit on disposal of property and equipment		64	156	64	156
Total income		70 243	63 019	68 027	60 329
Expenditure					
Staff costs	31	19 856	17 231	19 019	16 572
Other operating expenditure	32	20 624	20 802	19 996	20 098
Total expenditure		40 480	38 033	39 015	36 670
Profit before net impairment on financial assets		29 763	24 986	29 012	23 659
Recoveries on impaired loans and advances	12	1 413	626	1 413	626
Impairment losses on financial assets	12&14	(5 825)	(2 596)	(5 825)	(2 576)
Profit before tax		25 351	23 016	24 600	21 709
Income tax expense	34	(8 196)	(7 051)	(7 778)	(6 403
Profit for the year		17 155	15 965	16 822	15 306
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Surplus on revaluation of properties	33	2 985	2 509	2 985	2 509
Deferred tax on revalued assets	18	(146)	641	(146)	641
Total other comprehensive income		2 839	3 150	2 839	3 150
Total comprehensive income for the year		19 994	19 115	19 661	18 456

	Notes	GROUP 2019 K'm	GROUP 2018 K'm	COMPANY 2019 K'm	COMPANY 2018 K'm
Profit attributable to:					
Equity holders of the company	35	17 106	15 881	16 822	15 306
Non-controlling interests		49	84	-	-
		17 155	15 965	16 822	15 306
Comprehensive income attributable to:					
Equity holders of the company		19 945	19 031	19 661	18 456
Non-controlling interests		49	84	-	-
		19 994	19 115	19 661	18 456
Earnings per share (K)	35	36.63	34.01		
Diluted earnings per share (K)	35	36.63	34.01		
Dividend per share (K)	36	16.06	17.55		

For the year ended 31 December 2019

GROUP	Share Capital K'm	Share Premium K'm	Loan Loss Reserve K'm	Revaluation Reserve K'm	Retained Earnings K'm	Equity Attributable to Equity Holders of the Parent K'm	Non-Controlling Interests K'm	Total K'm
2018								
At beginning of the year as previously stated	467	613	1 160	18 181	60 486	80 907	1 306	82 213
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	-	-	(4 886)	(4 886)	-	(4 886)
Deferred tax on transition adjustment	-	-	-	-	1 466	1 466	-	1 466
Transfer from loan loss reserve	-	-	(1 160)	-	1 160	-	-	-
At beginning of the year as restated	467	613	-	18 181	58 226	77 487	1 306	78 793
Total comprehensive income	-	-	-	3 150	15 881	19 031	84	19 115
Elimination on disposal of subsidiary	-	-	-	(1 334)	1 334	-	(1 250)	(1 250)
Minority interest eliminated on disposal of subsidiary	-	-	-	-	(7)	(7)	7	-
Transfer of excess depreciation	-	-	-	(152)	152	-	-	-
Dividend paid to minority shareholders	-	-	-	-	-	-	(49)	(5 697)
2017 Final dividend declared and paid	-	-	-	-	(5 697)	(5 697)	-	(5 697)
2018 First interim dividend declared and paid	-	-	-	-	(2 498)	(2 498)	-	(2 498)
At end of the year	467	613	-	19 845	67 391	88 316	98	88 414
2019								
At beginning of the year	467	613	-	19 845	67 391	88 316	98	88 414
Total comprehensive income	-	-	-	2 839	17 106	19 945	49	19 994
Transfer of excess depreciation	-	-	-	(289)	289	-	-	-
Dividend paid to minority shareholders	-	-	-	-	-	-	(49)	(49)
2018 Final dividend declared and paid	-	-	-	-	(5 001)	(5 001)	-	(5 001)
2019 First interim dividend declared and paid	-	-	-	-	(2 498)	(2 498)	-	(2 498)
At end of the year	467	613	-	22 395	77 287	100 762	98	100 860

COMPANY	Share Capital K'm	Share Premium K'm	Loan Loss Reserve K'm	Revaluation Reserve K'm	Retained Earnings K'm	Total K'm
2018						
At beginning of the year as previously stated	467	613	1 160	18 158	59 068	79 466
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	-	-	(4 886)	(4 886)
Deferred tax on transition adjustment	-	-	-	-	1 466	1 466
Transfer from loan loss reserve	-	-	(1 160)	-	1 160	-
At beginning of the year as restated	467	613	-	18 158	56 808	76 046
Total comprehensive income	-	-	-	3 150	15 306	18 456
Transfer of excess depreciation	-	-	-	(152)	152	-
2017 Final interim dividend declared and paid	-	-	-	-	(5 697)	(5 697)
2018 First interim dividend declared and paid	-	-	-	-	(2 498)	(2 498)
At end of the year	467	613	-	21 156	64 071	86 307
2019						
At beginning of the year	467	613	-	21 156	64 071	86 307
Total comprehensive income	-	-	-	2 839	16 822	19 661
Transfer of excess depreciation	-	-	-	(289)	289	-
2018 Final interim dividend declared and paid	-	-	-	-	(5 001)	(5 001)
2019 First interim dividend declared and paid	-	-	-	-	(2 498)	(2 498)
At end of the year	467	613	-	23 706	73 683	98 469

	2019 K'm	2018 K'm
ANALYSIS OF SHARE CAPITAL		
Authorised		
500,000,000 Ordinary Shares of K1 each	500	500
Issued and fully paid		
466,931,738 Ordinary Shares of K1 each	467	467

TRANSITION FROM IAS 39 *FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT TO IFRS 9 FINANCIAL INSTRUMENTS*

The Group adopted the new IFRS 9 *Financial instruments* effective 01 January 2018. The new standard requires an expected credit loss model, as opposed to incurred credit loss model under IAS 39. As permitted by IFRS 9, the requirements were applied retrospectively without restating comparatives. Differences between previously reported carrying amounts and new carrying amounts of financial instruments as of 31 December 2017 and 1 January 2018 amounting to K4 886m were recognised in the opening retained earnings in the prior year.

PROPERTY REVALUATION RESERVE

The property revaluation reserve relates to unrealised capital profits (net of related deferred tax) on valuation of properties and is not available for distribution in terms of the Companies Act.

		GROUP		COMPANY	
	Notes	2019 K'm	2018 K'm	2019 K'm	2018 K'm
Cash flows from operating activities					
Profit before tax		25 351	23 016	24 600	21 709
Adjustments for:					
• Depreciation of property and equipment	15	2 621	2 407	2 597	2 389
• Amortisation of intangible assets	16	1 066	955	1 054	944
• Amortisation of Right-of-use Asset	32	634	-	634	-
• Interest on lease liability	32	677	-	677	-
• Profit on disposal of property and equipment		(64)	(156)	(64)	(156)
• Write off of property and equipment	15&32	4	-	4	-
• Profit on disposal of Indetrust Holdings Limited		-	(719)	-	-
• Impairment loss on intangible assets	16&32	96	503	96	503
• Movement in impairment losses on loans and advances		5 825	2 596	5 825	2 576
• Profit on disposal of assets held for sale		-	(115)	-	(115)
• Gains on disposal of financial instruments classified as held for trading		(5)	(120)	(5)	(120)
• Net gains on financial instruments classified as held for trading	8	(144)	(796)	(144)	(796)
• Dividend receivable		(208)	(114)	(618)	(617)
• Net fair value loss on revaluation of properties	33	139	150	139	150
• Share of profits of associate		(100)	(254)	-	-
• Net (gains)/Loss on modified and restructured loans		198	(522)	198	(522)
• Operating cashflows before working capital movements		36 090	26 831	34 993	25 945
• Movement in customer deposits		23 945	16 033	27 253	16 924
• Movement in other liabilities and provisions		3 116	(62)	3 234	(1 213)
• Movement in loans and advances		(27 528)	(36 006)	(27 382)	(35 986)
• Movement in other assets		4 307	(2 050)	4 312	(2 200)
Cash generated from operations		39 930	4 746	42 410	3 470
Tax paid	22	(5 714)	(7 662)	(5 241)	(7 081)
Net cash flow from operating activities		34 216	(2 916)	37 169	(3 611)
Cash flows from investing activities					
Increase in investments with maturity over three months		(35 434)	(68 318)	(39 733)	(54 230)
Purchase of property and equipment and intangible assets		(6 014)	(4 163)	(5 980)	(4 072)
Increase in investment in subsidiaries and associates	9	-	(759)	-	(759)
Proceeds from disposal of property and equipment		443	1 111	441	1 111
Proceeds from disposal of assets held for sale		-	445	-	445
Purchase of equity investments		(391)	(335)	(391)	(335)
Proceeds from disposal of equity investments		182	3 013	182	1 078
Dividend received		208	114	618	617
Net cash used in investing activities		(41 006)	(68 892)	(44 863)	(56 145)
Cash flows from financing activities					
Increase/(decrease) in loans		(3 093)	5 243	(3 093)	5 243
Interest paid on lease liability	26	(677)	-	(677)	-
Repayments of lease liability	26	(198)	-	(198)	-
Dividends paid		(7 548)	(8 244)	(7 499)	(8 195)
Net cash outflow from financing activities		(11 516)	(3 001)	(11 467)	(2 952)
Net decrease in cash and cash equivalent		(18 306)	(74 809)	(19 161)	(62 708)
Cash and cash equivalents at beginning of the year		86 822	161 631	73 178	135 886
Cash and cash equivalents at end of the year (note 39)		68 516	86 822	54 017	73 178

1. General information

National Bank of Malawi plc Group (the Group) provides retail, corporate and investment banking as well as stockbroking, insurance and pension administration services in Malawi. The Group has a network of 33 (2018: 32) service centres.

The Bank, which is licensed under the Banking Act, 2009, Part II, is a limited liability company incorporated and domiciled in Malawi. The Bank is listed on the Malawi Stock Exchange.

The address of its principal place of business and registered office is National Bank Head Office, 7 Henderson Street, Blantyre, Malawi.

The Group's parent company is Press Corporation plc (PCL), which is a limited liability company, incorporated and domiciled in Malawi. PCL is listed on the Malawi and London Stock Exchanges.

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 Group 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 or after 1 January 2019.

The Group has adopted IFRS 16 *Leases* which is relevant to operations across the group.

The accounting policies applied in the preparation of the financial statements are consistent with the most recent financial statements for the year ended 31 December 2018 except for the current adoption of IFRS 16 Leases as detailed below.

The adoption of the other new and revised Standards and Interpretations did not have a significant impact on the financial statements of the Group.

IFRS 16-Leases

IFRS 16 specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all major leases.

Effective 1 January 2019, the Group has adopted IFRS 16 using the cumulative catch-up approach (modified retrospective approach) and accordingly the information presented for 2018 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

On initial application, the Group has elected to record right-of-use assets based on corresponding lease liability less any prepaid rentals. Right-of-use assets and lease obligations of K3 143bn were recorded as of 1 January 2019, with no net impact on retained earnings. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The rate applied is 23%.

2. Adoption of new and revised International Financial Reporting Standards (Continued)

2.1. Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements (Continued)

IFRS 16-Leases (Continued)
The Group re-assessed all contracts to identify whether they are leases or contain a lease as at the commencement date. The company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after 1 January 2019.

<u>**Impact on Lessee Accounting**</u>

i. **Former operating leases**
IFRS16 changes how the Group 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 Group:

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;
b. Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of comprehensive income;
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 cashflows.

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 lease incentive, amortised as a reduction of rental expenses on a straight line basis.

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

The Group has used the following practical expedients when applying the modified retrospective approach to leases previously classified as operating leases applying IAS 17:

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group 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,

2. Adoption of new and revised International Financial Reporting Standards (Continued)

2.1. Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements (Continued)

except in cases where the Group 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.

As a lessee, the Group did not have Finance lease arrangements as at 01 January 2019.

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).

As a lessor, the Group did not enter into sub lease arrangements with third parties.

Financial impact of initial application of IFRS16

	K'm
Operating lease commitments at 31 December 2018	5 921
Effect of discounting the above amounts	(2 778)
Lease liabilities recognised at 1 January 2019	3 143

The Group has recognised K3.1b of Right-of-use assets and almost the same amount for lease liabilities upon transition to IFRS 16 with no significant impact in retained earnings and therefore they is no catch up adjustment in opening retained earnings.

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 Group are set out below. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

2. Adoption of new and revised International Financial Reporting Standards (Continued)

2.2 Standards and Interpretations in issue, not yet effective

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.

2. Adoption of new and revised International Financial Reporting Standards (Continued)

2.2 Standards and Interpretations in issue, not yet effective (Continued)

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. 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 these Standards and Interpretations in future periods will have no significant impact on the financial statements of the Group.

3. Accounting policies

Statement of compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation
The consolidated and separate financial statements have been prepared on the historical cost basis, except for the revaluation of certain non-current assets and 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. The principal accounting policies of the Group, which are set out below, have been consistently followed in all material respects, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

3.1 *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries: Stockbrokers Malawi Limited, NBM Capital Markets Limited, NBM Pension Administration Limited and NBM Development Bank Limited. The Group financial statements also incorporate results of its associated company, United General Insurance Company Limited. National Bank of Malawi Nominees Limited, NBM Securities Limited and NBM Bureau de Change Limited are dormant subsidiaries.

a. Subsidiaries

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2019. Subsidiaries are entities over which the Bank has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

3. Accounting policies (Continued)

3.1 Basis of consolidation (Continued)

a. Subsidiaries (Continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interest of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(b) Associates

Associated companies are those entities in which the Group has long-term interest of 20% or more of the voting power of the investee and has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of its associates' post-

3. Accounting policies (Continued)

3.1 Basis of consolidation (Continued)

b. Associates (Continued)

acquisition profits or losses is recognised in the statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associates, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associates.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provided for evidence of an impairment of the assets transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.2 *Business combinations*

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income taxes and IAS 19 Employee benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquired or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share based payment at the acquisition date and;

- assets (disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. Accounting policies (Continued)

3.2 Business combinations (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assts. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is re-measured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasurable to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss.

Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss when such treatment would be appropriate if that interest were disposed off.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3.3 *Goodwill*

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of consideration transferred, the amount of any non-controlling interest in the acquiree

3. Accounting policies (Continued)

3.3 Goodwill (Continued)

and the fair value of the acquirer's previously held equity interest (if any) in the entity over net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

3.4 *Comparatives*

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

3.5 *Financial instruments*

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group 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.

3. **Accounting policies** (Continued)
3.5 **Financial instruments** (Continued)

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 Group may make the following irrevocable election/designation at initial recognition of a financial asset:
- the Group 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 Group 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. <u>Amortised cost and effective interest method</u>
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.

3. Accounting policies (Continued)
3.5 Financial instruments (Continued)

i. Amortised cost and effective interest method (Continued)
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 Group 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 29).

ii. Equity instruments designated as at FVTOCI
On initial recognition, the Group 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 Group 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).

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

ii. Equity instruments designated as at FVTOCI (Continued)

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.

iii. Financial assets at FVTPL

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

- Investments in equity instruments are classified as at FVTPL, unless the Group 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 Group 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.

Impairment of financial assets

The Group 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 Group 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 Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

3. Accounting policies (Continued)
3.5 Financial instruments (Continued)

Impairment of financial assets (Continued)
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 Group 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 Group 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 Group'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 Group'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; and
- 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 Group 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 Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group 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

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

i. Significant increase in credit risk (Continued)

determined to have low credit risk if:

- The financial instrument has a low risk of default;
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- 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 Group considers a financial asset to have low credit risk where the borrower has 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 not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. It also considers assets in the investment grade category to be low credit risk assets.

For financial guarantee contracts, the date that the Group 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 Group considers the changes in the risk that the specified debtor will default on the contract.

The Group 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 Group 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 Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group 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.

3. Accounting policies (Continued)
3.5 Financial instruments (Continued)

iii. Credit-impaired financial assets (Continued)

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 Group 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. Financial assets written off may still be subject to enforcement activities under the Group'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 Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted using the approximated 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 Group 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 Group expects to receive from the holder, the debtor or any other party. When a financial asset has shown a significant increase in credit risk since origination, the Group 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 3 months.

3. Accounting policies (Continued)
3.5 Financial instruments (Continued)

Measurement and recognition of expected credit losses (Continued)
If the Group 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 Group 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 Group 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 Group 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 Group's financial assets. During the current financial year and previous accounting period, there was no change in the business model under which the Group 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.

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

The Group 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 Group has an established forbearance policy which applies for corporate and retail lending.

3. Accounting policies (Continued)
3.5 Financial instruments (Continued)

Modification and derecognition of financial assets (Continued)
When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group'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 Group considers the following:

- Qualitative factors such as contractual cash flows after modification are no longer solely payments of Principal and Interest (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; and
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Group 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 Group 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 Group 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 Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioral 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

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Modification and derecognition of financial assets (Continued)
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 Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group 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 Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group 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.

Financial liabilities and equity

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 Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Group'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 Group's own equity instruments.

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

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Financial liabilities (Continued)

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 Group, 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 Group 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 Group'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

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Financial liabilities at FVTPL (Continued)
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 Group that are designated by the Group as at FVTPL are recognised in profit or loss.

Fair value is determined in the manner described in note 29.

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 profit or loss for financial liabilities that are not part of a designated hedging relationship.

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.

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group'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 Group 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 Group 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 *Sale and repurchase agreements*

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method. Securities lent to counterparties are also retained in the financial statements.

3.7 *Property and equipment*

Land and buildings are shown at valuation with subsequent additions at cost, less related depreciation and impairment losses. Revaluations of land and buildings are carried out with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the year-end date, as economic conditions dictate, by independent valuers. The basis of valuation used is current market value. Surpluses on revaluations are recognised and treated as other comprehensive income in the statement of comprehensive income and transferred to the non-distributable reserve; on realisation (either through use or disposal) of the asset, the appropriate portion of the reserve is transferred to retained earnings. Deficits on revaluations are

3. Accounting policies (Continued)

3.7 Property and equipment (Continued)

charged to profit and loss, except to the extent that they relate to revaluation surpluses previously transferred to the revaluation reserve in which case they are treated as other comprehensive income. An amount equivalent to the additional depreciation arising from revaluations is transferred annually, net of deferred tax, from the revaluation reserve to retained earnings.

Land and buildings comprise mainly service centres and offices.

Motor vehicles and equipment are stated at historical cost less related depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Properties in course of construction for administration or for purposes not yet determined are carried at cost less any recognised impairment loss. The cost includes professional fees.

Depreciation on assets is calculated using the straight-line method to write-off their cost to their residual values over their estimated useful lives.

The assets' residual values, useful lives, and depreciation method are reviewed, and adjusted if appropriate, at each year-end date.

Freehold land and capital work in progress are not depreciated.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

3.8 *Intangible assets*

Intangible assets are reported at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3.9 *Leases*

The Group has applied IFRS 16 using the cumulative catch-up (modified retrospective) approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

3. Accounting policies (Continued)
3.9 Leases (Continued)

Policies applicable from 1 January 2019
Group as a lessee
The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group 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. For these leases, the Group 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 cannot be readily determined, the lessee 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 lease term reflects the exercise of an option to terminate the lease; and
- Payments or penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented in the notes of the consolidated statement of financial position.

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

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:
- The lease term has changed or there is 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 measured 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 measured 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 measured based on the lease term

3. Accounting policies (Continued)

3.9 Leases (Continued)

of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

In accordance with the standard, the Group reassessed the lease liability as at 31 December 2019. The reassessed liability was K3 742m. The difference between the initial lease liability and the re-assessed amount of K606m was adjusted against the Right-of-use assets (Refer to note 17). The reassessment was necessary due to changes in the projected future rental or lease payments. The estimated cashflows were discounted a revised incremental borrowing rate of 18.6% made.

The right-of-use assets compromise 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 Group 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 Group 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 on the face to the consolidated statement of financial position.

The Group 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 of 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.

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 Group has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Group 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.

3. Accounting policies (Continued)

3.9 Leases (Continued)

The Group as lessor
The Group enters into lease agreements as a lessor with respect to financing arrangements for customers' acquisition of equipment and motor vehicles.

Leases for which the Group 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.

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 Group'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 Group's net investment outstanding in respect of the leases.

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

Accounting policies applied to Leases prior to 1 January 2019
Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

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.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

3. Accounting policies (Continued)

3.9 **Leases** (Continued)

b. The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of the rental expenses on a straight line basis except where another more systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3.10 *Impairment of tangible and intangible assets excluding goodwill and financial assets*

At each year-end date, the Group reviews the carrying amounts of its tangible and intangible 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 Group 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, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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 years.

A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. Accounting policies (Continued)

3.10 Impairment of tangible and intangible assets excluding goodwill and financial assets (Continued)

Non-current assets and disposal groups 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 (or disposal group) 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 a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

3.12 *Provisions*

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a 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.

a. <u>Restructuring</u>

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring plan either has commenced or has been announced publicly. Costs relating to the on-going activities of the Group are not provided for.

b. <u>Onerous contracts</u>

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with the contract.

c. <u>Warranties</u>

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

3.13 *Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

3. Accounting policies (Continued)

3.13 Taxation (Continued)

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income 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 Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year-end date.

Deferred tax

Deferred tax is recognised 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 these deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group 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 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 amounts of deferred tax assets are reviewed at each year-end 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 realised, based on tax rates (and tax laws) that have been enacted or substantially enacted at the year-end date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow the manner in which the Group expects, at the year-end date, 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 Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination.

3. **Accounting policies** (Continued)

3.14 *Cash and cash equivalents*

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short-term government securities.

3.15 *Employee benefits*

a. Pension obligations – Defined Contribution Plan

The Group contributes to a defined contribution pension plan for employees called the National Bank of Malawi Pension Fund. Contributions are charged to the statement of comprehensive income as incurred.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employment service in the current and prior periods.

b. Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

3.16 *Foreign currency translation*

a. Functional and presentation currency

Items included in the financial statements are measured using Malawi Kwacha, the functional currency of the primary economic environment in which the entire Group operates. The financial statements are presented in Malawi Kwacha (rounded to the nearest million), which is the Group's functional and presentation currency.

b. Transactions and balances

Foreign currency transactions are translated into Malawi Kwacha using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Foreign exchange gains and losses 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 directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

3. **Accounting policies** (Continued)

3.17 *Revenue recognition*

Interest income and expense

Interest income and expense for all interest-bearing financial instruments except for those classified as held for trading or designated at fair value through profit and loss are recognised within "interest income" and "interest expense" in the statement of comprehensive income using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For financial assets that have subsequently become credit – impaired (stage 3), 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.

Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan once it is withdrawn. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time apportion basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. The same principle is applied to wealth management, financial planning and custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

3. Accounting policies (Continued)
3.17 Revenue recognition (Continued)

Dividend income
Dividends are recognised in the statement of comprehensive income when the Group's right to receive payment is established.

Premium on foreign exchange deals
Premium on foreign exchange deals are recognised as income when the deal is agreed.

3.18 Share capital

Share issue costs
Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Group's Directors.

Dividends on ordinary shares (Continued)
Dividends for the year that are declared after the year-end date are dealt with in the subsequent events note.

Dividend per share
The calculation of dividend per share is based on the dividends declared during the period divided by the number of ordinary shareholders on the register of shareholders as at year-end.

Earnings per share
The calculation of earnings per share is based on the net 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.

3.19 Fiduciary activities
The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

3.20 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 Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group'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.

3. Accounting policies (Continued)
3.20 Classification and measurement of financial instruments under IFRS 9 (Continued)

The Group applies the following business models:

i. Holding financial instruments for trading to maximise income and reduce losses;
ii. Holding financial instruments to maturity. Thus the Group receives only principal and interest from the financial instruments; and
iii. Holding financial instruments for liquidity management.

The adoption of IFRS 9 did not affect the Group's business models.

a. The Group 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).

b. Debt and loan instruments that are held by the Group 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.

c. 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.

d. 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.

e. The Group 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.

3. Accounting policies (Continued)
3.20 Classification and measurement of financial instruments under IFRS 9 (Continued)

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	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 loans; 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	None
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	1. Equity investments

Reclassification

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

- Determined by senior management;
- As a result of external or internal changes;
- Significant to the entity’s operations; and
- Demonstrable to external parties –expected to be “very infrequent”.

3. Accounting policies (Continued)

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

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 Group 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 Group categorises its loans into Stage 1, Stage 2, Stage 3 and Purchased or originated credit impaired (POCI) as described below:

- Stage 1: When loans are first recognised, the Group 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 3 months;
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group 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 3 months;
- Stage 3: Loans considered credit-impaired. The Group 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 Group 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) derecognition of the financial asset.

The calculation of ECLs

The Group 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:

3. Accounting policies (Continued)

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

The calculation of ECLs (Continued)
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. The 12–month and lifetime PDs of a financial instrument represent the probability of a default occurring over the next 12 months and over its expected lifetime respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.

Internal risk rating grades are inputs to the IFRS 9 PD models and historic default rates are used to generate the PD term structure covering the lifetime of financial assets.

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. The Group's modelling approach for EAD reflects current contractual terms of principal and interest payments, contractual maturity date and expected utilisation of undrawn limits on revolving facilities and irrevocable off–balance sheet commitments.

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. LGD estimates are based on historical loss data.

The Group segmented the loan book into various risk groups depending on the parameter being modelled. The grouping of exposures were based on shared credit risk characteristics. PD has 18 Risk groups for Stage 1 and another 18 risk groups for Stage 2 facilities. LGD has 6 risk groups. EAD has 14 risk groups.

When estimating the ECLs, the Group considers the stages in which an asset is and also whether there has been a SICR. Each of the stages and the specific conditions of the assets 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.

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 Group 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.

3. Accounting policies (Continued)

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

The calculation of ECLs (Continued)

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 Group 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 Group 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 Group recognises the lifetime expected credit losses for these loans.
- **POCI:** POCI assets are financial assets that are credit impaired on initial recognition. The Group 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 Group 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, revolving facilities that include both a loan and an undrawn commitment and loans commitments, ECLs are calculated and presented together with the loans and advances.

Financial guarantee contracts - The Group'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 Group estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The ECLs related to financial guarantee contracts are recognised together with loans and advances.

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

3. Accounting policies (Continued)

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

The calculation of ECLs (Continued)
likelihood of default and the Group'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 explain, 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 retail products.

Incorporation of forward-looking information
The Group 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 Group 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 Group uses multiple scenarios to model the non-linear impact of assumptions about macroeconomic factors on ECL. The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group 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 Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

Macroeconomic model
The Group elected to develop a macro-economic model to predict the overall Group Non Performing Loans (NPL) rate and determined the correlation of the NPL rate to the overall provisions. The macro-economic model is used to predict the NPL rate, after which a forward-looking scalar is derived and applied to existing NPL ratio to estimate the forward-looking NPL ratio. The predicated relationships between the key macro-economic indicators, the NPL rates and the overall provisions on the portfolio of financial assets was based on analysing historical data over the past five years.

The Malawi Food Consumer Price Index (CPI) proved to be statistically significant in the macro-economic model. As such, the Group forecasted the future Food CPIs and calibrated NPL ratio accordingly which was incorporated in the calculation of the ECLs.

3. Accounting policies (Continued)

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

Sensitivity Analysis
In addition to the base case scenario, the Group uses 1 upside and 1 downside scenarios, with associated probability weightings. The probability weighting is such that the base scenario has the highest weighting, since it is the most likely outcome and the weighting of the upside and downside scenarios depend on the probability of the scenario.

Sensitivity Analysis (Continued)
The base case scenario was assumed at 95% confidence interval while the 1 upside and 1 downside scenarios were assumed at +2.5% and -2.5% above or below 95% confidence level respectively.

Low risk assets
In applying the IFRS 9 model, the Group identified the following as assets having a low credit risk:

- Government Securities;
- Interbank Placements; and
- Other trading and non-trading receivables.

The Group 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.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group'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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods.

4.1 Critical judgements in applying the Group'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 42 (c) below.

4. Critical accounting judgments and key sources of estimation uncertainty (Continued)

4.1 Critical judgements in applying the Group's accounting policies (Continued)

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 Group 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 Group 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 Group'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 Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

4.1.3 Models and assumptions used

The Group 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 Group 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 Group reviews its loan portfolios to assess impairment, at least, on a quarterly

4. Critical accounting judgments and key sources of estimation uncertainty (Continued)
4.1 Critical judgements in applying the Group's accounting policies (Continued)

4.2.2 Impairment losses on loans and advances (Continued)

basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group 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:
- Cash flows arising from repayment agreement are aggregated over yearly intervals and assumed to arise at the end of the period;
- 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;
- Unsupported guarantees are assumed to result in nil cash flows; and
- No cash flows are assumed to arise where there is no repayment agreement and no security and repayments are erratic or unpredictable.

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 Group 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.

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.

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.

4.2.6 Fair value measurement and valuation process

In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available, the Group uses valuation models to determine the fair value of its financial instruments. Refer to note 41 for more details on fair value measurement.

4. Critical accounting judgments and key sources of estimation uncertainty (Continued)

4.1 Critical judgements in applying the Group's accounting policies (Continued)

4.2.7 Determination of life of revolving credit facilities

The Group measures ECL considering the risk of default over the maximum contractual period. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

4.2.8 Determination of lease term

In estimating the lease term, the Group assumed a five-year lease period. This was based on the average lease contracts period and also in order to appropriately align it to the Group's strategic planning period and also to ensure best estimates as recommended by IFRSs.

4.2.9 Determination of Discount Factor for determining lease liability

The Group used the incremental borrowing rate as the discount factor. The choice was made because it was not practical to ascertain the interest implicit in the leases due to lack of information on the valuation of the assets being leased.

5. Cash and funds with Reserve Bank of Malawi

	GROUP		COMPANY	
	2019 K'm	2018 K'm	2019 K'm	2018 K'm
Cash	16 833	14 190	16 833	14 434
Balances with the Reserve Bank of Malawi	1 512	10 833	1 512	10 833
Total cash and funds with Reserve Bank of Malawi	18 345	25 023	18 345	25 267

The currency analysis of cash is in note 42f.

Balances held at Reserve Bank of Malawi which are denominated in Malawi Kwacha and United States Dollars are non-interest bearing and regulated as disclosed in note 42f and 42h.

6. Government of Malawi treasury bills and treasury notes

	Average interest rates 2019	Average interest rates 2018	GROUP 2019 K'm	GROUP 2018 K'm	COMPANY 2019 K'm	COMPANY 2018 K'm
Government of Malawi treasury bills	10.54%	13.11%	83 063	83 175	73 274	69 087
Government of Malawi treasury notes	10.30%	13.00%	50 227	13 236	50 227	13 236
Expected credit losses			(12)	(8)	(12)	(8)
			133 278	96 403	123 489	82 315
The bills and notes are due to mature as follows:						
Within three months			36 098	33 590	26 309	19 502
Between three months and one year			53 293	52 323	53 293	52 323
Over one year			43 887	10 490	43 887	10 490
			133 278	96 403	123 489	82 315

Government of Malawi treasury bills and treasury notes are denominated in Malawi Kwacha and are held to maturity.

7. Government of Malawi promissory notes

	Maturity date	GROUP AND COMPANY Carrying amount	Fair value	Fair value gain
Promissory notes		K'm	K'm	K'm
2019				
None	None	-	-	-
2018				
Acquired in 2018	See details below	1 441	1 441	-

During the year 2018, the Bank acquired three promissory notes from the market at a total cost of K1 382m. The cost of each note was K93m, K93m and K1 196m. The notes had a total nominal value of K1 525m and their maturity dates were 23 March 2019, 23 March 2019 and 4 April 2019, respectively. The carrying amount as at 31 December 2018 included accrued interest receivable amounting to K59m. Accrued interest amount to K84m has been recognised in the statement of comprehensive income as at 31 December 2019.

The fair value level has been disclosed under note

8. Equity investments

GROUP AND COMPANY	2018 K'm	Additions/ (disposals) K'm	Fair value adjustment K'm	2019 K'm	Cost K'm
Illovo Sugar (Malawi) plc 1 554 000 (2018: 1 300 000) Ordinary shares of K0.02 each at a market value of K153.00 (2018: K200.00) per share	260	51	(73)	238	343
NICO Holdings plc 17 760 550 (2018: 17 260 560) Ordinary shares of K0.20 each at a market value of K48.49 (2018: K43.00) per share	742	21	98	861	226
Malawi Property Investment Company plc 34 119 431 (2018: 29 442 280 Ordinary shares of K0.05each at a market value of K19.53 (2018: K13.20) per share	389	86	191	666	325
National Investment Trust plc 6 663 759 (2018: 6 478 259) Ordinary shares of K1.00 each at a market value of K80.00 (2018: K75.00) per share	486	14	33	533	160
NBS Bank Plc 23 434 753 (2018: 38 105 714) Ordinary shares of K0.50 each at a market value of K13.50 (2018: K10.00) per share	381	(147)	82	316	213
Standard Bank of Malawi plc 100 000 (2018: 100 000) Ordinary shares of K1.00 each at market value of K730.00 (2018: K670.00) per share	67	-	6	73	18
Sunbird Malawi plc 4 637 964 (2018: 4 637 964) Ordinary shares of K0.05 each at a market value of K118.00 (2018: K145.00) per share	673	-	(126)	547	241
Telekom Networks Malawi plc 33 350 194 (2018: 31 892 000) Ordinary shares of K0.04 each at a market value of K26.00 (2018: K28.00) per share	893	42	(67)	868	212
Total equity investment	3 891	67	144	4 102	1 738

The above investments are listed on the Malawi Stock Exchange and are carried at market value.

8. Equity investments (Continued)

Details of the Group's and Bank's equity investments in listed companies on the Malawi Stock Exchange and information about the fair value hierarchy are as follows:

GROUP AND COMPANY

	Level 1 K'm	Level 2 K'm	Level 3 K'm	Fair value 2019 K'm
Equity investments in listed companies	4 102	-	-	4 102

	Level 1 K'm	Level 2 K'm	Level 3 K'm	Fair value 2018 K'm
Equity investments in listed companies	3 891	-	-	3 891

9. Investment in associates

	GROUP		COMPANY	
	2019 K'm	2018 K'm	2019 K'm	2018 K'm
Purchase consideration	992	233	992	233
Additional consideration	-	759	-	759
Share of accumulated results	398	344	-	-
	1 390	1 336	992	992
Assets	7 725	7 030		
Liabilities	(4 930)	(4 350)		
Net assets	2 795	2 680		
Group's share of net assets of associates	1 314	1 260		
Total revenue	5 645	5 318		
Total profit for the year	116	483		

The Bank holds 47% (2018: 47%) of United General Insurance Company Limited's share capital. Its principal place of business and registered office is Michiru House, Victoria Avenue, Blantyre.

10. Investment in subsidiaries

	COMPANY 2019 K'm	COMPANY 2018 K'm
NBM Development Bank Limited	6 072	6 072
NBM Pensions Administration Limited	250	250
Stockbrokers Malawi Limited	98	98
NBM Bureau de Change Limited	7	7
NBM Capital Markets Limited	17	17
Total investment in subsidiaries	6 444	6 444

NBM, through National Bank Nominees Limited, holds 75% (2018:75%) stake in Stockbrokers Malawi Limited. The Bank also holds 100% (2018: 100%) stake in NBM Bureau de Change Limited, a 100% (2018: 100%) stake in NBM Capital Markets Limited, a 100% (2018: 100%) stake in NBM Pension Administration Limited and a 100% (2018: 100%) stake in NBM Development Bank. NBM Bureau de Change ceased operations in 2013. NBM Development Bank Limited was granted licence and commenced operations in May 2019.

11. Placements with other banks

	GROUP AND COMPANY 2019 K'm	GROUP AND COMPANY 2018 K'm
Balances due from other banks	17 828	22 902
Expected credit losses	(2)	(3)
Total placements with other banks	17 826	22 899

Placements with other banks are denominated in the following currencies:

	Average interest rates 2019	Average interest rates 2018	GROUP AND COMPANY 2019 K'm	GROUP AND COMPANY 2018 K'm
US Dollar denominated	0.50%	0.50%	11 067	13 827
GBP denominated	1.75%	1.75%	1 954	3 351
Euro denominated	0.50%	0.50%	4 426	4 775
ZAR denominated	4.00%	4.00%	370	918
Other	0%	0%	9	28
			17 826	22 899

Money market placements with other banks are held to maturity and mature within one month (2018: one month) of the year-end.

12. Loans and advances

	GROUP		COMPANY	
	2019 K'm	**2018 K'm**	**2019 K'm**	**2018 K'm**
Gross loans and advances	195 665	169 436	195 519	169 436
Staff loans	4 281	3 737	4 281	3 737
Total loans and advances	199 946	173 173	199 800	173 173
Impairment provisions	(11 622)	(6 552)	(11 622)	(6 552)
Net loans and advances	188 324	166 621	188 178	166 621
Due to mature as follows:				
Within three months	25 432	31 719	25 432	31 719
Between three months and one year	64 456	62 350	64 456	62 350
After one year and not later than five years	98 838	73 104	98 692	73 104
Interest in suspense	(402)	(552)	(402)	(552)
	188 324	166 621	188 178	166 621
Analysis of net loans by currency				
Malawi Kwacha denominated	122 904	106 545	122 758	106 545
US Dollar denominated	65 420	60 076	65 420	60 076
	188 324	166 621	188 178	166 621

The Malawi Kwacha average lending rate for the Bank's loans and advances as at 31 December 2019 was 21% (2018: 27%) per annum and US Dollar denominated loans carried an average interest rate of 8.30% (2018: 8.44%) per annum.

	GROUP & COMPANY	
	2019 K'm	**2018 K'm**
Movement on interest in suspense		
At beginning of the year	552	2 088
Applied against advances write-offs	-	(3 615)
Adjustment on adoption of IFRS9	-	(2 088)
Suspended in the year	229	4 181
Recovered	(379)	(14)
At end of the year	402	552
Analysis of recoveries		
Provisions	-	3
Interest in suspense	379	14
Debts previously written-off	1 034	609
Transferred to statement of comprehensive income	1 413	626

12. Loans and advances (Continued)

	GROUP AND COMPANY	
	2019 K'm	2018 K'm
Finance lease receivables		
Gross investment in finance lease receivable:		
Within three months	245	198
Between three months and one year	1 531	1 585
After one year and not later than five years	23 110	24 792
	24 886	26 575
Unearned future income on finance leases	(4 776)	(8 513)
	20 110	18 062
Impairment provision	(655)	(248)
Net investment in finance leases	19 455	17 814
The net investment in finance leases matures as follows:		
Within three months	239	198
Between three months and one year	1 411	1 585
After one year and not later than five years	17 805	16 031
	19 455	17 814

The finance leases mainly relate to motor vehicle leases. The residual value of the leases in all cases is guaranteed by the lessee and is fully secured. The lease income included in the statement of income did not include any contingent rents. The average term of the leases is 3 years (The maximum is 5 years and the minimum 1 year). The average effective interest rate for the reporting period ended 31 December 2019 was 21% (2018: 25%). All leases are in Malawi Kwacha.

12. Loans and advances (Continued)

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

	31 December 2018	31 December 2018	31 December 2019	31 December 2019
Days past due	**Gross carrying amount**	**Loss allowance**	**Gross carrying amount**	**Loss allowance**
	K'm	**K'm**	**K'm**	**K'm**
0-29 days	158 526	3 477	167 088	3 006
30-90 days	6 460	589	10 287	1 471
91-180 days	900	159	11 908	2 092
181-360 days	7 004	2 236	9 142	4 251
More than 360 days	283	91	1 521	802
Total	**173 173**	**6 552**	**199 946**	**11 622**

Restructured loans

In 2018, loans with a total carrying amounting of K5 466m were restructured (modified). Their total fair value after restructuring was K5 988m resulting into a net fair value gain of K522m which was recognised in the statement of comprehensive income. As at the reporting date, the loans were fair valued at K5 790m resulting in a fair value loss of K198m which has been recognised in the statement of comprehensive income.

12. Loans and advances (Continued)

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

At 31 December 2018

Loss allowance – Loans and advances to customers at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**IAS 39 Provision**	**Total**
	K'm	**K'm**	**K'm**	**K'm**	**K'm**
Loss allowance as at 31 December 2017	-	-	-	5 961	5 961
Reversal of IAS 39 Provision	-	-	-	(5 961)	(5 961)
Restatement of the prior year (from loans, advances and undrawn commitments) *(Reclassified)*	4 665	398	1 021	-	6 084
Restatement of the prior year (from off balance sheet assets)	874	-	-	-	874
Changes in the loss allowance					
– Transfer to stage 1	531	(31)	(500)	-	-
– Transfer to stage 2	(123)	130	(7)	-	-
– Transfer to stage 3 *(Reclassified)*	(186)	(10)	196	-	-
– Write-offs *(Reclassified)*	-	-	-	-	-
Recoveries *(Reclassified)*	-	-	-	-	-
– Charge to income statement *(Reclassified)*	(1 652)	452	1 439	-	239
Changes in loss allowance for off balance sheet assets	(645)	-	-	-	(645)
New financial assets originated or purchased	-	-	-	-	-
Financial assets that have been derecognised	-	-	-	-	-
Closing Balance	**3 464**	**939**	**2 149**	**-**	**6 552**

12. Loans and advances (Continued)

The reclassification was done to report correct balances for the stages in 2018. The reclassification did not result in any impact to the overall Expected Credit Losses position.

At 31 December 2019

Loss allowance – Loans and advances to customers at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	K'm	**K'm**	**K'm**	**K'm**
At 1 January 2019	3 464	939	2 149	6 552
Changes in the loss allowance				
– Transfer to stage 1	214	(189)	(25)	-
– Transfer to stage 2	(75)	531	(456)	-
– Transfer to stage 3	(173)	(656)	829	-
– Write-offs	-	-	-	-
Recoveries	-	-	-	-
– Charge to income statement	469	896	3 820	5 185
Changes in loss allowance for off balance sheet assets	(90)	(13)	(12)	(115)
New financial assets originated or purchased	-	-	-	-
Financial assets that have been derecognised	-	-	-	-
Closing Balance	**3 809**	**1 508**	**6 305**	**11 622**

The charge to the statement of comprehensive income of K5 825m includes loans and advances written down during the year amounting to K755m.

13. Other money market deposits

	GROUP		**COMPANY**	
	2019 K'm	**2018 K'm**	**2019 K'm**	**2018 K'm**
Money market investments with Reserve Bank of Malawi and other banks	32 999	40 317	18 499	26 429
Expected credit losses	(2)	(3)	(1)	(3)
	32 997	40 314	18 498	26 426

Money market investments with Reserve Bank of Malawi and other banks are held to maturity and mature within one month (2018: one month) after the year-end. The deposits earned an average interest rate of 10.00% (2018: 15.00%) per annum.

14. Other assets

	GROUP		COMPANY	
	2019 K'm	2018 K'm	2019 K'm	2018 K'm
Sundry receivables	726	682	344	169
Office accounts	601	1 273	601	1 273
Prepayments	1 363	737	1 084	626
Due from local banks	232	1 803	232	1 803
Employee benefit subsidy	755	1 992	755	1 992
Mastercard accounts	1 378	967	1 378	967
Bulk stock stationery	307	302	307	302
Other investments	89	89	89	89
Customs and excise tax receivable	-	1 957	-	1 957
Expected credit losses	(27)	(41)	-	-
Total other assets	**5 424**	**9 761**	**4 790**	**9 178**

Employee benefit subsidy
In accordance with IAS 19 Employee Benefits, the fair value adjustment to staff loans is recognised as an asset representing a future employee benefit which is expensed as and when the employees render their services to the Group.

NBM's separate Expected Credit Losses (ECLs) on other assets
The Bank assessed other assets to be in the category of low credit risk assets mainly based on their repayment period and the ability to repay by the counter parties. The assessed ECLs were insignificant and as such have not been reported in the financial statements.

15. Property and equipment

	Freehold land& buildings K'm	Leasehold land & buildings K'm	Motor vehicles K'm	Work in progress K'm	Total K'm
GROUP					
Cost or valuation					
At 1 January 2019	20 227	5 452	14 298	31	40 008
Additions	-	-	2 251	763	3 014
Transfer from work in progress	391	23	124	(538)	-
Disposals	-	-	(1 354)	-	(1 354)
Write-offs	-	-	(73)	-	(73)
Revaluation loss	(199)	-	-	-	(199)
Revaluation surplus	2 052	500	-	-	2 552
At 31 December 2019	22 471	5 975	15 246	256	43 948
At 1 January 2018	21 412	4 823	14 096	112	40 443
Additions	-	-	1 974	620	2 594
Transfer from work in progress	361	340	-	(701)	-
Disposals	(3 011)	(169)	(1 772)	-	(4 952)
Revaluation loss	(201)	-	-	-	(201)
Revaluation surplus	1 666	458	-	-	2 124
At 31 December 2018	20 227	5 452	14 298	31	40 008
GROUP					
Depreciation					
At 1 January 2019	-	640	9 985	3	10 628
Charge for the year	375	237	2 009	-	2 621
Elimination on revaluation	(375)	(118)	-	-	(493)
Elimination on disposal	-	-	(975)	-	(975)
Write-offs	-	-	(69)	-	(69)
At 31 December 2019	-	759	10 950	3	11 712
At 1 January 2018	-	530	8 940	3	9 473
Charge for the year	349	196	1 862	-	2 407
Elimination on revaluation	(349)	(86)	-	-	(435)
Elimination on disposal	-	-	(817)	-	(817)
At 31 December 2018	-	640	9 985	3	10 628
Carrying amount					
At 31 December 2019	22 471	5 216	4 296	253	32 236
At 31 December 2018	20 227	4 812	4 313	28	29 380

15. Property and equipment (Continued)

	Freehold land& buildings K'm	Leasehold land & buildings K'm	Motor vehicles K'm	Work in progress K'm	Total K'm
COMPANY					
Cost or valuation					
At 1 January 2019	20 227	5 690	15 210	32	41 159
Additions	-	-	2 227	763	2 990
Transfer from work in progress	391	23	124	(538)	-
Disposals	-	-	(1 352)	-	(1 352)
Write-offs	-	-	(73)	-	(73)
Revaluation loss	(199)	-	-	-	(199)
Revaluation surplus	2 052	500	-	-	2 552
At 31 December 2019	22 471	6 213	16 136	257	45 077
At January 2018	18 400	4 892	15 057	113	38 462
Additions	-	-	1 911	620	2 531
Transfer from work in progress	361	340	-	(701)	-
Disposals	-	-	(1 758)	-	(1 758)
Revaluation loss	(201)	-	-	-	(201)
Revaluation surplus	1 667	458	-	-	2 125
At 31 December 2018	20 227	5 690	15 210	32	41 159
COMPANY					
Depreciation					
At 1 January 2019	-	898	10 962	3	11 863
Charge for the year	375	237	1 985	-	2 597
Elimination on revaluation	(375)	(118)	-	-	(493)
Elimination on disposal	-	-	(975)	-	(975)
Write-offs	-	-	(69)	-	(69)
At 31 December 2019	-	1 017	11 903	3	12 923
At 1 January 2018	-	788	9 921	3	10 712
Charge for the year	349	196	1 844	-	2 389
Elimination on revaluation	(349)	(86)	-	-	(435)
Elimination on disposal	-	-	(803)	-	(803)
At 31 December 2018	-	898	10 962	3	11 863
Carrying amount					
At 31 December 2019	22 471	5 196	4 233	254	32 154
At 31 December 2018	20 227	4 792	4 248	29	29 296

15. Property and equipment (Continued)

GROUP
Land and buildings
Cost or valuation at end of the year (excluding capital work in progress) comprises the following:

			GROUP	
			2019 K'm	**2018 K'm**
Freehold	-	at 2019 valuation	22 471	-
	-	at 2018 valuation	-	20 227
Total freehold land and buildings			22 471	20 227
Leasehold	-	at 2019 valuation	5 975	-
	-	at 2018 valuation	-	5 452
Total leasehold land and buildings			5 975	5 452

Included in property and equipment are assets under operating leases with the following net book values:

2018	**Related parties K'm**	**Others K'm**	**Total K'm**
Motor vehicles	925	331	1 256

2019	**Related parties K'm**	**Others K'm**	**Total K'm**
Motor vehicles	422	81	503

Press Corporation plc, Press Properties Limited, Bottling and Brewing Group Limited, People Trading Centre Ltd , Presscane Limited, The Foods company Limited, Open Connect Limited and Malawi Telecommunications Limited are the related parties to whom the Bank leases motor vehicles which were purchased at a cost of K1 959m (2018: K3 115m).

15. **Property and equipment** (Continued)

The following useful lives were used in the calculation of depreciation:

Freehold buildings	-	useful economic lives as determined by professional valuers ranging from 25 to 50 years
Leasehold property	-	lower of period of lease and useful economic lives as determined by professional valuers ranging from 25 to 50 years
Equipment	-	4 - 10 years
Motor vehicles	-	3-8 years

The register of land and buildings is open for inspection at the registered offices of the Bank and its subsidiaries.

Valuations in 2019
Land and buildings for the Bank were fair valued as at 31 December 2019 by Don Whayo, BSc (Est. Man), Dip (Urb Man), BA, MRICS, MSIM of Knight Frank, qualified independent valuers on a current market value basis.

Out of the K3 045m (2018: K2 560m) the Group's gross revaluation surplus, K60m (2018: K51m) was credited to the statement of comprehensive income to reverse decreases in fair values previously charged to the statement of comprehensive income and the balance of K2 985m (2017: K2 509m) was credited to the revaluation reserve through the statement of other comprehensive income (refer note 33).

Details of land and buildings at fair value and information about the fair value hierarchy as at 31 December 2019 are as follows:

	Level 1 K'm	Level 2 K'm	Level 3 K'm	Fair value 2019 K'm
Freehold land and buildings	-	22 471	-	22 471
Leasehold land and buildings	-	5 975	-	5 975

Had land and buildings been carried at historical cost less depreciation and accumulated impairment losses, their carrying value would have been approximately K8 975m (2018: K8 454m).

16. Intangible assets

	Development costs K'm	Computer software K'm	Work in progress K'm	Total K'm
GROUP				
Cost or valuation				
At 1 January 2019	265	9 585	1 380	11 230
Additions	-	1 715	1 285	3 000
Transfer from work in progress	-	596	(596)	-
Write-offs	-	(294)	-	(294)
At 31 December 2019	265	11 602	2 069	13 936
At 1 January 2018	326	6 058	4 348	10 732
Additions	-	28	1 541	1 569
Transfer from work in progress	-	4 342	(4 342)	-
Impairment provision	-	(664)	-	(664)
Write-offs	(61)	(179)	(167)	(407)
At 31 December 2018	265	9 585	1 380	11 230
Depreciation				
At 1 January 2019	265	2 529	-	2 794
Charge for the year	-	1 066	-	1 066
Write-offs	-	(198)	-	(198)
At 31 December 2019	265	3 397	-	3 662
At 1 January 2018	326	1 914	167	2 407
Charge for the year	-	955	-	955
Impairment provision	-	(161)	-	(161)
Write-offs	(61)	(179)	(167)	(407)
At 31 December 2018	265	2 529	-	2 794
Carrying amounts				
31 December 2019	-	8 205	2 069	10 274
31 December 2018	-	7 056	1 380	8 436

16. Intangible assets (Continued)

	Devel-opment costs K'm	Com-puter software K'm	Work in progress K'm	Total K'm
COMPANY				
Cost or valuation				
At 1 January 2019	265	9 508	1 369	11 142
Additions	-	1 715	1 275	2 990
Transfer from work in progress	-	596	(596)	-
Write-offs	-	(294)	-	(294)
At 31 December 2019	265	11 525	2 048	13 838
At 1 January 2018	326	6 059	4 287	10 672
Additions	-	-	1 541	1 541
Transfer from work in progress	-	4 292	(4 292)	-
Impairment provision	-	(664)	-	(664)
Write-offs	(61)	(179)	(167)	(407)
At 31 December 2018	265	9 508	1 369	11 142
Depreciation				
At 1 January 2019	265	2 557	-	2 822
Charge for the year	-	1 054	-	1 054
Write-offs	-	(198)	-	(198)
At 31 December 2019	265	3 413	-	3 678
At 1 January 2018	326	1 953	167	2 446
Charge for the year	-	944	-	944
Impairment provision	-	(161)	-	(161)
Write-offs	(61)	(179)	(167)	(407)
At 31 December 2018	265	2 557	-	2 822
Carrying amounts				
31 December 2019	-	8 112	2 048	10 160
31 December 2018	-	6 951	1 369	8 320

The write off relates to computer software that were not being utilised by the Group due to operability limitations.

17. Right-of-use assets

GROUP AND COMPANY

	Buildings K'm
Cost or valuation	
At 1 January 2019	3 168
Lease liability adjustment	606
At 31 December 2019	3 774
Amortisation	
Charge for the year	634
At 31 December 2019	634
Carrying amounts	
31 December 2019	3 140

The Group enters into agreement with Property owners (Land lords) to occupy the whole building(s) or part of the building (area in square meters) to operate a service centre, an office, or install ATM (s). In such cases, there is an identified asset which is the building or the floor space. The assets are explicitly specified in the contracts. The lease terms range from 1 year to 5 years but most of them have options for extensions which have generally been exercised.

The Group adopted and applied IFRS 16 Leases to such contracts. As at 01 January 2019, the Right-of-use asset was determined based on the lease liability and adjusted for by the amount of prepaid rentals. The Lease liability was calculated to be K3 143m and the prepaid rentals amounted to K25m.

In accordance with IFRS 16, due to changes in the expected lease payments, the Group re-assessed the lease liability. The difference between the initial carrying amount and the re-assessed amount of K606m was adjusted against the Right-of-use assets (Refer to note 26).

18.1 Deferred tax asset

	Opening balance K'm	Charge to profit or loss K'm	Charged to equity K'm	Closing balance K'm
GROUP				
2019				
Accelerated capital allowances	(1 704)	(35)	-	(1 739)
Revaluation of land and buildings	7 564	42	(146)	7 460
Tax losses	1 231	-	-	1 231
Other temporary differences	775	134	-	909
Total deferred tax	7 866	141	(146)	7 861
2018				
Accelerated capital allowances	(1 591)	(113)	-	(1 704)
Revaluation of land and buildings	6 878	45	641	7 564
Expected credit losses	-	(235)	1 466	1 231
Other temporary differences	1 096	(321)	-	775
Total deferred tax	6 383	(624)	2 107	7 866
COMPANY				
2019				
Accelerated capital allowances	(284)	(24)	-	(308)
Revaluation of land and buildings	7 389	42	(146)	7 285
Tax losses	1 231	-	-	1 231
Other temporary differences	(509)	117	-	(392)
Total deferred tax	7 827	135	(146)	7 816
2018				
Accelerated capital allowances	(169)	(115)	-	(284)
Revaluation of land and buildings	6 703	45	641	7 389
Expected credit losses	-	(235)	1 466	1 231
Other temporary differences	(202)	(307)	-	(509)
Total deferred tax	6 332	(612)	2 107	7 827

18.2 Deferred tax liability

	Opening balance K'm	On Disposal K'm	Charge to profit or loss K'm	Charged to equity K'm	Closing balance K'm
GROUP					
2019					
Other temporary differences	9	-	(4)	-	5
Total deferred tax	9	-	(4)	-	5
2018					
Revaluation of land and buildings	589	(589)	-	-	-
Other temporary differences	237	(232)	4	-	9
Total deferred tax	826	(821)	4	-	9

19. Goodwill

	GROUP 2019 K'm	GROUP 2018 K'm
Balance at beginning of the year	3 959	3 959
Balance at end of the year	3 959	3 959

National Bank of Malawi plc (NBM) acquired Indebank Limited on 31 October 2015. The total purchase consideration was K6 616m and the goodwill arising on acquisition of K3 959m was recorded as at 31 December 2016. In 2018, the Group converted the Ex-Indebank to NBM Development Bank to undertake long term financing business. The Bank commenced operations in May 2019.

The goodwill balance was allocated to Wholesale Banking Division (WBD) as a cash-generating unit.

Annual test for impairment

The Group determined the recoverable amount of the Cash Generating Unit (WBD) to be K64bn based on the value in use model. The value in use was based on discounted future cash flows (using NBM's approved budgeted figures for 2020 and projections covering a 4 year period from 2021) discounted at a weighted average cost of capital of 12.95% (2018: 15.72%).

19. Goodwill (Continued)

All forecasts used in the determination of value in use are extracted directly from the Bank's 2020 budget that was presented to the Board of Directors and approved by them.

Cashflow projections during the budget period were based on the same expected gross margins and price inflation through the budget period. The cash flows beyond that five-year period have been extrapolated using an average of 10% per annum growth rate, which is the projected long-term average growth rate for Wholesale Banking Business. The directors believe that any reasonably possible change in the key assumption on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

The carrying amount of the CGUs was K4bn. As such, in accordance with IAS 36 Impairment of Assets, NBM determined that the goodwill was not impaired as at 31 December 2019.

20. Customer deposits

	Average interest rates		GROUP		COMPANY	
Analysis by account type:	2019	2018	2019 K'm	2018 K'm	2019 K'm	2018 K'm
Current accounts	0.10%	0.10%	117 282	101 357	117 790	101 918
Foreign currency accounts	0.50%	0.50%	64 019	66 737	64 019	66 737
Savings accounts	6.10%	6.10%	78 340	65 373	78 340	65 373
Deposit accounts	7.16%	7.16%	35 233	34 218	38 130	36 998
Client funds	10.00%	20.00%	23 596	26 840	-	-
Total customer deposits			318 470	294 525	298 279	271 026
Analysis by interest risk type:						
Interest bearing deposits			177 592	275 934	180 489	252 435
Non-interest bearing deposits			140 878	18 591	117 790	18 591
			318 470	294 525	298 279	271 026

20. Customer deposits (Continued)

All interest bearing accounts, excluding deposit accounts, are at floating rates that are adjusted at the Bank's discretion, refer to note 42e.

Analysis by interest maturity:

	GROUP		COMPANY	
	2019 K'm	**2018 K'm**	**2019 K'm**	**2018 K'm**
Customer deposits are payable as follows:				
• Within three months	315 042	292 969	294 851	269 470
• Between three months and one year	3 428	1 556	3 428	1 556
	318 470	294 525	298 279	271 026
Analysis by sector:				
Agriculture	9 750	10 620	9 750	10 620
Manufacturing	22 921	19 042	22 921	19 042
Wholesale and retail	37 783	30 750	37 783	30 750
Finance and insurance	18 884	11 224	21 781	14 004
Personal accounts	166 176	69 265	166 176	69 265
Construction	10 802	9 479	10 802	9 479
Electricity gas water and energy	12 628	4 839	12 628	4 839
Transport, storage and communications	8 073	7 621	8 073	7 621
Restaurants and hotels	3 177	2 829	3 177	2 829
Clients funds	24 018	26 840	-	-
Other	4 258	102 016	5 188	102 577
Total	318 470	294 525	298 279	271 026

The currency analysis of customer deposits is included in note 42f.

21. Amounts due to other banks

	GROUP & COMPANY	
	2019 K'm	**2018 K'm**
Liabilities in Malawi Kwacha	54	191
Liabilities in foreign currency	458	1 089
Bills in suspense in foreign currency	140	134
Total amounts due to other banks	652	1 414

22. Current income tax liabilities

	GROUP		COMPANY	
	2019 K'm	**2018 K'm**	**2019 K'm**	**2018 K'm**
Balance at beginning of the year	874	2 109	685	1 975
Current charge (note 34)	8 341	6 427	7 913	5 791
Tax paid	(5 714)	(7 662)	(5 241)	(7 081)
Balance at end of the year	3 501	874	3 357	685

23. Loans

The Group's loans comprise lines of credit as detailed below. The carrying amounts of the group loans as at 31 December were as follows:

	GROUP & COMPANY	
	2019 K'm	**2018 K'm**
Amounts repayable within one year	3 623	3 301
Amount repayable after one year	12 712	16 127
Total amounts due to other banks	16 335	19 428

23.1 Lines of credit

23.1.1 <u>Malawi Government (denominated in Deutschemark (DM)</u>
The loan is in two parts: Part 1 and Part 2. The two loans, which are unsecured, are for DM5.0m and DM6.6m, respectively. The amounts drawn against specific projects at the year-end are equivalent to DM4.78m and DM6.07m, respectively. Both loans are interest free. The loans are repayable to the Malawi Government in Malawi Kwacha starting in 2034 and 2043, respectively. The Malawi Kwacha value of the loan was set at the time of disbursement. The total carrying amount of the loan as at 31 December 2019 was K105m (2018: K105m).

23.1.2 <u>United States Agency for International Development (USAID)</u>
This is a two-part loan: The first loan, which is unsecured, is for USD1.2m and bears interest at 4% per annum. The Malawi Kwacha value of the loan was set at the time of disbursement. The loan is repayable to the Malawi Government in Malawi Kwacha over a period of 25 years commencing 30 June 1993. The carrying amount of the loan as at 31 December 2019 was K3m (2018: K3m). There is no agreement for the second loan. However, provision interest has been made at 4% per annum on the assumption that the terms of the first loan apply on the second loan. The carrying amount of the second loan as at 31 December 2019 was K9m (2018: K9m). The loan has not been repaid because the Malawi Government lost documentation relating to the loan and the Group is yet to renegotiate with the Malawi Government on a new repayment schedule.

23. Loans (Continued)
23.1 Lines of credit (Continued)

23.1.3 The Transport Sector Revolving Fund

The transport sector revolving fund loan bears interest at 3% per annum. The loan is repayable on such dates as the Government and the Bank shall mutually agree in writing. As at year-end an agreement had not yet been reached. The carrying amount of the loan as at 31 December 2019 was K67m (2018:K67m).

23.1.4 Private Sector Revolving Fund

The private sector revolving fund loan is effectively interest free. However, from 1 July 2004, the Group is obliged to pay an administrative fee pegged at 3% per annum on all sums advanced by Government. The loan is repayable on such a date as the Government and the Bank shall mutually agree in writing. As at reporting date, an agreement had not yet been reached. The carrying amount of the loan as at 31 December 2019 was K25m (2018: K25m).

23.1.5 European Investment Bank (EIB)

In 2016, the Bank signed an agreement for an unsecured line of credit for Euro 30 million joint facility with the European Investment Bank (EIB) to facilitate purchase, construction and extension of warehouses and agristorage assets. The Bank shall pay interest on the outstanding balance at the rate of either (i) 3.381 % in respect of those tranches deemed by the Bank to be in respect of HDI Investments or (ii) 3.471 % for all tranches in respect of Standard Investments. Both rates shall incur interest semi-annually in arrears. The loan is repayable semi-annually. As at 31 December 2019, the Bank drew down USD29.142m and made repayments amounting to USD7.07m. The carrying amount includes accrued interest amounting to USD0.10m which is repayable by 30 June 2020. The carrying amount of the loan as at 31 December 2019 was K16 129m (2018: K19 222m).

24. Provisions

	Employee bonus K'm	Tevet levy K'm	Other K'm	Total K'm
GROUP				
2018				
At 1 January 2018	2 366	70	691	3 127
Provisions made during the year	1 824	178	-	2 002
Transferred to other payables	-	-	(691)	(691)
Payments made during the year	(2 366)	(139)	-	(2 505)
At 31 December 2018	1 824	109	-	1 933
2019				
At 1 January 2019	1 824	109	-	1 933
Provisions made during the year	2 889	149	-	3 038
Payments made during the year	(1 824)	(193)	-	(2 017)
At 31 December 2019	2 889	65	-	2 954

24. Provisions (Continued)

COMPANY	Employee bonus K'm	Tevet levy K'm	Other K'm	Total K'm
2018				
At 1 January 2018	2 177	51	691	2 919
Provisions made during the year	1 651	172	-	1 823
Transferred to other payables	-	-	(691)	(691)
Payments made during the year	(2 177)	(139)	-	(2 316)
At 31 December 2018	1 651	84	-	1 735
2019				
At 1 January 2019	1 651	84	-	1 735
Provisions made during the year	2 681	143	-	2 824
Payments made during the year	(1 651)	(163)	-	(1 814)
At 31 December 2019	2 681	64	-	2 745

25. Other liabilities

	GROUP 2019 K'm	GROUP 2018 K'm	COMPANY 2019 K'm	COMPANY 2018 K'm
Unclaimed balances	876	712	876	712
Deferred income	535	905	535	905
Bank cheque	3 456	2 345	3 456	2 345
Office accounts	2 033	1 566	2 033	1 566
Trade and other payables	2 297	1 451	1 804	733
Other tax payables	1 248	1 173	1 248	1 173
Cash security	679	724	679	724
Cards and other products	1 209	1 020	1 209	1 020
Transfer from provisions	-	691	-	691
Sundry payables	495	146	706	453
Total other liabilities	12 828	10 733	12 546	10 322

26. Lease liability

GROUP AND COMPANY	K'm
At 1 January 2019	3 143
Interest charged	677
Lease repayments (principal and interest)	(875)
Lease liability adjustment	606
At 31 December 2019	3 551

26. Lease liability (Continued)

The lease liability relates to discounted future lease payments on contracts that meet the definition of a lease as provided for in IFRS 16 Leases (Refer to note 17). The interest on lease liability has been charged to Statement of Comprehensive income (Refer to note 32). Out of the K875m payments, K198m were towards settlement of the lease liability (principal) and K677m for payment of the interest on lease liability.

The maturity profiles for the lease payments are as follows:

GROUP AND COMPANY

	K'm
Year 1	1 108
Year 2	1 256
Year 3	1 425
Year 4	2 100
Total lease payments	5 889

The currency analysis of other liabilities is included in note 42(f).

27. Post balance sheet events

27.1 Potential acquisition

Subsequent to the reporting period, NBM Group is finalising the acquisition formalities of Akiba Commercial Bank of Tanzania. As at the reporting date, the process of securing regulatory approvals both locally and internationally was underway to conclude the transaction. The Board and Management continue to work tirelessly to ensure a successful completion of the transaction within the first half of 2020.

27.2 Court Ruling on May 2019 Presidential Election

As reported on note 42 b) i), after year end, the Constitutional Court delivered its ruling on 3rd March 2020 which nullified the May 2019 Presidential Election and called for a fresh election. The ruling is expected to dampen the demonstrations and tensions that were being held to demand the nullification of the election results. The run-up and aftermath of the fresh elections may have an impact of the Malawi economy in general and ultimately affecting the Bank's business.

27.3 COVID-19

On 11th March 2020, the World Health Organisation (WHO) classified COVID-19 as a pandemic and called on every sector and individual to be involved in fighting against the disease. NBM plc knows that at the core of its business are the customers that have built the Bank, the employees, other stakeholders that hold it together and the broader communities that the Bank serves.

27. Post balance sheet events (Continued)

27.3 COVID-19 (Continued)

In this regard, a response team was set up in the Bank to ensure preparedness and implement safety measures to contain the spread of the COVID-19. Staff are being provided with relevant information and Personal Protection Equipment (PPE) to help ensure safety as they carry out their day to day duties. Internal and external physical large meetings have been replaced with virtual meetings. Travel to high risk destinations has been suspended. Staff returning from high risk destinations are adopting a 14-day self-quarantine. To ensure safety through reduced exposures, customers are encouraged to leverage on digital self-service platforms. All customers and staff are now being requested to wash their hands before entering Service Centres or Head Office premises. The Bank has also implemented social distancing when managing its queues across the country to protect our customers.

Further, the Bank's Business Continuity plan was invoked. Some operations will be scaled down as some staff work from home. We anticipate reduced business activity which may lead to inability of our borrowing customers to service loans. The Bank will engage with those customers on a one-to-one basis and work out modalities on how they can be provided with relief to ensure that their operations are not hampered. Through different associations such as the Bankers Association of Malawi and ECAM dialogue is underway with relevant Government institutions so as to minimise the impact of COVID -19, especially in the event that it becomes necessary to have a complete lockdown.

The Bank will continue to review the fast-changing situation and implement stringent procedures in line with the Ministry of Health and World Health Organization guidelines to ensure that the health and safety of all our key stakeholders is not compromised. The financial impact of COVD-19 has not yet been assessed as at the time of reporting this was considered insignificant.

28. Pension scheme

The Pension Fund, which was managed internally up to 31 December 2014, is a fully defined contribution scheme. The contributions of employees and the employer are 5.5% (2018: 5.5%) and 11% (2018: 11.0%) of the fund members' basic pensionable salaries, respectively. The amount charged against income during the year was K1 088m (2018: K1 088m).

Until 30 June 2014, the Pension Fund operated two accounts: the General Fund and the Death in Service Top Up Fund (Special Fund). The Special Fund was set up at the discretion of the employer to cater for benefit enhancement factors which were removed in compliance with the Pensions Act, 2010. The Special Fund covered two aspects: on death if the accumulated credit was less than 2 years' salary or on retirement if the pension was less than 20% of the exit salary. The Pensions Act, 2010, advocates for a minimum of one times annual salary group life assurance cover for each member. Since July 2012, pursuant to the Act, the Bank has been subscribing for Group Life Assurance Cover for its employees at two times annual salary. The removal of the benefit enhancement factors and the subscription for group life assurance cover rendered the Special Fund redundant, thereby necessitating, among other reasons, the changing of the Fund rules. The new Fund rules were approved by the Reserve Bank of Malawi in 2016. The General Fund represents a reserve from which all other benefits are paid including administration expenses and bonuses.

28. Pension scheme (Continued)

The Pension Fund is a self-accounting Trust whose assets are not available to the National Bank of Malawi Group. The Trustees of the Fund are employees of the Bank. The Bank rents some of the Fund's properties at commercial rates. The Group incurred K384m (2018: K340m) in rentals for such properties during the year.

The Fund was valued by independent actuaries, Alexander Forbes, as at 31 December 2018. As per the actuarial valuation, the General Fund had a surplus of K1 494m (December 2017: surplus of K2 164m) and the Special Fund had a surplus of K942m (December 2017: surplus of K805m). According to the report, the special Fund had no liabilities as at 31 December 2018.

	GROUP		COMPANY	
	2019 K'm	2018 K'm	2019 K'm	2018 K'm
29. Net interest income				
Interest and similar income				
Interest on loans and advances and bills discounted	27 800	24 307	27 797	24 307
Income from investments	14 360	15 255	14 354	15 255
Income from lease financing	3 714	3 614	3 714	3 614
Interest on placements with other banks	1 157	806	498	331
Arrangement and other fee income	3 873	3 097	3871	3 097
	50 904	47 079	50 234	46 604
Interest expense and similar charges				
Banks and customers	4 928	6 075	4 953	6 095
Money market loans and repos	279	240	279	240
	5 207	6 315	5 232	6 335
Net interest income	45 697	40 764	45 002	40 269
30. Commission and fee income				
Commissions	17 122	13 029	15 306	11 547
Other income	1 276	1 101	1 261	858
Total commission and fee income	18 398	14 130	16 567	12 405
31. Staff costs				
Salaries and wages	10 612	9 964	10 237	9 671
Other staff costs	4 267	4 319	4 050	4 156
Staff loans fair value adjustment	19	42	19	42
Staff bonus	3 001	1 824	2 793	1 651
Severance pay	812	-	812	-
Pension costs	1 145	1 082	1 108	1 052
Total staff costs	19 856	17 231	19 019	16 572

32. Other operating expenditure

	GROUP 2019 K'm	GROUP 2018 K'm	COMPANY 2019 K'm	COMPANY 2018 K'm
Recurrent expenditure on premises and equipment	5 956	6 097	5 799	5 990
Depreciation	2 621	2 407	2 597	2 389
Amortisation of intangible assets	1 066	955	1 054	944
Amortisation of Right-of-use assets	634	-	634	-
Interest expense on lease liability	677	-	677	-
Impairment of intangible assets	96	503	96	503
Write off of plant and equipment	4	-	4	-
Legal charges	241	179	238	177
Communication	1 441	1 385	1 426	1 371
Travel, Hotel and meals	818	837	795	824
Office expenses	1 084	1 160	1 062	1 124
Security	990	896	962	884
Professional fees	1 108	932	1 073	904
Card expenses	1 181	1 659	1 181	1 659
Foreign bank loan charges	-	36	-	36
Agent bank charges	105	98	105	100
Reserve Bank of Malawi Supervisory fees and inspection charges	130	74	127	71
Customer cash collection expenses	42	49	42	49
Write off of system balances	(229)	1 052	(174)	1 052
SMS Banking expenses	567	504	567	504
Auditor's remuneration including VAT and expenses	241	234	205	200
Directors' remuneration				
- fees for services as directors	107	73	83	64
- for managerial services	720	316	604	316
Board expenses	179	139	177	137
Other expenses	845	1 217	662	800
Total other operating expenses	20 624	20 802	19 996	20 098

33. Properties fair value gains and losses

	GROUP AND COMPANY 2019 K'm	GROUP AND COMPANY 2018 K'm
Fair value gains on properties through income statement	60	51
Fair value loss on properties through income statement	(199)	(201)
Net fair value loss through income statement	(139)	(150)
Fair value gains on properties included in other comprehensive income	2 985	2 509
Total properties fair value gains	2 846	2 359

34. Income tax expense

	GROUP		COMPANY	
	2019 K'm	**2018 K'm**	**2019 K'm**	**2018 K'm**
Income tax (note 22)	8 341	6 427	7 913	5 791
Deferred tax (note 18)	(145)	624	(135)	612
Total income tax expenses	8 196	7 051	7 778	6 403
Profit before tax	25 351	23 016	24 600	21 709
Reconciliation of rate of tax	%	%	%	%
Standard rate of taxation	30	30	30	30
Permanent differences	2	1	2	-
Effective rate of taxation	32	31	32	30

35. Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of Ordinary Shares in issue during the year.

	GROUP	
	2019	**2018**
Profit attributable to equity holders of the Company (K'm)	17 106	15 881
Net profit used to determine diluted earnings per share (K'm)	17 106	15 881
Weighted average number of Ordinary Shares in issue (millions)	467	467
Weighted average number of Ordinary Shares for diluted earnings per share (millions)	467	467
Basic earnings per share (expressed in K per share)	36.63	34.01

Diluted earnings per share
Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary Shares outstanding to assume conversion of all dilutive potential ordinary shares. The Bank has outstanding share options which are dilutive potential ordinary shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

35. Earnings per share (Continued)

	GROUP 2019	GROUP 2018
Profit attributable to equity holders of the Company (K'm)	17 106	15 881
Net profit used to determine diluted earnings per share (K'm)	17 106	15 881
Weighted average number of Ordinary Shares in issue	467	467
Weighted average number of Ordinary Shares for diluted earnings per share (millions)	467	467
Diluted earnings per share (expressed in K per share)	36.63	34.01

36. Dividend per share

	GROUP AND COMPANY 2019 K'm	GROUP AND COMPANY 2018 K'm
Final dividend (prior year)	5 001	5 697
First interim dividend (current year)	2 498	2 498
	7 499	8 195
Weighted average number of Ordinary Shares in issue (millions)	467	467
Dividend per share	16.06	17.55

The proposed current year final dividend is K4 300m (2018: K3 500m) representing K9.64 per share

(2018: K7 per share). A second interim dividend of K1 500m (2018: K1 500m) will be paid on 30 March 2020.

37. Contingencies

	GROUP		COMPANY	
	2019 K'm	**2018 K'm**	**2019 K'm**	**2018 K'm**
Letters of credit and guarantees				
Foreign guarantees	1 609	1 237	1 609	1 237
Local guarantees and performance bonds	4 157	5 842	4 157	5 842
Letters of credit	16 784	28 720	16 784	28 720
Total letters of credit and guarantees	22 550	35 799	22 550	35 799
Other contingencies				
Legal claims	1 714	1 247	1 714	1 245
Tax and penalties	-	783	-	783
Customer funds under management	77 920	54 605	-	-
Total other contingencies	79 634	56 635	1 714	2 028

Letters of credit (LCs) relate to standby LCs issued on behalf of selected customers. By issuing these LCs, the Bank is guaranteeing payment to the third party in the event that the customer defaults on their contractual obligations on the transaction. These are non-cash upfront LCs and are therefore memoranda items only.

Guarantees and performance bonds represent acceptances, guarantees, indemnities and credits which will crystallise into an asset and a liability only in the event of default on the part of the relevant counterparty.

Legal claims represent outstanding legal cases against the Group in the ordinary course of business, the outcome of which is uncertain. The amount disclosed represents an estimate of the cost to the Group in the event that legal proceedings find the Group to be in the wrong. In the opinion of the Directors, the claims are not expected to give rise to a cost to the Group. Legal claims in favour of the Group as at the end of the year were K4 431m (2018: K5 255m).

Customer funds under management are those funds where the Group transacts in an agency capacity (typically in respect of pension funds) and earns an agreed management fee based on a percentage of the fund value or where the group earns a commission on the income earned by the customer (typically high net worth individuals). These funds are managed separately from the Group's own funds.

38. Commitments

	GROUP AND COMPANY 2019 K'm	GROUP AND COMPANY 2018 K'm
Expenditure contracted for but not yet incurred	1 013	654
Expenditure approved by the Board but not contracted	945	4 019
Total commitments	1 958	4 673

These commitments are to be funded from internal resources.

39. Cash and cash equivalents

	GROUP 2019 K'm	GROUP 2018 K'm	COMPANY 2019 K'm	COMPANY 2018 K'm
Cash and funds with Reserve Bank of Malawi (note 5)	18 345	25 023	18 345	25 267
Placements with other banks (note 11)	17 826	22 899	17 826	22 899
Other money market deposits (note 13)	32 997	40 314	18 498	26 426
Amounts due to other banks (note 21)	(652)	(1 414)	(652)	(1 414)
Total cash and cash equivalents	68 516	86 822	54 017	73 178

40. Financial assets and liabilities

Accounting categories and fair values

GROUP	Notes	Fair value through profit or loss K'm	Fair value through other comprehensive income K'm	Amortised cost K'm	Total carrying amount K'm	Total Fair value K'm
2018						
Assets						
Cash and bank balances with Reserve Bank of Malawi	5	25 023	-	-	25 023	25 023
Government of Malawi treasury bills and treasury notes	6	-	-	96 403	96 403	96 403
Government of Malawi promissory notes	7	-	-	1 441	1 441	1 441
Equity investments	8	3 891	-	-	3 891	3 891
Placements with other banks	11	-	-	22 899	22 899	22 899
Loans and advances to customers	12	-	-	166 621	166 621	166 621
Other money market deposits	13	-	-	40 314	40 314	40 314
Other assets		-	-	2 782	2 782	2 782
Total financial assets		28 914	-	330 460	359 374	359 374
Liabilities and equity						
Customer deposits	20	-	-	294 525	294 525	294 525
Amounts due to other banks	21	-	-	1 414	1 414	1 414
Loans	23	-	-	19 428	19 428	19 428
Provisions	24	-	-	1 933	1 933	1 933
Other liabilities		-	-	1 526	1 526	1 526
Total financial liabilities		-	-	318 826	318 826	318 826

40. Financial assets and liabilities (Continued)

Accounting categories and fair values (Continued)

GROUP	Notes	Fair value through profit or loss K'm	Fair value through other comprehensive income K'm	Amortised cost K'm	Total carrying amount K'm	Total Fair value K'm
2019						
Assets						
Cash and bank balances with Reserve Bank of Malawi	5	18 345	-	-	18 345	18 345
Government of Malawi treasury bills and treasury notes	6	-	-	133 278	133 278	133 278
Equity investments	8	4 102	-	-	4 102	4 102
Placements with other banks	11	-	-	17 826	17 826	17 826
Loans and advances to customers	12	-	-	188 324	188 324	188 324
Other money market deposits	13	-	-	32 997	32 997	32 997
Other assets		-	-	1 506	1 506	1 506
Total financial assets		22 447	-	373 931	396 378	396 378
Liabilities and equity						
Customer deposits	20	-	-	318 470	318 470	318 470
Amounts due to other banks	21	-	-	652	652	652
Loans	23	-	-	16 335	16 335	16 335
Provisions	24	-	-	2 954	2 954	2 954
Other liabilities		-	-	1 617	1 617	1 617
Total financial liabilities		-	-	340 028	340 028	340 028

40. Financial assets and liabilities (Continued)

Accounting categories and fair values (Continued)

COMPANY	**Notes**	**Fair value through profit or loss K'm**	**Fair value through other comprehensive income K'm**	**Amortised cost K'm**	**Total carrying amount K'm**	**Total Fair value K'm**
2018						
Assets						
Cash and bank balances with Reserve Bank of Malawi	5	25 267	-	-	25 267	25 267
Government of Malawi treasury bills and treasury notes	6	-	-	82 315	82 315	82 315
Government of Malawi Promissory notes	7	-	-	1 441	1 441	1 441
Equity investments	8	3 891	-	-	3 891	3 891
Placements with other banks	11	-	-	22 899	22 899	22 899
Loans and advances to customers	12	-	-	166 621	166 621	166 621
Other money market deposits	13	-	-	26 426	26 426	26 426
Other assets		-	-	2 151	2 151	2 151
Total financial assets		29 158	-	301 853	331 011	331 011
Liabilities and equity						
Customer deposits	20	-	-	271 026	271 026	271 026
Amounts due to other banks	21	-	-	1 414	1 414	1 414
Loans	23	-	-	19 428	19 428	19 428
Provisions	24	-	-	1 735	1 735	1 735
Other liabilities		-	-	959	959	959
Total financial liabilities		-	-	294 562	294 562	294 562

40. Financial assets and liabilities (Continued)
Accounting categories and fair values (Continued)

COMPANY	Notes	Fair value through profit or loss K'm	Fair value through other comprehensive income K'm	Amortised cost K'm	Total carrying amount K'm	Total Fair value K'm
2019						
Assets						
Cash and bank balances with Reserve Bank of Malawi	5	18 345	-	-	18 345	18 345
Government of Malawi treasury bills and treasury notes	6	-	-	123 489	123 489	123 489
Equity investments	8	4 102	-	-	4 102	4 102
Placements with other banks	11	-	-	17 826	17 826	17 826
Loans and advances to customers	12	-	-	188 178	188 178	188 178
Other money market deposits	13	-	-	18 498	18 498	18 498
Other assets		-	-	594	594	594
Total financial assets		22 447	-	348 585	371 032	371 032
Liabilities and equity						
Customer deposits	20	-	-	298 279	298 279	298 279
Amounts due to other banks	21	-	-	652	652	652
Loans	23	-	-	16 335	16 335	16 335
Provisions	24	-	-	2 745	2 745	2 745
Other liabilities		-	-	1 051	1 051	1 051
Total financial liabilities		-	-	319 062	319 062	319 062

41. Fair value measurements

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

41.1 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.

41.2 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 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).

	GROUP & COMPANY	
	2019 K'm	2018 K'm
Financial assets at fair value through profit or loss		
Non-derivative financial assets held for trading		
Level 1	4 102	3 891

41. Fair value measurements (Continued)

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

Some of the Group's financial assets and liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

GROUP

Financial assets/financial liabilities	Fair value 2019 K'm	Fair value 2018 K'm	Fair value hierarchy	Valuation technique(s) and key input(s)
Equity investments	4 102	3 891	Level 1	Quoted prices
Malawi Government Promissory notes	-	1 441	Level 2	Discounted cash flows using applicable interest rates and agreed repayment plan agreed
	4 102	5 332		

41.4 Fair value of 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 consolidated financial statements approximate their fair values.

42. Financial risk management

a. Introduction and overview

The Group's use of financial instruments is pronounced in the day to day activities of the Bank. The use of financial instruments is a major feature of the Bank's operations. It has been the Bank's policy to take deposits from customers at variable rates mostly by investing these funds in a wide range of assets.

The Bank also seeks to raise its interest margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. The Bank's exposures are not restricted to just on-balance sheet loans and advances but, also, to guarantees and other commitments such as letters of credit, performance and other bonds.

This section details the risk governance structure and the overall process the Group has adopted to identify, measure, monitor and control these risks.

42. Financial risk management (Continued)

a. Introduction and overview (Continued)

Risk management framework

The Group's approach to risk management is based on a well-established governance process and relies both on individual responsibility and collective oversight, supported by comprehensive reporting. This approach balances stringent corporate oversight with independent risk management structures within the business units.

The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board develops the risk appetite, risk tolerance limits appropriate to the Group's strategy, and requires that management maintain an appropriate system of internal controls to ensure that these risks are managed within the agreed parameters. The Board delegates risk related responsibilities to five Board committees namely; the Risk Committee, the Credit Committee, the Audit Committee, the Appointments, Remuneration and Governance Committee, and the Related Parties Committee. The Board Committees comprise of a non-executive membership only and they report regularly to the Board on their activities.

The Board Risk Committee has responsibility for the risk management in the Group as delegated by the Board. Its main responsibility is to have the overall oversight in the credit, market, liquidity and operational risks management as well as any other risks that the Group may be exposed to in its course of business. It is also responsible for reviewing management performance in implementing the Group's strategic plan and ensures that the Group's activities are consistent with the policies agreed by the Group's Board and Directives of the RBM and other regulatory requirements.

The Board Audit Committee is responsible for conducting an independent check to ensure compliance with the Group's risk management policies, procedures and controls, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Board Audit Committees are assisted in these functions by an Internal Audit Division which undertakes both regular and ad-hoc reviews of risk management controls and procedures whose results are reported directly to Board Audit Committee.

The Board Credit Committee is responsible for oversight of the Group's overall credit risk management issues. The committee is responsible for reviewing and approving the Group's credit policies including provisioning, large loan exposures, counter-party lending and dealing lines.

The Appointments, Remuneration and Governance Committee is responsible for nominations and vetting of director appointments, good governance practices, ensuring that the Group has a robust succession plan, that the Group's human resources are best utilised, and that members of staff are remunerated commensurately with their responsibilities and effectiveness.

42. Financial risk management (Continued)

a. Introduction and overview (Continued)

Risk management framework (Continued)

At management level, there is the Enterprise Risk Committee (ERCO), which provides a holistic oversight of the risks affecting the Group and the control measures that should be put in place to mitigate the risks and thereby reduce the potential losses. In addition, the other management Committees such as the Asset and Liability Committee (ALCO), Credit Committee and IT Policy Committee (ITPC) are all responsible for developing and monitoring the Group's risk management policies in their specified areas.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor and adhere to those policies and controls. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group strives to maintain a disciplined and constructive control environment, in which all employees understand their roles and obligations.

b. Current and Emerging Risks

The Group identifies Current and Emerging risks, determines the appropriate response, and monitors the effectiveness of the implemented response. The following are the existing Current and Emerging risks to the Group's strategic ambitions and the mitigations that the have been undertaken;-

i. **Country and Political Risk** – the political risk remained extremely high in 2019 due to the political impasse (characterised by demonstrations) that followed the May 2019 Presidential Election where the Opposition disputed results in the Constitutional Court. The Constitutional Court delivered its ruling on 3rd February 2020 which nullified the election results and called for a fresh election. The ruling is expected to dampen the demonstrations and tensions that were being held to demand the nullification of the results of the election; hence, the risk may be downgraded to just high. That notwithstanding, the run-up to the fresh Presidential Election and its aftermath are still expected to attract tension in 2020.

   The Bank remains neutral and independent of political influence and still introducing new products and services to spur more business. The Bank is perceived as politically neutral by the general populous. The impact of the political and economic short-term instability will be on long-term borrowing. The Bank expects to compensate that business with other products and service as it has done in 2019.

ii. **Economic and Business Environment Risk – the economic and Business risk remains Extremely High**

   This is based on the background that major players in the industry will still need stable macroeconomic and political environment for major long-term decisions. Secondly because a change in government might change the economic policy. Business is therefore expected to be characterised by a subdued environment with short-term borrowing than long-term financing – just like the previous year. However, it should be noted that the macroeconomic indicators have remained stable in 2019 even with the elections and the impasse that followed.

42. Financial risk management (Continued)

b. Current and Emerging Risks (Continued)

Economic and Business Environment Risk – the economic and Business risk remains Extremely High (Continued)
Thirdly, in 2019 the Reserve Bank made a resolution at its 2nd Monetary Policy Committee meeting dictating a new formula for computing the base lending rate applicable on credit facilities as the weighted average of the Lombard rate, the Interbank rate, all average Treasury bill rate, and the Savings rate. This significantly lowered applicable lending rates going forward.

iii. **Technology and the cyber risk** – The Digital Challenge has brought with it disruptive business models and "born digital" competitors. These are mainly due to innovations triggered by emerging technologies which will have influenced shifts in customer preferences and demographics. This has also brought Cyber Security threat as a leading challenge in the year as the Group and the industry embrace digitalization. The Bank initiated eighteen projects in 2019. As of 31st December 2019, twelve projects had been completed successfully which included: Direct Debits, RBM CFERS, Data Store DSX, GIEOM, new Budgeting and Reporting System, Customer Contact Centre System, ESCROW Dividend Reconciliation System, Office 365 Email System and Modefin Digital Bank Service- Mo626 Digital Plus and Banknet 360. Six Projects have been carried over to 2020.

There has been continuous risk and security assessment and improvements. Cyber-crime prevention and awareness training for members of staff. Network segmentation has been done. Continuous investment in technology platforms, processes and controls including monitoring, enhancements, and prioritisation of key issue.

c. Credit risk

Credit risk arises when customers or counterparties are not able to fulfil their contractual obligations. The Group has a 'three lines of defence' risk management and internal controls structure in mitigation risk exposures namely: Business Units, Risk Division and Internal Audit.

The first line is made up of the Business Units who assess, evaluate, measure and control risk exposures through the day-to- day activities of the business within the framework set by the second line of defence. The second line is made up of Risk Division and is responsible for providing an independent oversight of the first line of defence. The third line is Internal Audit which provides the assurance and independent checks. In addition to these three lines, External Audit provide an independent confirmation of the Bank's financial reporting.

Credit risk is the likelihood of financial loss to the Group if customers or counterparties to financial instruments fail to meet their contractual obligations, and arises principally from the Group's loans and advances to customers. Basel II under credit risk does provide two approaches in calculating required capital. These are; the Standardised Approach and the Internal Ratings Based (IRB) approaches. The approaches are more aligned or biased towards the robustness of the internal risk management systems of the banks. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

42. Financial risk management (Continued)

c. Credit risk (Continued)

Management of credit risk
The Board has the responsibility for approving and periodically reviewing the credit risk strategy and significant credit risk policies or departures there from of the Group as well as sanctioning facilities beyond management's delegated limits. The Board of Directors has delegated this responsibility to its Board Credit Committee.

Additionally, there is a Management Credit Committee which is comprised of selected members of senior management. The Management Credit Committee has the responsibility of implementing the credit risk strategy approved by the Board and for formulating and developing policies and procedures for identifying, measuring, monitoring and controlling credit risk in existing as well as new products, activities and procedures in order to ascertain quality of the Bank's credit portfolio. The committee is also responsible for establishing the authorisation structure for the approval and renewal of credit facilities.

It also oversees development, maintenance and review of the Group's risk grading in order to categorise exposures according to the degree of risk of potential financial loss and focus management on the attendant risk. The risk grading system helps in determining where impairment provisions may be required against specific credit exposures. The current risk-grading framework consists of 10 grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. Risk grades are subject to regular reviews.

The committee also reviews credit concentrations vis-à-vis the Bank's capital be they in the form of single borrowers or counter parties, a group of connected counter parties, sectors and products to ensure aggregate credit commitments to arrest widespread losses that can arise out of close linkages and correlated factors.

A separate Credit Management Division reporting to the Chief Executive and the Board Credit Committee is responsible for oversight of the Group's overall credit risk management issues including:

i. To regularly review, formulate and approve Credit Policy documents and consider policy changes, making appropriate recommendations to the Board;
ii. To develop policies and procedures for identifying, measuring, monitoring and controlling credit risk;
iii. To establish overall credit limits at the level of individual borrowers and counterparties, and groups of connected counterparties that aggregate in a comparable and meaningful manner different types of exposures, both in the banking and trading book and on and off the balance sheet;
iv. To identify and manage credit risk inherent in all products and activities;

42. Financial risk management (Continued)

c. Credit risk (Continued)

Management of credit risk (Continued)

v. To ensure that the credit-granting function is being properly managed and that credit exposures are within levels consistent with prudential standards and internal limits; and

vi. To ensure that credit policies are communicated throughout the organisation, and are implemented through appropriate procedures, monitored and periodically revised to take into account changing internal and external circumstances.

All Business Units have an obligation to implement the Bank's credit policies and procedures, within delegated credit approval authorities in line with the Group's Schedule of Authorities. Each Business Unit is headed by a member of Senior Management who is accountable for all credit related matters and reports as appropriate to Credit Management Division. Regular audits of business units and credit processes are undertaken by the Internal Audit Division.

Significant increase in credit risk

The Group 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 Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In determining whether there has been a SICR, The Group considers the following loss events:

a. Significant financial difficulty of the issuer or obligor;

b. A breach of contract, such as a default or delinquency in interest or principal payments;

c. The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

d. It becoming probable that the borrower will enter bankruptcy or other financial reorganization;

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

f. The purchase or origination of a financial asset at a deep discount that reflects incurred credit losses; and

g. Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:

    i. adverse changes in the payment status of borrowers in the Bank; and

    ii. national or local economic conditions that correlate with defaults on the assets in the Bank.

42. Financial risk management (Continued)

c. Credit risk (Continued)

Internal credit risk ratings

In order to minimise credit risk, the Group has tasked its Credit Management Committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group'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 Group'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, changes in the financial sector the customer operates etc.

The Group's principal financial assets are cash and balances with banks, treasury bills and loans and advances. The Group'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 Group's exposure as at 31 December 2019 was at K199 946m (2018: K173 173m) with Non-Performing Loans (NPL) standing at 9.9% (2018: 4.07%). With default rate increasing from the previous reporting period, the Group's will enhance its recoveries efforts and credit risk management to ensure the ratio goes down.

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.

42. Financial risk management (Continued)

c. Credit risk (Continued)

Extent of utilization of granted limit
The Bank closed 2019 with utilised overdrafts of K47 896m (2018: K48 426m) against limits of K66 146m (2018: K59 401m) representing 72.41% (2018: 81.52%) of the total limits. The decrease in limits utilisation is as a result of liquidity improvement in the market after the Reserve Bank of Malawi changed, during the year, the liquidity reserve requirement for banks and also the policy rate.

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 single digit inflation rate. The inflation rate is expected to decline in 2020 due to recent reduction in fuel price which are a cost driver for many commodities.

Credit rating information supplied by external rating agencies;
The Group 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 sector
The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the year-end date is shown below:

Loans and advances to customers

	GROUP		COMPANY	
	2019 K'm	**2018 K'm**	**2019 K'm**	**2018 K'm**
Concentration by sector				
Agriculture	36 202	28 957	36 202	28 957
Finance and insurance	7 718	4 850	7 718	4 850
Manufacturing	20 573	28 581	20 573	28 581
Other	13 568	23 555	13 568	23 555
Transport and communication	11 236	5 005	11 236	5 005
Real estate	4 829	1 662	4 829	1 662
Personal	31 762	26 813	31 762	26 813
Wholesale and retail	62 436	47 198	62 290	47 198
	188 324	166 621	188 178	166 621

42. Financial risk management (Continued)

c. Credit risk (Continued)

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

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

Loans and advances to customers at amortised cost categorised by Stages

	2019	**2018**
Stage	**K'm**	**K'm**
Stage 1	167 088	158 526
Stage 2	10 287	6 460
Stage 3	22 571	8 187
Total Gross Carrying Amount	**199 946**	**173 173**
Loss Allowance	(11 622)	(6 552)
Carrying amount	**188 324**	**166 621**

Exposure to credit risk

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 those instruments defined and recognised under IFRS 9 Financial Instruments as well as other financial instruments not recognised. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

42. Financial risk management (Continued)

c. Credit risk (Continued)

Gross maximum exposure

	GROUP		COMPANY	
	2019 K'm	**2018 K'm**	**2019 K'm**	**2018 K'm**
Balances with the Reserve Bank of Malawi	1 512	10 833	1 512	10 833
Government of Malawi treasury bills and treasury notes	133 278	96 403	123 489	82 315
Government of Malawi Promissory notes	-	1 441	-	1 441
Placements with other banks	17 826	22 899	17 826	22 899
Loans and advances to customers	188 324	166 621	188 178	166 621
Other money market deposits	32 997	40 314	18 498	26 426
Other assets	1 506	2 782	594	2 151
Total recognised financial instruments	375 443	341 293	350 097	312 686
Guarantees and performance bonds	5 766	7 079	5 766	7 079
Letters of credit	16 784	28 720	16 784	28 720
Total unrecognised financial instruments	22 550	35 799	22 550	35 799
Total credit exposure	397 993	377 092	372 647	348 485

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

	Carrying Amount K'm	**Offset K'm**	**Net exposure to credit risk K'm**
\ **GROUP**			
2018			
Balances with the Reserve Bank of Malawi	10 833	-	10 833
Government of Malawi treasury bills and Treasury notes	96 403	-	96 403
Government of Malawi promissory notes	1 441	-	1 441
Placements with other banks	22 899	-	22 899
Loans and advances to customers	166 621	7 325	159 296
Other money market deposits	40 314	-	40 314
Other assets	2 782	-	2 782
	341 293	7 325	333 968

42. Financial risk management (Continued)

c. Credit risk (Continued)

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
GROUP			
2019			
Balances with the Reserve Bank of Malawi	1 512	-	1 512
Government of Malawi treasury bills and Treasury notes	133 278	-	133 278
Placements with other banks	17 826	-	17 826
Loans and advances to customers	188 324	4 863	183 461
Other money market deposits	32 997	-	32 997
Other assets	1 506	-	1 506
	375 443	4 863	370 580
COMPANY			
2019			
Balances with the Reserve Bank of Malawi	1 512	-	1 512
Government of Malawi treasury bills and treasury notes	123 489	-	123 489
Government of Malawi promissory notes			
Placements with other banks	17 826	-	17 826
Loans and advances to customers	188 178	4 863	183 315
Other money market deposits	18 498	-	18 498
Other assets	594	-	594
	350 097	4 863	345 234
COMPANY			
2018			
Balances with the Reserve Bank of Malawi	10 833	-	10 833
Government of Malawi treasury bills and treasury notes	82 315	-	82 315
Government of Malawi promissory notes	1 441	-	1 441
Placements with other banks	22 899	-	22 899
Loans and advances to customers	166 621	7 325	159 296
Other money market deposits	26 426	-	26 426
Other assets	2 151	-	2 151
	312 686	7 325	305 361

The Group'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 provisions for doubtful debts. The specific provision represents allowances for estimated irrecoverable amounts when there is objective evidence that the asset is impaired.

42. Financial risk management (Continued)

c. Credit risk (Continued)

The credit risks on balances with banks, treasury bills, bonds and local registered stocks are limited because the counterparties are institutions with low default risk.

The book is spread over a relatively large number of counterparties and customers.

Credit quality of loans and advances

The credit quality of loans and advances is managed by the Group using internal credit ratings. The analysis below shows the credit quality of the loans and advances based on the Group's credit rating system.

	GROUP	
	2019 K'm	**2018 K'm**
Individually impaired:		
Grade 9: Impaired	7 940	6 462
Grade 8: Impaired	11 908	741
Past due but not impaired:		
Grade 7: Watch list	12 046	7 305
Neither past due nor impaired:		
Grade 1 - 3 Low risk	14 013	25 356
Grade 4 - 6 Fair risk	154 039	133 309
Impairment provision	(11 622)	(6 552)
Total carrying amount	188 324	166 621

Below is an analysis of the expected credit losses per risk grade:

GROUP	**Gross amount K'm**	**Provision K'm**
31 December 2019		
Risk Grade		
Grade 9: Impaired	7 940	3 976
Grade 8: Impaired	11 908	2 304
Grade 7: Watch list	12 046	1 523
Grade 4 – 6 Fair risk	154 039	3 505
Grade 1 - 3 Low risk	14 013	199
Total Gross carrying amount	199 946	11 507
31 December 2018		
Risk Grade		
Grade 9: Impaired	6 462	2 327
Grade 8: Impaired	741	159
Grade 7: Watch list	7 305	755
Grade 4 – 6 Fair risk	133 309	2 635
Grade 1 - 3 Low risk	25 356	447
Total Gross carrying amount	173 173	6 323

42. Financial risk management (Continued)

c. Credit risk (Continued)

The impairment provision of K11 507m (2018: K6 323m) excludes an off balance sheet assets provision amounting to K115m (2018: K229m).

The current year total carrying amount includes K146m loans and advances extended by NBM Development Bank. The amount has been included in the low risk category. There were no loans provided by subsidiary companies in 2018.

Impaired loans and advances
Impaired loans and advances are loans and advances for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/advances agreement(s).

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

Allowance for impairment
The Group establishes an allowance for impairment losses in accordance with IFRS 9 as discussed under note 3.5.

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

During the period under review, the Group wrote off K755m (2018: K2 350m. Refer to note 12 above. The whole amounts written off are subject to enforcement activity by the Group to recover.

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, cash, equities, registered securities over assets, guarantees and other forms of collateral. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are only updated when performing the annual review except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

There were no significant changes in the Group's collateral policies and there were also no significant changes in the quality and values of the collateral during the period under review.

42. Financial risk management (Continued)

c. Credit risk (Continued)

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	GROUP & COMPANY	
	2019 K'm	**2018 K'm**
<u>Against individually impaired</u>		
Motor vehicles	737	462
Commercial property	2 328	2 501
Residential property	355	1 010
Equities	-	1
Government guarantees	9 597	-
Cash	-	25
	13 017	3 999
<u>Against the rest of the loan book</u>		
Motor vehicles	27 456	21 695
Commercial property	96 225	11 241
Residential property	32 224	71 803
Cash	4 863	7 300
Equities	2 101	22 419
Treasury bills	-	18
Mortgages	5 297	9 440
Debentures	1 191	24 825
Government guarantees	2 926	-
Bank guarantee	-	168
Total	172 283	168 909
Grand Total	185 300	172 908

Collateral repossessed

It is the Group's policy to dispose of repossessed collateral in an orderly fashion. The proceeds are used to reduce or repay the outstanding loan balance.

d) Liquidity risk

Liquidity Risk is the risk of loss arising from failure to meet obligations as they fall due or to fund increases in assets without incurring unacceptable cost or losses.

42. Financial risk management (Continued)

d. Liquidity risk (Continued)

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group has a Liquidity and Funds Management Policy that provides guidance in the management of liquidity.

The daily management of liquidity is entrusted to the Treasury and Investment Banking Division (TIBD) at Head Office. The TIBD receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The TIBD then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units are funded through deposits from customers. Any short-term fluctuations are funded through treasury activities such as inter-bank facilities, repurchase agreements and others.

The TIBD monitors compliance of all operating units of the Group with local regulatory limits on a daily basis.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Group and operating units. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Measurement of liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Reserve Bank of Malawi. Details of the reported Group ratio of net liquid assets to deposits from customers at the year-end date and during the reporting period were as follows:

	2019	2018
At 31 December	38%	57%
Average of the period	44%	58%
Maximum for the period	51%	64%
Minimum for the period	36%	52%

42. Financial risk management (Continued)

d. Liquidity risk (Continued)

The table below analyses assets and liabilities into relevant maturity profiles based on the remaining period to the contractual maturity date.

GROUP	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
2019						
Financial assets						
Cash and funds with Reserve Bank of Malawi	18 345	-	-	-	18 345	18 345
Government of Malawi treasury						
Bills and treasury notes	-	36 098	53 293	43 887	133 278	133 278
Equity investments	-	4 102	-	-	4 102	4 102
Placements with other banks	17 826	-	-	-	17 826	17 826
Loans and advances to customers	10 170	15 006	64 456	98 692	188 324	188 324
Other money markets deposits	32 997	-	-	-	32 997	32 997
Other assets	1 506	-	-	-	1 506	1 506
Total financial assets	80 844	55 206	117 749	142 579	396 378	396 378
Financial liabilities						
Loans	-	-	3 623	12 712	16 335	16 335
Customer deposits	278 648	36 394	3 428	-	318 470	318 470
Amounts due to other banks	652	-	-	-	652	652
Provisions	-	-	2 954	-	2 954	2 954
Other liabilities	1 617	-	-	-	1 617	1 617
Total financial liabilities	280 917	36 394	10 005	12 712	340 028	340 028
Contractual liquidity mismatch	**(200 073)**	**18 812**	**107 744**	**129 867**	**56 350**	**56 350**
Cumulative mismatch	**(200 073)**	**(181 261)**	**(73 517)**	**56 350**	-	-

42. Financial risk management (Continued)

d. Liquidity risk (Continued)

GROUP	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
2018						
Financial assets						
Cash and funds with Reserve Bank of Malawi	25 023	-	-	-	25 023	25 023
Government of Malawi treasurybills and treasury notes	-	33 590	52 323	10 490	96 403	96 403
Government of Malawi promissory notes	1 441	-	-	-	1 441	1 441
Equity investments	-	3 891	-	-	3 891	3 891
Placements with other banks	22 899	-	-	-	22 899	22 899
Loans and advances to customers	16 958	14 209	62 350	73 104	166 621	166 621
Other money markets deposits	40 314	-	-	-	40 314	40 314
Other assets	2 782	-	-	-	2 782	2 782
Total financial assets	109 417	51 690	114 673	83 594	359 374	359 374
Financial liabilities						
Loans	-	-	3 301	16 127	19 428	19 428
Customer deposits	257 682	35 287	1 556	-	294 525	294 525
Amounts due to other banks	1 414	-	-	-	1 414	1 414
Provisions	-	-	1 933	-	1 933	1 933
Other liabilities	1 526	-	-	-	1 526	1 526
Total financial liabilities	260 622	35 287	6 790	16 127	318 826	318 826
Contractual liquidity mismatch	**(151 205)**	**16 403**	**107 883**	**67 467**	**40 548**	**40 548**
Cumulative mismatch	**(151 205)**	**(134 802)**	**(26 919)**	**40 548**	**-**	**-**

42. Financial risk management (Continued)

d. Liquidity risk (Continued)

COMPANY	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
2019						
Financial assets						
Cash and funds with Reserve Bank of Malawi	18 345	-	-	-	18 345	18 345
Government of Malawi treasury bills and treasury notes	-	26 309	53 293	43 887	123 489	123 489
Equity investments	-	4 102	-	-	4 102	4 102
Placements with other banks	17 826	-	-	-	17 826	17 826
Loans and advances to customers	9 878	15 006	64 456	98 838	188 178	188 178
Other money markets deposits	18 498	-	-	-	18 498	18 498
Other assets	594	-	-	-	594	594
Total financial assets	65 141	45 417	117 749	142 725	371 032	371 032
Financial liabilities						
Loans	-	-	3 623	12 712	16 335	16 335
Customer deposits	258 457	36 394	3 428	-	298 279	298 279
Amounts due to other banks	652	-	-	-	652	652
Provisions	-	-	2 745	-	2 745	2 745
Other liabilities	1 051	-	-	-	1 051	1 051
Total financial liabilities	260 160	36 394	9 796	12 712	319 062	319 062
Contractual liquidity mismatch	**(195 019)**	**9 023**	**107 953**	**130 013**	**51 970**	**51 970**
Cumulative mismatch	**(195 019)**	**(185 996)**	**(78 043)**	**51 970**	**-**	**-**

42. Financial risk management (Continued)

d. Liquidity risk (Continued)

COMPANY	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Total K'm	Carrying amount K'm
2018						
Financial assets						
Cash and funds with Reserve Bank of Malawi	25 267	-	-	-	25 267	25 267
Government of Malawi treasury Bills and treasury notes	-	19 502	52 323	10 490	82 315	83 315
Government of Malawi promissory notes	1 441	-	-	-	1 441	1 441
Equity investments		-3 891	-	-	3 891	3 891
Placements with other banks	22 899	-	-	-	22 899	22 899
Loans and advances to customers	16 958	14 209	62 350	73 104	166 621	166 621
Other money markets deposits	26 426	-	-	-	26 426	26 426
Other assets	2 151	-	-	-	2 151	2 151
Total financial assets	95 142	37 602	114 673	83 594	331 011	331 011
Financial liabilities						
Loans	-	-	3 301	16 127	19 428	19 428
Customer deposits	234 183	35 287	1 556	-	271 026	271 026
Amounts due to other banks	1 414	-	-	-	1 414	1 414
Provisions	-	-	1 735	-	1 735	1 735
Other liabilities	959	-	-	-	959	959
Total financial liabilities	236 556	35 287	6 592	16 127	294 562	294 562
Contractual liquidity mismatch	**(141 414)**	**2 315**	**108 081**	**67 467**	**36 449**	**36 449**
Cumulative mismatch	**(141 414)**	**(139 099)**	**(31 018)**	**36 449**	**-**	**-**

The contractual liquidity mismatch shows the mismatch before any adjustments are made for product and customer behavioural assumptions. The Group's Asset and Liability Committee manages this mismatch by setting guidelines and limits for anticipated liquidity gaps and monitors these gaps daily. The committee reviews the product and customer behavioural assumptions when there is indication that there is a shift in one or more variables.

42. Financial risk management (Continued)

e. Market risk

Market risk is the risk of loss arising from adverse movements in interest rates, exchange rates and prices associated with positions which are able to be fair-valued on the balance sheet on a frequent basis in both the banking and trading books of the Group.

Basel recommends two approaches in the management of market risk. These are the Standardised Approach and the Internal Models Approach. The Reserve Bank of Malawi however prescribed that all banks be on the Standardised Approach during the adoption of Basel II in 2014. The objective of market risk management is to manage and control risk exposures within acceptable parameters, while optimising the return on risk. The Group has a Market Risk Framework that guides the overall management of market risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Basel II's market risk standardised approach has pre-specified and standardised methods for all the four types of risks covered: Interest rate risk, equity risk, exchange rate risk and commodity risk. The accord specifically states that eligible capital can only be calculated after the bank has calculated minimum capital requirement for credit risk and also operational risks then only can it be established how much Tier I and Tier II capital is available to support market risk. The Group's trading portfolios mainly are held by the Treasury and Financial Institutions Division, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in ALCO. TIBD is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

Exposure of interest rate risk: non-trading portfolio

The principal risk to which non-trading portfolio are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Treasury and Financial Institutions Division in its day-to-day monitoring activities. The table below summarises the exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by earlier of contractual re-pricing or maturity dates.

42. Financial risk management (Continued)

e. Market risk (Continued)

The Group does not bear any interest rate risk on off balance sheet items. A summary of the Group's maturity profile gap position on non-trading portfolio is as follows:

GROUP	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non interest sensitive K'm	Total K'm
2018						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	25 023	25 023
Government of Malawi treasury bills and treasury notes	-	33 590	52 323	10 490	-	96 403
Government of Malawi promissory notes	1 441	-	-	-	-	1 441
Equity investments	-	-	-	-	3 891	3 891
Placements with other banks	22 899	-	-	-	-	22 899
Loans and advances to customers	16 958	14 209	62 350	73 104	-	166 621
Other money market deposits	40 314	-	-	-	-	40 314
Other assets	-	-	-	-	2 782	2 782
Total financial assets	81 621	47 799	114 673	83 594	31 696	359 374
Financial liabilities						
Loans	-	-	3 301	16 127	-	19 428
Customer deposits	239 091	35 287	1 556	-	18 591	294 525
Amounts due to other banks	1 414	-	-	-	-	1 414
Provisions	-	-	-	-	1 933	1 933
Other liabilities	-	-	-	-	1 526	1 526
Total financial liabilities	240 505	35 287	4 857	16 127	22 050	318 826
Interest sensitivity gap	**(158 893)**	**12 512**	**109 816**	**67 467**	**9 646**	**40 548**
Cumulative gap	**(158 893)**	**(146 381)**	**(36 565)**	**30 902**	**40 548**	**-**

42. Financial risk management (Continued)

e. Market risk (Continued)

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non interest sensitive K'm	Total K'm
GROUP						
2018						
Impact on profit of an increase in interest rates:						
+1%	(1 589)	125	1 098	675	-	309
+2%	(3 178)	250	2 196	1 350	-	618
+3%	(4 767)	375	3 294	2 025	-	927
Impact on profit of a decrease in interest rates:						
-1%	1 589	(125)	(1 098)	(675)	-	(309)
-2%	3 178	(250)	(2 196)	(1 350)	-	(618)
-3%	4 767	(375)	(3 294)	(2 025)	-	(927)
GROUP						
2019						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	18 345	18 345
Government of Malawi treasury bills and treasury notes	-	36 098	53 293	43 887	-	133 278
Equity investments	-	-	-	-	4 102	4 102
Placements with other banks	17 286	-	-	-	-	17 286
Loans and advances to customers	10 170	15 006	64 456	98 692	-	188 324
Other money market deposits	32 997	-	-	-	-	32 997
Other assets	-	-	-	-	1 506	1 506
Total financial assets	60 453	51 104	117 749	142 579	23 953	395 838
Financial liabilities						
Loans	-	-	3 623	12 712	-	16 335
Customer deposits	137 770	36 394	3 428	-	140 878	318 470
Amounts due to other banks	652	-	-	-	-	652
Provisions	-	-	-	-	2 954	2 954
Other liabilities	-	-	-	-	1 617	1 617
Total financial liabilities	138 422	36 394	7 051	12 712	145 449	340 028
Interest sensitivity gap	**(77 969)**	**14 710**	**110 698**	**129 867**	**(121 496)**	**55 810**
Cumulative gap	**(77 969)**	**(63 259)**	**47 439**	**177 306**	**55 810**	**-**

42. Financial risk management (Continued)

e. Market risk (Continued)

	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non interest sensitive K'm	Total K'm
2019						
Impact on profit of an increase in interest rates:						
+1%	(774)	147	1 107	1 299	-	1 779
+2%	(1 548)	294	2 214	2 597	-	3 557
+3%	(2 322)	441	3 321	3 896	-	5 336
Impact on profit of a decrease in interest rates:						
-1%	774	(147)	(1 107)	(1 299)	-	(1 779)
-2%	1 548	(294)	(2 214)	(2 597)	-	(3 557)
-3%	2 322	(441)	(3 321)	(3 896)	-	(5 336)
COMPANY						
2018						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	25 267	25 267
Government of Malawi treasury bills and treasury notes	-	19 502	52 353	10 490	-	82 315
Government of Malawi Promissory notes		1 441-	-	-	-	1 441
Equity investments	-	-	-	-	3 891	3 891
Placements with other banks	22 899	-	-	-	-	22 899
Loans and advances to customers	16 958	14 209	62 350	73 104	-	166 621
Other money market deposits	26 426	-	-	-	-	26 426
Other assets	-	-	-	-	2 151	2 151
Total financial assets	67 724	33 711	114 703	83 594	31 309	331 011
Financial liabilities						
Loans	-	-	3 301	16 127	-	19 428
Customer deposits	215 592	35 287	1 556	-	18 591	271 026
Amounts due to other banks	1 414	-	-	-	-	1 414
Provisions	-	-	-	-	1 735	1 735
Other liabilities	-	-	-	-	959	959
Total financial liabilities	217 006	35 287	4 857	16 127	21 285	294 562
Interest sensitivity gap	**(149 282)**	**(1 576)**	**109 846**	**67 467**	**10 024**	**36 449**
Cumulative gap	**(149 282)**	**(150 858)**	**(41 042)**	**26 425**	**36 449**	**-**

42. Financial risk management (Continued)

e. Market risk (Continued)

COMPANY	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non interest sensitive K'm	Total K'm
2018						
Impact on profit of an increase in interest rates:						
+1%	(1 493)	(16)	1 098	675	-	264
+2%	(2 986)	(32)	2 196	1 350	-	528
+3%	(4 479)	(48)	3 294	2 025	-	792
Impact on profit of a decrease in interest rates:						
-1%	1 493	16	(1 098)	(675)	-	(264)
-2%	2 986	32	(2 196)	(1 350)	-	(528)
-3%	4 479	48	(3 294)	(2 025)	-	(792)
2019						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	18 345	18 345
Government of Malawi treasury bills and treasury notes	-	26 309	53 293	43 887	-	123 489
Equity investments	-	-	-	-	4 102	4 102
Placements with other banks	17 826	-	-	-	-	17 826
Loans and advances to customers	9 878	15 006	64 456	98 838	-	188 178
Other money market deposits	18 498	-	-	-	-	18 498
Other assets	-	-	-	-	594	594
Total financial assets	46 202	41 315	117 749	142 725	23 041	371 032
Financial liabilities						
Loans	-	-	3 623	12 712	-	16 335
Customer deposits	140 667	36 394	3 428	-	117 790	298 279
Amounts due to other banks	652	-	-	-	-	652
Provisions	-	-	-	-	2 745	2 745
Other liabilities	-	-	-	-	1 051	1 051
Total financial liabilities	141 319	36 394	7 051	12 712	121 586	319 062
Interest sensitivity gap	**(95 117)**	**4 921**	**110 698**	**130 013**	**(98 545)**	**51 970**
Cumulative gap	**(95 117)**	**(90 196)**	**20 502**	**150 515**	**51 970**	**-**

42. Financial risk management (Continued)

e. Market risk (Continued)

COMPANY	Less than 1 month K'm	1 - 3 months K'm	3 - 12 months K'm	Over 1 year K'm	Non interest sensitive K'm	Total K'm
2019						
Impact on profit of an increase in interest rates:						
+1%	(951)	49	1 107	1 300	-	1 505
+2%	(1 902)	98	2 214	2 600	-	3 010
+3%	(2 853)	147	3 321	3 900	-	4 515
Impact on profit of a decrease in interest rates:						
-1%	951	(49)	(1 107)	(1 300)	-	(1 505)
-2%	1 902	(98)	(2 214)	(2 600)	-	(3 010)
-3%	2 853	(147)	(3 321)	(3 900)	-	(4 515)

f. Currency risk

The Group had the following significant foreign currency positions:

GROUP

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2018							
Financial assets							
Cash and funds with Reserve Bank of Malawi	24 093	801	12	23	94	-	25 023
Government of Malawi Treasury bills and treasury notes	96 403	-	-	-	-	-	96 403
Government of Malawi Promissory notes	1 441	-	-	-	-	-	1 441
Equity investments	3 891	-	-	-	-	-	3 891
Placements with other banks	-	13 827	3 351	4 775	918	28	22 899
Loans and advances to customers	106 545	60 076	-	-	-	-	166 621
Other money market deposits	40 314	-	-	-	-	-	40 314
Other assets	2 782	-	-	-	-	-	2 782
Total financial assets	275 469	74 704	3 363	4 798	1 012	28	359 374

42. **Financial risk management** (Continued)

f. Currency risk (Continued)

GROUP

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2018							
Financial liabilities							
Loans	209	19 219	-	-	-	-	19 428
Customer deposits	224 465	61 919	3 245	4 706	190	-	294 525
Liabilities to other banks	373	342	-	-	699	-	1 414
Provisions	1 933	-	-	-	-	-	1 933
Other liabilities	1 526	-	-	-	-	-	1 526
Total financial liabilities	228 506	81 480	3 245	4 706	889	-	318 826
Net balance open position	46 963	(6 776)	118	92	123	28	40 548
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit	-	678	(12)	(9)	(12)	(2)	643
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit	-	(678)	12	9	12	2	(643)

GROUP

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2019							
Financial assets							
Cash and funds with Reserve Bank of Malawi	17 211	916	32	41	145	-	18 345
Government of Malawi Treasury bills and treasury notes	133 278	-	-	-	-	-	133 278
Equity investments	4 102	-	-	-	-	-	4 102
Placements with other banks	-	11 067	1 954	4 426	370	9	17 826
Loans and advances to customers	122 904	65 420	-	-	-	-	188 324
Other money market deposits	32 997	-	-	-	-	-	32 997
Other assets	1 506	-	-	-	-	-	1 506
Total financial assets	311 998	77 403	1 986	4 467	515	9	396 378

42. Financial risk management (Continued)

f. Currency risk (Continued)

GROUP

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2018							
Financial liabilities							
Loans	209	16 126	-	-	-	-	16 335
Customer deposits	252 462	59 630	1 756	4 406	216	-	318 470
Liabilities to other banks	194	181	-	-	277	-	652
Provisions	2 954	-	-	-	-	-	2 954
Other liabilities	1 617	-	-	-	-	-	1 617
Total financial liabilities	257 436	75 937	1 756	4 406	493	-	340 028
Net balance open position	54 562	1 466	230	61	22	6	56 350
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit							
	-	(147)	(23)	(6)	(2)	(1)	(179)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit							
	-	147	23	6	2	1	179

COMPANY

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2018							
Financial assets							
Cash and funds with Reserve Bank of Malawi	24 337	801	12	23	94	-	25 267
Government of Malawi Treasury bills and treasury notes	82 315	-	-	-	-	-	82 315
Government of Malawi Promissory notes	1 441	-	-	-	-	-	1 441
Equity investments	3 891	-	-	-	-	-	3 891
Placements with other banks	-	13 827	3 351	4 775	918	28	22 899
Loans and advances to customers	106 545	60 076	-	-	-	-	166 621
Other money market deposits	26 426	-	-	-	-	-	26 426
Other assets	2 151	-	-	-	-	-	2 151
Total financial assets	247 106	74 704	3 363	4 798	1 012	28	331 011

42. Financial risk management (Continued)

f. Currency risk (Continued)

COMPANY

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2018							
Financial liabilities							
Loans	209	19 219	-	-	-	-	19 428
Customer deposits	200 966	61 919	3 245	4 706	190	-	271 026
Liabilities to other banks	373	342	-	-	699	-	1 414
Provisions	1 735	-	-	-	-	-	1 735
Other liabilities	959	-	-	-	-	-	959
Total financial liabilities	204 242	81 480	3 245	4 706	889	-	294 562
Net balance open position	42 864	(6 776)	118	92	123	28	36 449
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit							
	-	678	(12)	(9)	(12)	(2)	643
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit							
	-	(678)	12	9	12	2	(643)

COMPANY

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2019							
Financial assets							
Cash and funds with Reserve Bank of Malawi	17 211	916	32	41	145	-	18 345
Government of Malawi Treasury bills and treasury notes	123 489	-	-	-	-	-	123 489
Equity investments	4 102	-	-	-	-	-	4 102
Placements with other banks	-	11 067	1 954	4 426	370	9	17 826
Loans and advances to customers	122 758	65 420	-	-	-	-	188 178
Other money market deposits	18 498	-	-	-	-	-	18 498
Other assets	594	-	-	-	-	-	594
Total financial assets	286 652	77 403	1 986	4 467	515	9	371 032

42. Financial risk management (Continued)

f. Currency risk (Continued)

COMPANY

	MK K'm	USD K'm	GBP K'm	EURO K'm	ZAR K'm	OTHER K'm	TOTAL K'm
2019							
Financial liabilities							
Loans	209	16 126	-	-	-	-	16 335
Customer deposits	232 271	59 630	1 756	4 406	216	-	298 279
Liabilities to other banks	194	181	-	-	277	-	652
Provisions	2 745	-	-	-	-	-	2 745
Other liabilities	1 051	-	-	-	-	-	1 051
Total financial liabilities	236 470	75 937	1 756	4 406	493	-	319 062
Net balance open position	50 182	1 466	230	61	22	9	51 970
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit							
	-	(147)	(23)	(6)	(2)	(1)	(179)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit							
	-	147	23	6	2	1	179

g) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group'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 Group's operations and are faced by all business entities.

The Group has an Operational Risk Management Framework that guides the management of operational risk.

The Group's objectives is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the Risk Division by the development of overall Group standards for the management of operational risk in the following areas:

42. Financial risk management (Continued)

g. Operational risk (Continued)

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- prevention of business disruption and system failures and development of contingency plans;
- ethical and business standards;
- risk mitigation, including insurance where this is effective; and
- safeguarding assets against loss or damage.

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

h. Compliance risk

The risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, standards, and codes of conduct applicable to its banking activities with regulations imposed by the Reserve Bank of Malawi and other regulatory bodies.

The management of compliance risk has become a distinct discipline within the Group'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 universe and developing compliance programme, training staff and other stakeholders on relevant regulatory requirements, and monitoring compliance.

The Group believes in a corporate culture that emphasises standards of honesty and integrity and in which the Board of Directors and Senior Management lead by example and that it concerns everyone within the Group and that should be viewed as an integral part of the Bank's business activities.

With regard to the AML/CFT obligations of the Bank, the Compliance function ensures that the Group has adequate processes and systems to prevent Group's services from being accessible to criminals. The Group has aligned its anti-money laundering policies including Know Your Customer policies, and procedures with country's Financial Crimes Legislation and Regulations. Further, the Group conducts an AML/CFT Risk Assessment annually in accordance with Section 21 of Financial Crimes Act, 2017 where a financial institution is required to identify, assess, and understand the level of money laundering and terrorist financing risks for proper mitigation.

42. Financial risk management (Continued)

h. Compliance risk (Continued)

Statutory requirements

In accordance with the Section 38 of Banking Act, 2009, the Reserve Bank of Malawi has established the following requirements as at the year-end date:

Liquidity reserve requirement

The Monetary Policy of the Reserve Bank resolved in January 2019 to reduce the Liquidity Reserve Requirement as follows:

a. by 250 basis points from 7.5 percent to 5.0 percent on local currency deposits; and
b. by 375 basis points from 7.5 percent to 3.75 percent on foreign currency deposits.

The Bank complied with the requirement throughout the reporting period.

Capital adequacy requirement as per Section 10(1) of the Banking Act, 2009

A Bank's available capital is required to be a minimum of 10% of its risk bearing assets and contingent liabilities. At the end of the year, the National Bank's available capital was 21% (2018: 20%) of its risk bearing assets and contingent liabilities.

Prudential aspects of bank liquidity

Prudential Liquidity Directive was revised during the reporting period; paragraph 5 on *Computation of Minimum Liquidity Ratio* has been revised as follows:

a. All encumbered liquid assets of a bank shall not be included in the computation of liquidity ratio.
b. All deposits held for Liquidity Reserve Requirement purposes shall not be included in the computation of liquidity ratio.
c. The minimum prudential liquidity ratio has been revised from 30% to 25%.

The Bank's Risk Appetite statement was already amended to reflect the change in the regulation.

Liquidity ratios

At the end of the year, National Bank's liquidity ratio was 38% (2018: 57%)

i. Capital management

Regulatory capital

The Reserve Bank of Malawi sets and monitors capital requirements for the Group as a whole. Regulatory capital requirement is the minimum amount of capital required by the Reserve Bank of Malawi, which if not maintained will usually require supervisory intervention.

42. Financial risk management (Continued)

i. Capital management (Continued)

In implementing current capital requirements, the Reserve Bank of Malawi requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The minimum capital ratios under the implemented Basel II are as follows:

A core (tier 1) capital of not less than 10% of total risk-weighted on statement of financial position assets plus risk-weighted off-statement of financial position items; and

A total capital (tier 2) of not less than 15% of its total risk-weighted on statement of financial position assets plus risk-weighted off-statement of financial position items.

The regulatory capital is analysed into the two tiers as follows:

Core capital (Tier 1) consists of ordinary share capital, share premium, retained profits, 60% of after-tax profits in the current year (or less 100% of current year loss), less any unconsolidated investment in financial companies.

Total capital (Tier 2), consists of revaluation reserves and general provisions, when such general provisions have received prior approval of the Reserve Bank of Malawi plus tier 1 capital. Supplementary capital must not exceed core capital i.e. shall be limited to 100% of total core capital.

Banking operations are categorised as either trading book or banking book and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-statement of financial position exposures.

The Board of Directors is responsible for establishing and maintaining at all times an adequate level of capital. The Group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a lower gearing position.

The Group and other individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Group's management of capital during the period.

42. Financial risk management (Continued)

i. Capital management (Continued)

NBM's regulatory capital position at 31 December was as follows:

	2019 K'm	2018 K'm
Tier 1 capital		
Ordinary share capital	467	467
Share premium	613	613
Retained earnings	66 954	61 369
Unconsolidated investment	(3 763)	(3 763)
Total regulatory (tier 1) capital	64 271	58 686
Supplementary capital		
Revaluation reserve	23 706	21 156
Deferred tax	(7 816)	(7 827)
Unconsolidated investment	(3 763)	(3 763)
Total regulatory (tier 2) capital	76 398	68 252
Risk-weighted assets		
Retail bank, corporate bank and treasury	367 013	339 067
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	21%	20%
Total tier 1 capital expressed as a percentage of risk-weighted assets	18%	17%

The Reserve Bank of Malawi in 2015 revised the minimum capital requirements for Banks from USD5m to USD10m effective 01 January 2020. As at that date, National Bank plc was in full compliance with the revised minimum capital requirement.

j. Basel II implementation

The Basel II, a capital standard accord for banks, which was introduced as an enhancement to the first 1988 Basel accord in 2004 came into effect on 1 January 2014 for all Malawian Banks. The intention is to align bank's business risk as reflected in both the banking book and the trading book to its required minimum capitalisation. This was as a result of notable shortfalls in granularity in Basel I hence the need to ensure that banks are adequately capitalised.

The Group was fully compliant to Basel II as at 1 January 2014. All banks are on the basic approaches for the initial reporting on capital adequacy requirements

42. Financial risk management (Continued)

j. Basel II implementation (Continued)

and will be accepted to graduate into other advanced measurement approaches after a satisfactory assessment of their risk management processes by Reserve Bank of Malawi. Therefore, the Group is computing the individual risks under each category using the following approaches:

a. Operational Risk – Basic Indicator Approach (BIA);
b. Credit Risk – Standardised Approach (SA); and
c. Market Risk – Standardised Approach (SA).

The Group is fully committed to develop its operational risk measurement tools through enhancement of Loss Data Collection which will be escalated to set the foundation for the Bank to finally graduate to Revised Standardised Approaches by the year 2022. To achieve the set plans, the Group has the following; a Basel II implementation gap analysis and an action plan (road map); a steering committee at Senior Management level and a project team for implementation; the Bank also has representatives at the Reserve Bank of Malawi Basel II sub committees; and its continuing to train Basel II to the Group's Directors, management and staff.

Going forward, the Group continues to assess the Basel II approaches and their impact on its capital position to arrive at an appropriately calibrated total level of risk-weighted assets, qualifying capital and leverage ratio, and factor them into its strategic business plans. In the year under review, the Group capital ratios were all above the prescribed minimum requirements under Basel II for the Reserve Bank of Malawi of 10% and 15% for tier I and tier II ratios, respectively. Further, the ratios are above the 2014 set risk appetite for the Group for capital ratios of the range of 10% to 15% for tier I and 15% to 17.5% for tier II.

k) Environmental and social risk

In line with the Group's environmental and social management policy which is also consistent with its corporate social responsibility (CSR) initiatives, the Group has an obligation to manage the environmental and social impacts that its activities, products and services have on society and to respond strategically to the risks which global environmental and social pressures have on its ability to create sustainable value for its stakeholders.

As a financial services group, it has both direct and indirect impacts on society and the environment. It manages its indirect impact by screening wholesale banking loans to ensure that the customers who borrow from it manage their social and environmental risks that are associated with their activities. It impacts directly on the environment in its daily business activities through its consumption of energy and other resources, and as such, it has developed systems and processes to reduce its environmental footprint. In addition, it has raised environmental awareness among its stakeholders, particularly its employees and suppliers.

42. Financial risk management (Continued)

k. Environmental and social risk (Continued)

The Group shall not invest in, lend to, or engage in activities that are detrimental to the environment, harmful, or dangerous to people or communities. The environmental and social management system will enable the Group to track and manage environment and social aspects of its operations. It will protect the Group against financial, legal and/or reputational risks arising from activities that are not compliant with sustainable development.

l. Reputational risk policy

Reputation risk is the risk that the Group's reputation is damaged by one or more than one reputation event, as reflected from negative publicity about the Group's business practices, conduct or financial condition.

Reputational risks can arise from a variety of causes including environmental, social and governance issues, as a consequence of operational risk events and as a result of employees acting in a manner inconsistent with the Group's Values. The Group's reputation depends upon the way in which it conducts its business and may be affected by how clients, who access its financial services, conduct their business or use financial products and services.

The Group has a Reputational Risk Policy that provides guidance in the management of reputational risk at all levels.

The Group therefore aims a building reputation capital and earning the goodwill of key stakeholders by communicating proper and positive information to the market place and also identifying risk events as being either specific or systemic as this will determine the course of corrective action.

43. Related party transactions

The approval of the Reserve Bank of Malawi has been obtained for related party transactions in accordance with the terms of the Banking Act, 2009.

The Group transacts a portion of its business with organisations affiliated to the principal shareholders on an arm's length basis.

The Group is controlled by Press Corporation plc (incorporated in Malawi), which owns 51.5% (2018: 51.5%) of the Ordinary Shares. The Old Mutual Group owns 25.1% (2018: 25.1%) of the Ordinary Shares and the remaining 23.4% (2018: 23.4%) of the Ordinary Shares are widely held by individuals, corporate and institutional investors and are publicly traded on the Malawi Stock Exchange.

The ultimate holding entity of the Group is Press Trust. Press Trust owns 44.5% (2018: 44.5%) of Press Corporation plc.

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Group, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

43. Related party transactions (Continued)

Net outstanding balances as at the year-end with the shareholders and other related parties are as follows:

GROUP AND COMPANY

	Loans K'm	Deposits K'm	Net 2019 K'm	Net 2018 K'm
Press Corporation plc and its subsidiaries	6 377	(3 775)	2 602	4 492
Old Mutual Group	4 698	(2 784)	1 914	(2360)
Castel Malawi Limited	-	(1 524)	(1 524)	(69)
Limbe Leaf Tobacco Company Limited	-	(206)	(206)	(83)
Press Trust	-	(204)	(204)	(362)
Directors	576	(72)	504	435
Employees	6 137	(678)	5 459	5 222
Open Connect Limited	-	(3 526)	(3 526)	(2245)
United General Insurance Limited	-	(2)	(2)	(102)
National Bank of Malawi Pension Fund	-	(53)	(53)	(230)
Total related party balance	17 788	(12 824)	4 964	4 698

Bottling and Brewing Group Limited and Limbe Leaf Tobacco Company Limited are associates of Press Corporation plc.

Loans are granted and deposits accepted on normal banking terms. Loans are secured.

During the year, no amount due from a related party was written off against interest in suspense and provision for loan losses. There were no provisions in respect of loans granted to related parties as at the end of the year (2018: nil).

There were no material related party transactions with the ultimate holding entity of the Group, Press Trust, during the year.

43. Related party transactions (Continued)

The following transactions were conducted with related parties:

GROUP AND COMPANY	2019 K'm	2018 K'm
Interest receivable		
Press Corporation plc and its subsidiaries	1 309	1 415
Directors	3	7
Employees	1 123	1 265
Average interest rate (%)	19	23
Operating lease income		
Malawi Telecommunication Limited	2	29
Bottling and Brewing Group Limited	158	211
Interest payable		
Press Corporation plc and its subsidiaries	24	78
Old Mutual Group	31	7
Employees	785	923
Purchases		
Press Corporation plc and its subsidiaries	799	912

	GROUP		COMPANY	
	2019 K'm	2018 K'm	2019 K'm	2018 K'm
Compensation of key management personnel				
Salaries, bonuses and benefits	2 980	2 982	2 864	2 982

No specific share options were offered to key management personnel during the year (2018: nil). No shares were exercised by key management during the year (2018: nil).

44. Business segments

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments.

The Group is organised on a national basis into three main business segments:

i. Retail and corporate banking – incorporating, savings, deposits, investment savings products, consumer loans, current accounts, overdrafts, loan and other credit facilities, trade finance and corporate leasing;
ii. Treasury – incorporating financial instruments trading, dealings in foreign currency, stock broking and derivative products; and
iii. Other operations comprising fund management, custodial services and providing training services, none of which constitutes a separately reportable segment.

44. **Business segments** (Continued)

Transactions between the business segments are on normal commercial terms and conditions.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation and borrowings.

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
GROUP					
Statement of comprehensive income					
2018					
Total external income	34 216	11 806	21 631	2 456	70 109
Segment result	27 668	9 444	21 631	2 456	61 199
Unallocated expenses	-	-	-	-	(38183)
Profit before tax	-	-	-	-	23 016
Corporate tax	-	-	-	-	(7051)
Group profit for the year	-	-	-	-	15 965
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	3 362
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	51
Statement of financial position					
2018					
Assets					
Total consolidated segment	112 353	64 785	155 331	84 861	417 330
Liabilities and equity					
Total consolidated segment Liabilities and equity	138 916	65 373	87 549	37 078	328 916
Other information					
Unallocated capital additions	-	-	-	-	88 414
Total	-	-	-	-	417 330

44. Business segments (Continued)

	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
GROUP					
Statement of comprehensive income					
2019					
Total external income	40 899	13 503	20 954	1 642	76 998
Segment result	31 564	11 671	20 954	1 642	65 831
Unallocated expenses	-	-	-	-	(40 480)
Profit before tax	-	-	-	-	25 351
Corporate tax	-	-	-	-	(8 196)
Group profit for the year	-	-	-	-	17 155
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	3 687
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	60
Statement of financial position					
2019					
Total consolidated segment assets	122 010	77 864	197 241	62 041	459 156
Liabilities and equity					
Total consolidated segment liabilities and equity	155 920	78 340	81 007	43 029	358 296
Other information					
Unallocated capital additions	-	-	-	-	100 860
Total	-		-	-	459 156

45. Exchange rates and inflation

The average of the year-end buying and selling rates of the foreign currencies most affecting the performance of the Group are stated below together with the increase in the National Consumer Price Index which represents an official measure of inflation.

	2019	2018
Kwacha/GBP	967	919
Kwacha/Rand	52	49
Kwacha/US Dollar	737	743
Kwacha/Euro	837	826
Inflation (%)	11.5	9.2

As at 30 March 2020 the above rates had moved as follows:

Kwacha/GBP	914.78
Kwacha/Rand	41.94
Kwacha/US Dollar	736.71
Kwacha/Euro	818.65
Inflation rate (%) (February 2020)	11.0

47TH **AGM MINUTES**

MINUTES

OF THE 47TH ANNUAL GENERAL MEETING (AGM) OF NATIONAL BANK OF MALAWI PLC HELD ON 6TH JUNE 2019 AT 14:00 HOURSAT THE NATIONAL BANK OF MALAWI PLC LEARNING & GROWTH CENTRE IN THE AUDITORIUM

Shareholders Present:

Bernadette T. Maele
Rex R Katunda
O.P. Kamanga
F. Harawa
Veronica Sembereka
C. Makadia
Joe Maere
Harold Jiya
Menard Kaumphawi
Wlfred Gerson Paligolo
Wilson Kuyokwa
Zunzo Mitole
George Partridge
Annie Magola
Macfussy Kawawa
Oswin Kasunda
Stan Kaunda
E. Chinunda
C. Dulira
V. Mazimbe
Don Whayo
L.S. Mtupanyama
K. Chikhula
E. Salamba
D.G. Mwamira
Leonard B.C. Kasuma

Proxies / Representatives

Lucia Chola	–	Proxy for Evelyn Mategula
Thom Y. Chiseko	–	Proxy for Thomarysons Trust
Dr. George Partridge	–	Proxy for Grace Lucy Mlongoti
Lackson Nyala	–	Representative for SUCOMA Group Pension Scheme, Toyota Malawi Pension Fund, National Investment Trust Limited, NICO Life Insurance Company, NICO Life Deposit Administration Fund, FMB Pension Fund, Press Corporation Limited Pension Fund, NICO General Insurance Company, Public Pension Trust Fund, RBM Pension Fund and PUMA Malawi Pension Fund
Jim Nsomba	–	Representative for TNM Pension Fund, Magetsi Pension Fund, CHAM Pension Fund, Standard Bank ITF Old Mutual Unit Trust Balanced Fund, Aviation Pension Fund, Old Mutual Malawi, and Old Mutual Life Assurance Co. (Mw) Ltd

In Attendance:

Directors:

Dr. George Partridge	(Chairman)
Mrs. D. Ngwira	
Mrs. E. Mafeni	
Mrs. M. Msiska	
Mr. J. Bizwick	
Mrs. M. Kachingwe	
Mr. J. Nsomba	
Mr. R. Banda	
Mr. M. Kawawa	
Mr. H. Jiya	
Mrs. Z.E Mitole	Company Secretary

External Auditors: Deloitte represented by Nkondola Uka

Observers:

Samuel C.B. Mkoko	
Gideon C. Chomboto	
Marven B. Njikho	
R. Kumwenda	
M. Katsala	
Etta C. Mkwezalamba	For: Berta Trading
Kondwani Nyirongo	For: Cedar Capital
J.R. Kamanga	For: Malawi Stock Exchange
Phelire Magawa	For: Perspective Brushware
T. Sabola	For: Times
W. Kumwembe	For: Times
N. Kadzakumanja	For: Stockbrokers Malawi Ltd

D. Nyirenda	For: Malawi Stock Exchange
M. Mittochi	For: Malawi Stock Exchange
S. Phiri	For: MBC
T. Mwawa	For: Alliance Stockbrokers
T. Zimba	For: Alliance Stockbrokers
S. Boyce	For: MBC
Mac Donald Chapalapata	For: PCL
V. Banda	For: Credit Solutions
F. Chirambo	For: Credit Solutions
J. Lucius	For: Credit Solutions
L. Tinto	For: MSII
S. Banda	For: MISALICO
D. Njirammadzi	For: Face of Malawi Online News

1. Quorum

The Secretary confirmed that since there were more than three persons present entitled to vote either in person or in proxy, as provided for under Article 31 of the Company's Articles of Association, the quorum had been duly constituted. The Chairman then called the meeting to order at 2.00 pm.

2. Opening Remarks

The Chairman welcomed all those present to the 47th Annual General Meeting.

The Chairman advised shareholders that Management and the Board members would be available for general discussions over refreshments after the completion of the AGM business.

The Chairman introduced members of the Board present.

3. Notice

The Notice of the Annual General Meeting which was circulated within the statutory notice period of 21 days was taken as read.

4. Adoption of Agenda

The Secretary announced that at the time of the meeting, no items had been received for discussion under Any Other Business. The Agenda was therefore adopted without any amendment after noting the abstention from participating and voting by five members on the ground that financial statements were not sent to them on time.

Despite this abstention, it was noted that a quorum was still constituted.

5. **Ordinary business**

i) **To note the Minutes of the 46th Annual General Meeting held on Thursday 8th June 2018.**

a. The Minutes of the 46th Annual General Meeting held on Thursday 8th June 2018 were approved as a correct record of the deliberations on that day.

b. On the proposal of the motion duly seconded it was resolved that:

"The said Minutes be hereby adopted and confirmed as a correct record of the proceedings thereat."

ii) **To receive and consider the Directors' and Auditors' Report and the Financial Statements of the Company for the Year ended 31st December 2018.**

a. On the proposal of a motion duly seconded, the majority of members present voted for the resolution and one member voted against the resolution. It was therefore resolved that:

"The Directors' and Auditors' Report and Financial Statements for the year ended 31st December 2018 be received and adopted, and that all matters and things undertaken and discharged by the Directors on behalf of the Company be confirmed."

iii) **Declaration of Dividend**

a. On the proposal of a motion duly seconded, it was unanimously resolved that:

"A final dividend amounting to K3.5 billion making a total dividend of K7.5 billion in respect of 2018 profits representing K16.06 per ordinary share, having already paid a first interim dividend of K2.5 billion in September 2018 and a second interim dividend of MK1.5 billion on 1st April 2019, be approved."

iv) **Appointment of Auditors**

a. On the proposal of a motion duly seconded, it was unanimously resolved that:

"Messrs Deloitte be re-appointed as auditors for the Company for the year ending 31st December 2019 and that the Directors are authorised to fix their remuneration."

v) **Directors' Re-Election**

1. **To confirm the appointment of Mrs. Dorothy Ngwira who was co-opted during the year to fill a casual vacancy.**

On a proposal of a motion duly seconded, it was unanimously resolved that:

"Mrs. Dorothy Ngwira who co-opted during the year be confirmed as Director of the Company with effect from the date of her appointment.

2. <u>**To re-elect Mrs Maureen Kachingwe who retires by rotation in terms of the Articles of Association but being eligible, has offered herself for re-election.**</u>

On a proposal of a motion duly seconded, it was unanimously resolved that:

"Mrs. Maureen Kachingwe who retires by rotation in terms of the Articles of Association but being eligible, be re-elected.

3. <u>**To note the retirement of Mr. Elias Kambalame who is not available for re-election**</u>

a. The Meeting noted the retirement of Mr. Elias Kambalame who was not available for re-election.

b. The Chairman thanked Mr. Kambalame for his selfless service.

vi) <u>**Executive Directors' Remuneration**</u>

On the proposal of a motion duly seconded, it was unanimously resolved that:

"The Directors be authorised to determine the remuneration of Executive Directors".

vii) <u>**Non-Executive Directors' Remuneration**</u>

<u>**To approve an increase in the net fees and sitting allowances of the Chairman and Non-Executive Directors with effect from 1st January 2019 as follows:**</u>

1. <u>**Directors' Fees**</u>

On the proposal of a motion duly seconded, the majority of members present voted for the resolution and one member voted against the resolution. It was therefore resolved that:

"The net fees of the Chairman and Non-Executive Directors with effect from 1st January 2019 be fixed as follows:

Chairman:	K10, 650, 000 per annum (2018: K9,432,300)
Non-Executive Directors:	K7, 000, 000 per annum (2018: K6, 205,650)

2. <u>**Directors' Sitting Allowances**</u>

On the proposal of a motion duly seconded, it was unanimously resolved that:

"The sitting allowances of the Chairman and Non - Executive Directors with effect from 1st January 2019 be fixed as follows":

Chairman:	K331, 000 per sitting (2018: K292, 950)
Non-Executive Directors:	K294,000 per sitting (2018: K260, 400)

viii) Special Business

To consider and, if deemed fit, pass a resolution with or without modification to amend clause 52.1 of the Articles of Association by increasing the maximum number of Directors from eleven to thirteen.

On the proposal of a motion duly seconded, it was unanimously resolved that:

"Clause 52.1 of the Articles of Association be amended by increasing the maximum number of Directors from eleven to thirteen".

ix) Other Business

As there was no further business to discuss for which prior notice had been given, the meeting was declared closed at 15:00 hours with an invitation to refreshments.

……………………………………………… ………………………………………………..

CHAIRMAN DATE

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MEMORANDUM OF ASSOCIATION
AND
ARTICLES OF ASSOCIATION
OF
NATIONAL BANK OF MALAWI PLC

Preliminary

1. In these articles:

" the Act" means the Companies Act, Cap 46.03 of the Laws of Malawi, or any modification, amendment or replacement thereof for the time being in force;

"the seal" means the common seal of the company;

"Independent Non-Executive Director" means a person that either is nominated by the other Directors or Executive Management of the Bank; and

is not related or affiliated to a shareholder that the ability to control or influence management: or

has not been employed by the Bank or its subsidiary in any executive capacity for the preceding three financial years; or

is not a member of the immediate family of an individual who is or has not been in any of the past three financial years employed by the Bank or the group in an executive capacity; or

is not a professional advisor to the Bank or the Group other than in a Director capacity; or

is not a significant customer or supplier of the Bank; or

has no significant contractual relationship with the Bank or group or;

is free from any business or other relationship which could be seen to materially interfere with individual's capacity to act in an independent manner.

"Old Mutual Malawi" means Old Mutual (Malawi) Limited, a private incorporated in the Republic of Malawi;

"Old Mutual Life" means Old Mutual Life Assurance Company (Malawi) Limited, a company incorporated in the Republic of Malawi;

"OM" means OM Portfolio Holdings (Pvt) Limited, a private company incorporated in the Republic of Malawi;

"secretary" means any person appointed to perform the duties of the secretary of the company.

Unless the context otherwise requires, words or expressions contained in these articles shall bear the same meaning as in the Act or any statutory modification thereof in force at the date at which these articles became binding on the company.

Share Capital and Variation of Rights

2.1 The present share capital of the company is K500,000,000 **(FIVE HUNDRED MILLION KWACHA)** divided into **FIVE THUNDRED MILLION)** ordinary shares of **K1 (ONE KWACHA)** each.

2.3 Without prejudice to any special rights previously conferred on the holders of the existing shares or class of shares, but subject to the Act, shares in the company may be issued by the Directors and any such share may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the directors, subject to any ordinary resolution of the company, determine.

3. Subject to the Act, any preference shares may, with the sanction of an ordinary resolution, be issued on the terms that they are, or at the option of the company are, liable to be redeemed.

4. If at any time the share capital is divided into different classes of shares, then provided three-fourths of the holders of the other classes first agree by written resolution, the rights attached to any class (unless otherwise provided by the terms of issue of the shares 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 the class. To every such separate general meeting the provisions of these articles relating to general meetings shall mutatis mutandis apply, but subject to the following provisions:

a. where a class has only one member, that member shall constitute a meeting;

b. at any meeting of a class of members, one member of the class present in person or by proxy may demand a poll;

c. at any meeting of a class of members other than an adjourned meeting, the necessary quorum shall be one member present in person or by proxy, if there are not more than two members of that class, and in any other case shall be two members present in person or by proxy, holding not less than one-third of the total voting rights of that class; and

d. at any adjourned meeting of a class of members, the necessary quorum shall be one member of that class.

5. 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.

6. The company may exercise the powers of paying commissions ~~conferred by the Act,~~ provided that the rate per cent or the amount of the commission paid or agreed to be paid shall be disclosed ~~in the manner required by the Act~~ and the commission shall not exceed the rate of five per cent of the price at which the shares in respect whereof the same is paid are issued or an amount equal to five per cent of that price (as the case may be). Such commission may be satisfied by the payment of cash or the allotment of fully paid shares or partly in one way and partly in the other, provided payment by allotment is authorised by the company in general meeting. The company may also on any issue of shares pay such brokerage as may be lawful.

7. Except as required by law, no person shall be recognised by the company as holding any share upon any trust, and the company shall not be bound by or be compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future, or partial interest in any share or (except only as by these articles or by law otherwise provided) any other rights in respect of any share except an absolute right to the entirety thereof in the registered holder.

8. Every person whose name is entered as a member in the register of members shall be entitled without payment to receive a certificate under the seal of the company affixed with the authority of the Directors and such certificate shall be signed by a person or persons authorised by a resolution of the Directors but in respect of a share or shares held jointly by several persons the company shall not be bound to issue more than one certificate, and

delivery of a certificate for a share to the first named of several joint holders shall be sufficient delivery to all such holders. Such signing may be by such mechanical means as the external auditors, any transfer auditors or bankers of the company shall in writing have approved.

9. Any member selling part of his shares shall be entitled, where applicable, without payment to receive a certificate as provided in article 8.

10. If a share certificate is defaced, lost or destroyed, it may be renewed on payment of such reasonable fee, if any, as may be determined from time to time (provided they are within parameters accepted by the Stock Exchange Committee) and on such terms (if any) as to evidence and indemnity and the payment of out-of-pocket expenses of the company of investigating such evidence as the Directors think fit.

Lien

11.1 The company shall have a first and paramount lien on every share (not being a fully-paid share) for all sums (whether presently payable or not) called or payable at a fixed time in respect of that share; but the directors may at any time declare any share to be wholly or in part exempt from the provisions of this regulation. The company's lien, if any, on a share shall extend to all distributions attributable to that share.

11.2 The company may sell in such manner as the directors think fit any shares on which the company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable, ~~or~~ and until the expiration of fourteen clear days after a notice in writing, stating and demanding payment of the sum presently payable, has been given to the registered holder for the time being of the share, or the person entitled to the share by reason of his death or bankruptcy.

11.3 To give effect to a sale the Directors may authorise some person to execute an instrument of transfer of the shares sold to, or in accordance with the directions of, the purchaser. The title of the transferee to the shares shall not be affected by any irregularity in or invalidity of the proceedings in reference to the sale.

11.4 The net proceeds of the sale shall be applied in payment of so much of the sum for which the lien exists as is presently payable, and any residue shall be paid~~held~~ (subject to a like lien for sums not presently payable as existed upon the shares prior to the sale) by the company on ~~behalf of~~ to the person entitled to the shares at the date of the sale, but subject to surrender to the company for cancellation of the certificate for the shares sold.

Calls on Shares and Payment in Advance

12.1 Subject to article 12.5 and the terms of allotment, the directors may from time to time make calls upon the members in respect of any sums unpaid on their shares, and each member shall (subject to receiving at least fourteen clear days' notice specifying the time or times of payment) to pay to the company at the time or times so specified the amount called on his shares. A call shall be deemed to have been made at the time when the resolution of the directors authorising the call was passed.

12.2 The joint holders of a share shall be jointly and severally liable to pay all calls in respect of it.

12.3 If a call is not paid before or on the day appointed for payment, the person from whom the sum is due shall pay interest upon the amount unpaid at such rate ~~of~~ as may be determined by the Directors from time to time from the day appointed for the payment to the time of the actual payment, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

12.4 The provisions of these articles as to payment of interest shall apply in the case of non-payment of any sum which by the terms of issue of a share becomes payable at a fixed time whether on account of the amount of the share, or by way of premium, as if it had become payable by virtue of a call duly made and notified.

12.5 Subject to the terms of allotment, the Directors may make arrangements on the issue of shares of different classes for a difference between the holders of the different classes in the amounts and times of payment of calls on their shares, but the Directors may not so differentiate between holders of the same class.

12.6 The directors may, if they think fit, receive from any member willing to advance the same, all or any part of the monies for the time being remaining uncalled on his shares, and may pay interest upon the monies so paid in advance, or upon so much thereof as from time to time remains in advance of the calls then made upon such shares, at such a rate as they think fit, subject to any direction by the company in general meeting, but such advance payment shall not entitle the holder of the shares to participate in respect thereof in a dividend subsequently declared or in a vote, where he would not otherwise be so entitled.

Transfer of Shares

13. Subject to these regulations any member may transfer all or any of his shares by instrument in writing ~~in the form of the Sixth Schedule to the Act or in any other~~ in such form which the Directors may approve. The

instrument shall be executed by or on behalf of the transferor and transferee; and the transferor shall remain the holder of the shares transferred until the transfer is registered and the name of the transferee is entered in the register of the members in respect thereof.

14. The directors may decline to register any transfer of a share which is not fully paid to a person of whom they do not approve, and may also decline to register any transfer of shares on which the company has a lien. The directors may suspend the registration of transfers for such periods (not exceeding thirty days in any year) as they may determine. The Directors may decline to recognise any instrument of transfer unless:

    a. the instrument of transfer is duly stamped and accompanied by the certificate of the shares to which it relates, and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer;

    b. it relates only to one class of shares;

    c. it is not in favour of more than four joint transferees.

    If the Directors refuse to register a transfer of any shares they shall within two months after the date on which the transfer was lodged with the company send to the transferee notice of the refusal.

15. No fee shall be charged for registration of a transfer nor on registration of any other instrument relating to or affecting the title to any shares.

Transmission of Shares

16. In case of the death of a member the survivor or survivors where the deceased was a joint holder, and the legal personal representatives of the deceased where he was a sole holder or last survivor of joint holders, shall be the only persons recognised by the company as having any title to his interest in the shares; but nothing herein contained shall release the estate of a deceased joint holder from any liability in respect of any share which had been jointly held by him with other persons.

17. Any person becoming entitled to a share in consequence of the death or bankruptcy of a member may, upon such evidence being produced as may from time to time properly be required by the directors and subject as hereinafter provided, elect either to be registered himself as a holder of the share or to have some person nominated by him registered as the transferee thereof.

18. If the person so becoming entitled elects to be registered himself, he shall deliver or send to the company a notice in writing signed by him stating that

he so elects. If he elects to have another person registered he shall testify his election by executing to that person a transfer of the share. All the limitations, restrictions and provisions of these articles relating to the right to transfer and the registration of transfers of shares shall be applicable to any such notice or transfer as aforesaid as if the death or bankruptcy of the member had not occurred and the notice or transfer were a transfer signed by that member.

19. Where the registered holder of any share dies or becomes bankrupt his personal representative or the assignee of his estate, as the case may be, shall be entitled to the same dividends and other advantages as the registered holder would have been entitled to if he had not died or become bankrupt, and to the same rights and remedies as if he were a member of the company, except that he shall not, before being registered as a member in respect of the share, be entitled to vote at any meeting of the company.

Provided that the company may at any time give notice requiring any such personal representative or assignee to elect either to be registered himself or to transfer the share and if the notice is not complied with within twelve months the company may thereafter suspend payment of all dividends or other moneys payable in respect of the share until the requirements of the notice have been complied with.

Where two or more persons are jointly entitled to any share in consequence of the death of the registered holder they shall, for the purposes of these regulations, be deemed to be joint holders of the share.

Alteration of Capital

20. The company may from time to time by ordinary resolution

~~a) increase the share capital by new shares of such amount as the resolution shall prescribe;~~

~~ab)~~ consolidate and divide all or any of its share capital into shares of larger amount;

~~bc)~~ subdivide its shares or any of them into shares of smaller amount;

~~cd) cancel shares which at the date of the passing of the resolution in that behalf have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.~~

21. Unless the company otherwise resolves, all unissued shares (whether in the original or any increased share capital) 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 the 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, which time shall not be less than fourteen days, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the directors may dispose of these shares in such manner as they think most beneficial to the company. The Directors may likewise so dispose of any odd shares which (by reason of the ratio which the new shares bear to the shares held by persons entitled to an offer of new shares) cannot, in the opinion of the Directors, be conveniently offered under this regulation.

22. The company may by special resolution reduce its share capital, any capital redemption reserve fund or any share premium account in ~~any manner and with, and subject to, any incident authorized and consent required by law~~accordance with the Act.

General Meetings

23. The company shall in each year hold a general meeting as its annual general meeting in addition to any other meetings in that year, and shall specify the meeting as such in the notices calling it; and not more than fifteen months shall elapse between the date of one annual general meeting of the company and that of the next ~~provided that if all the members of the company entitled to attend and vote at any annual general meeting agree in writing that an annual general meeting shall be dispensed with in any year, it shall not be necessary to hold an annual general meeting that year.~~

24. All general meetings other than annual general meetings shall be called ~~extraordinary~~ general meetings.

25. The Directors may, whenever they think fit, convene a~~n extraordinary~~ general meeting, and ~~extraordinary~~ general meetings shall also be convened on the requisition of members as provided ~~by section 106 of~~ the Act and the Regulations made thereunder. If at any time there are not within Malawi sufficient Directors capable of acting to form a quorum, any Director or any two members of the company may convene a~~n extraordinary general meeting~~ in the same manner as nearly as possible as that in which meetings may be convened by the Directors.

26. All general meetings shall be held in Malawi at such times and places as the Directors shall determine.

Notice of General Meetings

27. General meetings shall be called by twenty one days' notice in writing at the least. The notice shall be exclusive of the day on which it is served or

deemed to be served and of the day for which it is given, and shall specify the place, the day and the hour of meeting and~~, in case of special business,~~ the general nature of that business to be dealt with at the meeting, and shall contain a statement informing the members of their right to appoint proxies, and shall be given, in manner hereinafter mentioned or in such other manner, if any, as may be prescribed by the company in general meeting, to such persons as are, under the Act or the articles of the company, entitled to receive such notices from the company:

Provided that a meeting of the company shall, notwithstanding that it is called by shorter notice than that specified in this article, be deemed to have been duly called if it is so agreed:

a. in the case of a meeting called as the annual general meeting, by all the members entitled to attend and vote thereat; and

b. in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety five per cent of the total voting rights at that meeting of all the members.

28. Notices of general meetings shall be accompanied by any statements required to be circulated therewith on behalf of members in accordance with sections 13~~17~~ and 14~~18~~ of the Code of Conduct for Shareholders of a Public Company~~Act~~.

29. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

Proceedings at General Meetings

~~30. All business shall be deemed special that is transacted at an extraordinary general meeting, and also all that is transacted at an annual general meeting, with the exception of declaring a dividend, the consideration of the accounts, balance sheets, and the reports of the directors and auditors, the election of directors in the place of those retiring, the fixing of the remuneration of the directors and the appointment of, and the fixing of the remuneration of, the auditors.~~

31. No business shall be transacted at any general meeting or adjourned meeting unless a quorum is present at the time when the meeting proceeds to business. Two persons entitled to attend and vote upon the business to be transacted, each being a member or a proxy for a member, provided one of them is representative of the company to which the company is subsidiary shall be a quorum.

32. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of members, shall be dissolved; in any other case it shall stand adjourned to the same day in the next week, at the same time and place or to such other day and at such other time and place as the Directors may determine and notice of the adjourned meeting shall be given and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the members then present or represented by proxy shall be a quorum.

33.1 The Chairman, if any, of the Board of Directors or in his absence some other Director nominated by the Directors shall preside as chairman at every general meeting of the company, or if there is no such chairman, or if neither the chairman nor such other Director (if any) shall be present within fifteen minutes after the time appointed for the holding of the meeting, or if the chairman or such other Director (if any) is unwilling to act, the Directors present shall choose one of their number to be chairman of the meeting and, if there is only one Director present and willing to act, he shall be Chairman.

33.2 If no Director is willing to act as chairman, or if no Director is present within fifteen minutes after the time appointed for holding the meeting, the members present and entitled to vote shall choose one of their number to be the Chairman.

34. The chairman may, with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Save as aforesaid it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.

35. At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded:

a) by the Chairman; or

b) by at least five~~three~~ members present in person or by proxy; or

c) by any member or members present in person or by proxy and representing not less than one-tenth~~twentieth~~ of the total voting rights of all the members having the right to vote at the meeting, excluding any voting rights attached to any shares in the company held as treasury shares; or.

d) by a member or members present in person or by proxy holding shares in the company conferring a right to vote on the resolution being shares on which an aggregate sum has been paid up equal to not less that ten percent of the total sum paid up on all the shares conferring that right, excluding shares in the company conferring a right to ~~b~~vote on the resolution which are held as treasury shares.

Unless a poll be so demanded a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

The demand for a poll may be withdrawn.

36. Except as provided in article 38, if a poll is duly demanded it shall be taken in such manner as the chairman directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

37. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to a second or casting vote.

38. A poll demanded on the election of a Chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with pending the taking of the poll.

39. Subject to the provisions of the Act, a resolution in writing signed by all the members for the time being entitled to receive notice of and to attend and vote at general meetings (or, being bodies corporate or unincorporated associations, by their duly authorised representatives) shall be as valid and effective as if it had been passed at a general meeting of the company duly convened and held.

Votes of Members

40. Subject to any rights or restrictions for the time being attached to any class or classes of shares, on a show of hands every individual present and entitled to vote shall have one vote, and on a poll every member present or represented by proxy shall have one vote for each share of which he is the holder.

41. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the register of members.

42. No member shall be entitled to vote at any general meeting unless all sums presently payable by him in respect of shares in the company have been paid.

43. No objection shall be raised to the qualification of any voter except at the meeting or adjourned meeting at which the vote objected to is given or tendered, and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the chairman of the meeting, whose decision shall be final and conclusive.

44. On a poll, votes may be given either personally or by proxy. A member having more than one share carrying voting rights may appoint separate proxies to represent respectively such number of the shares held by him as may be specified by him in their instruments of appointment.

45. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointor is a body corporate, either under seal, or under the hand of an officer or attorney duly authorised. A proxy needs not be a member of the company.

46. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the registered office of the company or at such other place within Malawi as is specified for that purpose in the notice convening the meeting, not less than forty eight hours before the time for holding the meeting or adjourned meeting, at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.

47. An instrument appointing a proxy shall be in the following form or a form as near thereto as circumstances admit-

(National Bank of Malawi plc)

I/We .... of .... (address), being a member/members of the above-named company, hereby appoint .... of .... or failing him .... of .... as my/our proxy to vote for me/us on my/our behalf at the [~~(~~annual] ~~or extraordinary, as the case may be)~~ general meeting of the company, to be held on the

.... day of ...., 20......, and at any adjournment thereof.

This form is to be used-

in favour of
*............................. resolution no. ....;
against

in favour of
*............................. resolution no. ....;
against

in favour of
*............................. resolution no. ....;
against

Unless otherwise instructed, the proxy will vote as he thinks fit.

Date .... Signed ....

* Strike out whichever is not desired.

A proxy need not be a member of the company.

48. The instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll.

49. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the share in respect of which the proxy is given, provided that no intimation in writing of such death, insanity, revocation or transfer as aforesaid shall have been received by the company at its head office or at such other place within Malawi as is specified in the notice convening the meeting or in any instrument of proxy sent out by the company in relation to the meeting before the commencement of the meeting or adjourned meeting at which the proxy is used.

50. Even after the giving and lodging of notice of revocation of power of attorney, the company shall be entitled to give effect to any instrument signed under power of attorney and certified by any officer of the company as being in order before the giving and lodging of such notice.

Bodies Corporate and Unincorporated Associations acting by Representatives at Meetings

51. Any body corporate or unincorporated association which is a member of the company may by resolution of its Directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the company or of any class of members of the company, and the person so authorised shall be entitled to exercise the same powers on behalf of the body corporate or unincorporated association which he represents as that body corporate or unincorporated association could exercise if it were an individual member of the company, and shall be deemed to be a member for the purpose of reckoning a quorum.

Directors

52 Unless otherwise determined by ordinary resolution, the number of Directors shall not be less than ~~four or more than eleven~~thirteen at any one time.

52.1 Any member who holds ten per cent or more in nominal value of the issued share capital of the company may from time to time appoint one director of the company in respect of his every ten percent holding in the equity shares of the company (with no rounding up).

~~52.2 Notwithstanding article 52.1, provided ALH holds no less than twenty five per cent in nominal value of the issued share capital of the company,. ALH may from time to time appoint three directors of the company.~~

52.3 For purposes of article 52.1, Old Mutual Malawi, ~~and~~ Old Mutual Life and OM together shall be deemed to be one member and they may from time to time jointly appoint a Director of the company.

52.4 Any right granted pursuant to articles 52.1, 52.2 and, 52.3 shall lapse and any Director appointed pursuant to that right shall automatically vacate his office ~~on the,~~ on the reduction of any holding of ten per of a member, and in the event of a member having appointed more than one Director, the Director or Directors to vacate office shall be identified by the member appointing, but if such member shall fail to do so, the other directors shall identify the Director or directors to vacate office.

52.5 Any such appointee shall hold office, subject to article 62, and may at any time be removed from office by the member who appointed him.

52.6 Any such appointment or removal shall be affected by an instrument in writing addressed to and served on the company.

53 The fees of the Directors shall be determined by the company in general

meeting. Such fees 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 and returning from meetings of the directors or any committee of the directors or general meetings of the company or in connection with the business of the company.

54. There shall be no shareholding qualification for Directors.

Borrowing Powers

55. Subject as provided by this regulation, the Directors may exercise all the powers of the company to borrow money and to mortgage or charge its undertaking and property or any part thereof, and to issue debentures, debentures stock and other securities whether outright or as security for any debt, liability or obligation of the company or any third party:

Provided that the aggregate amount for the time being remaining undischarged of moneys borrowed by the company and its subsidiaries (exclusive of inter-company borrowing and apart from temporary loans obtained from the company's banks in the ordinary course of business) shall not, without the sanction of the company in general meeting by ordinary resolution, exceed a reasonable fixed amount or percentage of the paid up share capital of the company for the time being issued and reserves, and the directors will procure that the aggregate amount at any time owing in respect of monies borrowed by the company (including overdue credits) will not without such sanction exceed the said limit, but shall be concerned to see or enquire whether this limit is observed.

Powers and Duties of Directors

56.1 The business of the company shall be managed by the Directors who may exercise all such powers of the company as are not, by the Act or by these articles, required to be exercised by the company in general meeting, subject nevertheless to the provisions of the Act and to these articles.

56.2 Any agreement by the Directors for the sale and/or alienation of all or a major portion of the assets of the company shall be provisional only subject to ratification by the members of the company.

57. The directors may from time to time and at any time by power of attorney appoint any body corporate, firm or person or body of persons, whether nominated directly or indirectly by the Directors to be the attorney or attorneys of the company for such purposes with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under these articles) and for such period and subject to such conditions as they may think fit, and any such power of attorney may

contain such provisions for the protection and convenience of persons dealing with any such attorney as the Directors may think fit and may also authorise any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

58.1 A Director who is in any way, whether directly or indirectly, materially interested in a contract or proposed contract with the company shall declare the nature and extent of his interest at a meeting of the directors or shareholders in accordance with Section 182~~50~~ of the Act.

58.2 Subject to these articles, a Director shall not vote in respect of any contract or arrangement in which he is interested, and if he shall do so his vote shall not be counted, nor shall he be counted in the quorum present at the meeting, but neither of these prohibitions shall apply to:

a. any arrangement for giving any director any security or indemnity in respect of money lent by him to or obligations undertaken by him for the benefit of the company; or

b. any arrangement for the giving by the company of any security to a third party in respect of a debt or obligation of the company for which the director himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the deposit of a security; or

c. any contract by a Director to subscribe for or underwrite shares or debentures of the company;

and these prohibitions may at any time be suspended or relaxed to any extent, and either generally or in respect of any particular contract, arrangement or transaction, by the company in general meeting.

58.3 A Director may hold any other office or place of profit under the company (other than the office of auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine and no Director or intending director shall be disqualified by his office from contracting with the company either with regard to his tenure of any such office or place of profit or as vendor, purchaser or otherwise, nor shall any such contract, or any contract or arrangement entered into by or on behalf of the company in which any director is in any way interested, be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the company for any profit realised by such contract or arrangement by reason of such Director holding that office or of the fiduciary relation thereby established.

58.4 A Director may not be counted in the quorum present at any meeting whereat he is appointed to hold any such office or place of profit under the company or whereat the terms of any such appointment are arranged, and he may not vote on any such appointment or arrangement of the terms thereof.

58.5 Any Director may act by himself or his firm in a professional capacity for the company, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director; provided that nothing herein contained shall authorise a director or his firm to act as auditor to the company.

59. All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments, and all receipts for moneys paid to the company, shall be signed, drawn, accepted, endorsed, or otherwise executed, as the case may be, in such manner as the Directors shall from time to time by resolution determine.

60. The directors shall cause minutes to be made in books provided for the purpose-

a) of all appointments of officers made by the directors;

b) of the names of the Directors present at each meeting of the directors and of any committee of the directors;

c) of all resolutions and proceedings at all meetings of the company, and of the Directors, and of Committees of Directors.

61. The Directors on behalf of the company may pay a gratuity or pension or allowance on retirement to any Director who has held any other salaried office or place of profit with the company or to his widow or dependants and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.

62. The office of Director shall be vacated if the director:

a. ceases to be a Director by virtue of Section 170~~46~~ of the Act; or

b. becomes bankrupt or makes any arrangement or composition with his creditors generally; or

c. becomes prohibited or disqualified from being a Director by reason of any order made by a competent court; or

d. becomes of unsound mind; or

e. resigns his office by notice in writing to the company; or

f. shall for more than six consecutive months have been absent without permission of the Directors from meetings of the Directors held during that period and the Directors resolve that his office be vacated; or

g. is directly or indirectly materially interested in any contract or proposed contract with the company and fails to declare the nature of his interest in manner required by the Act; or

h. is requested in writing by all the other directors to resign his office.

i. being an Executive Director ceases to hold an executive office in the company, provided that the company may appoint such an Executive as a Non-Executive Director.

63. At a general meeting of the company in every year one third of the Directors for the time being, (~~nut~~ excluding any executive Director during his term of appointment to such office and also excluding any director appointed pursuant to articles 52), or if their number is not three or a multiple of three, then the number nearest one third shall retire from office.

64. The Directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for re-election.

Special Resolution 1.6.2007

65. The company at the meeting at which a Director retires in manner aforesaid may fill the vacated office by electing a person thereto, and in default the retiring Director shall if offering for re-election be deemed to have been re-elected, unless at such meeting it is expressly resolved not to fill such vacated office or unless a resolution for the re-election of such director shall have been put to the meeting and lost.

66. No person other than a Director retiring at the meeting shall unless recommended by the directors be eligible for election to the office of Director at any general meeting unless not less than seven not more than 21 days before the date appointed for the meeting there shall have been left at the registered office of the company notice in writing, signed by a member duly qualified to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election, and also notice in writing signed by that person of his willingness to be elected.

67. The company may from time to time by ordinary resolution increase or reduce the number of Directors and may also determine in what rotation the increased or reduced number is to go out of office.

68. The Directors shall have power at any time, and from time to time to appoint any person to be an independent director and to appoint any person either to fill in a casual vacancy or as a replacement for vacancy occurring among independent directors but so that the total number of Directors shall not at any time exceed the number fixed in accordance with articles 52.1. Any director appointed to fill a vacancy among independent directors shall be subject to rotation in accordance with articles 63 and 70. Any Director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting, and shall then 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.

Special Resolution of 8.6.2012

69. The company may be ordinary resolution, of which notice has been given in accordance with Section 169(1)~~46~~ 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 any contract of service between him and the company.

70. The company may be ordinary resolution appoint another person in place of a director from office under the immediately preceding articles, and without prejudice to the powers of the directors under articles 68 the company in general meeting may appoint any person to be a Director either to fill a casual vacancy or as an independent Director. A person appointed in place of a Director so removed or to fill such a vacancy shall be subject to retirement at the same time as if he had became a Director on the day on which the Director in whose place he is appointed was last elected a Director.

Special Resolution of 8.6.2012

Proceedings of Directors

71.1 The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings, as they think fit. Questions arising at any meeting shall be decided by a majority of votes. A Director may, and the secretary on the requisition of a Director shall, at any time summon a meeting of the Directors. ~~It shall not be necessary to give notice of a meeting of directors to any director for the time being absent from Malawi.~~

71.2 At any meeting of directors a resolution put to the vote of the meeting shall be decided on a show of hands and each Director, or his alternate, present shall be entitled to one vote. Each of the Directors shall be at liberty, so long as he shall be a director, by writing under his hand to authorise any other Director of the company to vote for him at any meeting or meetings of the Directors, and such authority may be general or may be limited to any one or more meetings, or to any specified question or questions, and must, if required, be produced at any meetings at which the holder of the authority proposes to vote.

71.3 In case of an equality of votes, the meeting shall stand adjourned to the same day in the next week, at the same time and place or to such other day and such other time and place as the directors may determine and notice of the adjourned meeting shall be given (in the same manner as the notice convening the meeting) and if at the adjourned meeting there is again an equality of votes, the meeting shall stand adjourned in the same manner and this process shall continue until the subject matter is resolved by a majority vote.

72.1 The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors, and unless so fixed shall be five.

72.2 If within half an hour from the time appointed for the meeting a quorum is not present, the meeting shall stand adjourned to the same day in the next week, at the same time and place or to such other day and at such other time and place as the directors may determine and notice of the adjourned meeting shall be given (in the same manner as the notice convening the original meeting) and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting, the directors then present shall be a quorum.

~~72.3 Any or all of the directors or any members of a committee of the directors may participate in a meeting of the directors or that committee by means of a conference telephone call, video conferencing or any communication equipment which allows all persons participating in the meeting to hear and speak to each other. A person so participating shall be deemed to be present at the meeting, be entitled to vote, counted in the quorum and entitled to nominate any director present in person at the place where any attendance register or other document is required to be signed at the meetings is held to sign the same on his behalf. Such meeting shall be deemed to take place where the largest group of participants is assembled, or if there is no such group, where the chairman of the meeting is present.~~

73 The continuing 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 articles of the company as the minimum number of Directors, the continuing directors or director may act for the purpose of increasing the number of Directors to that number, or of summoning a general meeting of the company, but for no other purpose.

74. The Directors may elect a Chairman and Deputy Chairman (neither shall have a second or casting vote) of their meetings and determine the period (not exceeding one year) for which they are to hold office; but if no such Chairman or deputy chairman is elected, or if at any meeting the Chairman or the Deputy Chairman are not present within five minutes after the time appointed for holding the same, the Directors present may choose one of

their number to be Chairman of the meeting, and such Chairman shall not have a second or casting vote.

75. The Directors may delegate any of their powers to committees consisting of such member or members of their body as they think fit; any committee so formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on it by the directors. The Directors may from time to time appoint and replace chairman of such committees from among the members of each committee.

76. Unless the Directors shall have appointed a Chairman, a committee may elect a chairman of its meetings; if no such chairman is elected, or if at any meeting the Chairman is not present within five minutes after the time appointed for holding the same, the members present may choose one of their number to be Chairman of the meeting.

77. A committee may meet and adjourn as it thinks proper. Questions arising at any meeting shall be determined by a majority of votes of the members present, and in the case of an equality of votes the Chairman shall have a second or casting vote.

78. All acts done by any meeting of the Directors or of a Committee of Directors or by any person acting as a director shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any such Director or person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a Director.

79. A resolution in writing, signed or approved by letter by each Director or his alternate, shall be as valid and effectual as if it had been passed at a meeting of the Directors duly convened and held and when signed may consist of several documents each signed by one or more of the persons aforesaid.

Alternate Directors

80.1 Subject to Article 80.2, any Director (other than an alternate director or a director appointed by any member pursuant to Article 52) may appoint any other director, or any other person approved by resolution of the Directors and willing to act, to be an Alternate Director.

80.2 Each member entitled to appoint one or more directors pursuant to articles 5.2 may appoint any person to be an alternate director to any director appointed by such member. Such member may at any time in writing revoke the appointment of an alternate appointed by such member.

80.3 The appointment of an Alternate Director shall be in writing signed by the appointer and lodged with the company.

81. The appointment of an Alternate Director shall be in writing signed by the appointor and lodged with the company.

82. Every Alternate Director so appointed shall during the currency of such appointment be deemed for all purposes to be a Director and officer of the company and not the agent of his appointor or the director for whom he is an Alternate, and shall be entitled to receive all notices of meetings and to attend, speak and vote at all meetings accordingly.

83. The company shall not be liable to pay additional remuneration by reason of the appointment of an Alternate Director.

84. An Alternate Director who is himself a director shall have an additional vote for each director for whom he acts as alternate at every meeting of the Directors.

85. The appointment of an Alternate Director shall cease at the expiration of the period, if any, for which he was appointed, or if his appointor gives written notice to that effect to the company, or (where applicable) if his appointor ceases for any reason to be a director or if the alternate resigns by notice in writing to the company.

86. Until the cessation of the appointment of an Alternate Director both the substantive and alternate shall be and may act as Directors of the company, but no alternate, unless a Director in his own right, shall attend or vote at any meeting of the Directors or any Committee of Directors at which his substantive Director is present.

Managing and Executive Directors

87. The Directors may from time to time appoint one or more of their number to any executive office including that of chief executive, joint or assistant or deputy chief executive, finance director or operations director, for such period (but not exceeding five years) and on such terms (subject as hereafter provided) as they think fit and, subject to the terms of any agreement made between the executive director and the company, may revoke such appointment. An Executive Director so appointed shall not, while holding office, be subject to retirement by rotation or be taken into account in determining the rotation or retirement of directors; but (subject to any right to treat such determination as a breach of contract) his appointment shall be subject to determination if he ceases for any cause to be a director of the company. Without prejudice to any claim an executive director may have for damages for breach of any contract of service between him and the company, his appointment shall automatically determine if he ceases from any cause to be a Director. Subject to the terms of any contract between him and the company, his appointment as a director shall automatically determine if the Directors resolve that his term of office as an Executive

Special Resolution of 1.6.2007

Director should be determined.

88. An Executive Director shall receive such remuneration (including pension contributions) as the Directors may determine subject to confirmation by the company in general meeting.

89. The Directors may entrust to and confer upon an Executive Director any of the powers exercisable by them upon such terms and conditions and with such restrictions as they may think fit, and either collaterally with or to the exclusion of their own powers and may from time to time revoke, withdraw, alter or vary all or any of such powers.

Secretary

90. The Secretary shall be appointed by the Directors for such term, at such remuneration and upon such conditions as they may think fit; and any secretary so appointed may be removed by them.

91. A provision of the Act or these articles requiring or authorising a thing to be done by or to a Director and the Secretary shall not be satisfied by its being done by or to the same person acting both as director and as, or in the place of, the Secretary.

The Seal

92. The Directors shall provide for the safe custody of the seal, which shall only be used by the authority of the Directors or of a committee of the Directors authorised by the directors in that behalf, and every instrument to which the seal shall be affixed shall be signed by a Director and shall be countersigned by the Secretary or by a second Director or by some other person appointed by the Directors for the purpose.

Dividends and Reserve

93. Only the company in general meeting may declare final dividends, but no dividend shall exceed the amount recommended by the Directors.

94. The Directors may from time to time pay to the members such interim dividends as appear to the directors to be justified by the profits of the company.

95. No dividend shall be paid otherwise than out of profits.

96. If the Directors do not recommend a dividend on any class of quoted shares for any year, the Secretary of the Malawi Stock Exchange shall be notified.

97. Any dividend or interim dividend shall be expressed to be payable to persons registered at a date subsequent to the date of declaration or date of confirmation of the dividend, whichever is the later, as the holders of the shares in respect of which the dividend is declared, notwithstanding that such persons may not be so registered on the date of the declaration. A period of fourteen days at least shall be allowed between the sate of declaration or confirmation of the dividend, whichever is the later, and the date of the closing of the transfer registers in respect of such dividend.

98. The Directors may, before recommending any dividend, set aside out of the profits of the company such sums as they think proper as a reserve or reserves which shall, at the discretion of the Directors, be applicable for any purpose to which the profits of the company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the company or be invested in such investments (other than shares of the company) as the Directors may from time to time think fit. The Directors may also without placing the same to reserve carry forward any profits which they may think prudent not to distribute.

99. Any general meeting declaring a dividend or bonus may direct payment of such dividend or bonus wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures or debenture stock of any company or in any one or more of such ways, and the Directors shall give effect to such resolution, and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient, and in particular may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any members upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

100. Any dividend, interest or other moneys payable in cash in respect of shares may be paid by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of that one of the joint holders who is first named on the register of members or to such person and to such address as the holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one of two or more joint holders may give effectual receipts for any dividends, bonuses or other moneys payable in respect of the shares held by them as joint holders.

101. No dividend shall bear interest against the company.

101.1. ~~All dividends unclaimed for one year after having been declared may be invested or otherwise made use of by the directors for the benefit of the company until claimed.~~

101.1~~2.~~All dividends unclaimed for six~~twelve~~ years after having been declared shall, in compliance with the Public Finance Management Act, 2003, sent to the Consolidated Fund as established under the Constitution of Malawi. ~~may be forfeited by the directors for the benefit of the company~~

Accounts

102. The Directors shall cause proper accounting records to be kept that~~with respect to-~~

a) correctly record and explain the transactions of the company~~all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes places;~~

b) ~~all sales (except ordinary retail sales) and purchases of goods by the company~~shall at any time enable the financial position of the company to be determined with reasonable accuracy; and

c) ~~all assets and liabilities of the company~~shall enable the Directors to prepare financial statements that comply with the Act;

d) shall enable the financial statements to be ready and properly audited.

Proper accounting records shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its operations and transactions.

103. The accounting records shall be kept at the registered office of the company, or, subject to Section 230~~180~~ of the Act, at such other place or places in Malawi as the Directors think fit and shall always be open to the inspection of any Director.

104. The Directors shall from time to time determine whether and to what extent and at what time and places and under what conditions or regulations the accounts and books of the company or any of them shall be open to the inspection of members not being Directors, and no member (not being a director) shall have any right of inspecting any account or book or document of the company except as conferred by statute or authorised by the Directors or by the company in general meeting.

105. The Directors shall from time to time, in accordance with the Act, cause to be prepared and to be laid before the company in general meeting

such ~~profit and loss accounts, balance sheets, group accounts (if any) and~~ reports and accounts as are required by law.

106.1 The company shall, not less than 21 days, or at such other period as may be operative from time to time, before the date of the meeting before which they are to be laid, once at least in every calendar year at intervals of not more than fifteen months cause to be prepared and sent to every member of the company and to every holder of debentures of the company and at the same time to the Secretary of the Malawi Stock Exchange (or its successor) a printed copy of each (three copies in the case of the Malawi Stock Exchange) of the following documents:

a. a profit and loss account and balance sheet;

b. a report by the Directors thereon (also containing the information hereafter stipulated, if applicable); and

c. any report by the auditors:

If the company is a ~~holding~~ parent company as defined in the Act~~statutes~~, the Directors' report attached to ~~each annual balance sheet issued by the company pursuant to the statutes shall disclose full details of all resolutions passed at extraordinary general meetings of the company's subsidiaries since the date of the directors' report attached to the previous annual balance sheet of the company~~the annual report and financial statement issued by the company shall include all information required by Section 252 (1) (b) to (e) of the Act.

Provided that this article shall not require a copy of such documents to be sent to a member or debenture holder of whose address the company is unaware, but such person shall be entitled to be furnished on demand without charge with a copy of the last of such profit and loss accounts and balance sheets and Directors' and auditors' reports.

106.2 Notwithstanding article 106.1 above, if at any time the Malawi Stock Exchange rules permit the sending of electronic copies, the documents referred to in article 106.1, may be sent by electronic means.

107. ~~Unless the holding of an annual general meeting is waived by the members in accordance with section 104 of the Act,~~ T~~t~~he documents referred to in article 105 shall be laid before the company in general meeting.

Capitalisation of Profits

108. The company in general meeting may upon the recommendation of the directors with authority of ordinary resolution resolve that it is desirable to capitalise any part of the amount for the time being standing to the credit

of any of the company's reserve accounts or to the credit of the profit and loss account or otherwise available for distribution, and accordingly that such sum be set free for distribution amongst the members or any class of members pro rata to their respective shareholdings on condition that the same be not paid in cash but be applied in paying up in full unissued shares or debentures of the company to be allotted, distributed and credited as fully paid up to and amongst such members in the proportion aforesaid, and the Directors shall give effect to such resolution:

109. Whenever such a resolution as aforesaid shall have been passed the Directors shall make all appropriations and applications of the sums resolved to be capitalized thereby, and all allotments and issues of fully-paid shares or debentures, if any, and generally shall do all acts and things required to give effect thereto, with full power to the Directors to make such provision by the issue of fractional certificates or by payment in cash or otherwise as they think fit for the case of shares or debentures becoming distributable in fractions, and also to authorise any person to enter on behalf of all the members entitled thereto into an agreement with the company providing for the allotment to them respectively, credited as fully paid up, of any further shares or debentures to which they may be entitled upon such capitalisation, and any agreement made under such authority shall be effective and binding on all such members.

Audit

110. Auditors shall be appointed and their duties regulated in accordance with the Act.

Notices

110.1 A notice may be given by the company to any member either (a) personally or (b) by sending it by post in a letter addressed to him at his registered address as appearing~~fax or telex to him or to his address~~ on the register of members, or (if he has no such address) to the address, if any, supplied by him to the company for the giving of notice to him or (c) by leaving it for him with some person apparently over the age of eighteen years at such address or (d) by fax or (e) by sending it as an electronic communication to an address for the time being notified for that purpose by that member. Where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, prepaying and posting a letter containing the notice, and to have been effected at the expiration of seven days or, if it is sent to an address outside Malawi, fourteen days after the letter containing the same is posted; and if transmitted by fax ~~or telex~~ the next business day and if sent by electronic communication the same day it is sent.

110.2. All members of the company (including all joint holders of shares and persons entitled to a share in consequence of death, bankruptcy or receivership of a member) shall register with the company an address in Malawi or outside Malawi or an electronic address for the service of notices.

111. A notice may be given by the company to the joint holders of a share by giving the notice to the joint holder first named in the register of members in respect of the share.

112. A notice may be given by the company to the persons entitled to a share in consequence of the death, receivership or bankruptcy of a member either personally or by sending it through the post in a prepaid letter addressed to them by name, or by the title of representatives of the deceased, receiver, or trustee of the bankrupt, or by any like description, at the address, if any, within Malawi supplied for the purpose by the persons claiming to be so entitled, or by leaving it for them with some person apparently over the age of eighteen years at such address, or (until such an address has been so supplied) by giving the notice in any manner in which the same might have been given if the death, receivership or bankruptcy had not occurred.

113.1 Notice of every general meeting shall be given in any manner hereinbefore authorised to:

a) every member except those members who have not supplied to the company an address for the giving of notices to them;

b) every person upon whom the ownership of a share devolves by reason of his being a legal personal representative, a receiver or a trustee in bankruptcy of a member where the member but for his death, receivership or bankruptcy would be entitled to receive notice of the meeting;

c) every Director of the company;

d) the auditor for the time being of the company; and

No other person shall be entitled to receive notices of general meetings.

113.2 If the company is quoted on the stock exchange in London or Johannesburg, and notification of any preliminary or other announcement is made by the company from time to time to the stock exchanges in London or Johannesburg, copies of all such notifications shall be forwarded simultaneously to the Secretary of the Malawi Stock Exchange.

114. Any notice required to be given by the company to the members or any of them shall also be given by advertisement which is inserted in at least one national daily newspaper, and such notice shall be sufficiently given by

such advertisement. Any notice given by advertisement shall be deemed to have been served before noon on the day of which the advertisement appears.

Winding up

115. If the company shall be wound up the liquidator may, with the sanction of a special resolution of the company and any other sanction required by the Act, divide amongst the members in specie or kind the whole or any part of the assets of the company (whether they shall consist of property of the same kind or not) and may, for such purpose set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator, with the like sanction, shall think fit.

Indemnity

116. Every Director, Managing Director, Agent, Auditor, Secretary and other officer for the time being of the company shall be indemnified out of the assets of the company against any liability incurred by him in defending any proceedings, whether civil or criminal, in which judgment is given in his favour or in which he is acquitted or in connection with any application under Section ~~341~~ 221 of the Act in which relief is granted to him by the court from liability in negligence, default, breach of duty or breach of trust in relation to the affairs of the company.

~~**Untraced Members**~~

~~117. The company shall be entitled to sell any share of a member or any share to which a person is entitled by transmission or bankruptcy if and provided that:~~

~~a. for a period of twelve years no cheque or warrant sent by the company through the post in a pre-paid letter addressed to the member, or to the person entitled by transmission or bankruptcy, at his address on the register or other the last known address given by the member, or the person so entitled by transmission or bankruptcy, to which cheques, dividends and warrants are to be sent,, has been cashed and no communication has been received by the company from the member, or the person so entitled by transmission or bankruptcy, and during such period at least three dividends in respect of the shares in question have been paid by the company;~~

~~b. the company has at the expiration of the said period or 12 years by advertisement in a national daily newspaper given notice of its intention to sell such shares;~~

~~c. the company has not during the further period of three months after the date of the advertisement and prior to the exercise of the power of sale received any communication from the member or person entitled by transmission; and~~

~~d. the company has fist given notice in writing to the Malawi Stock Exchange or its successor of its intention to sell such shares.~~

~~118. To give effect to any such sale as provided in article 117, the company may appoint any person to execute as transferor an instrument or transfer of such shares and such instrument of transfer shall be as effective as if it had been executed by the registered holder of or person entitled by transmission or bankruptcy to such shares. The company shall account to the member or other person entitled to such shares for the net proceeds of such sale by carrying all monies in respect thereof to a separate account which shall be a permanent debt of the company, and the company shall be deemed to be a debtor and not a trustee in respect thereof for such members or other person. Monies carried to such separate account may either be employed in the business of the company or invested in such investments (other than shares of the company) as the Directors may from time to think fit. No interest shall be payable in respect of the proceeds and he company shall not be required to account for any money earned on the same.~~

Declaration of Secrecy

119. Every director, managing director, executive director, alternate director, manager, trustees, auditor, the secretary and every officer, servant clerk, agent or other person employed in the business of the company shall before entering upon his duties subscribe such a declaration as the directors may from time to time prescribe, engaging themselves to observe a strict secrecy with respect to the dealings and the state of the accounts of the several customers of and the person dealing with the company and any other matters which come to their respective knowledge by virtue of their respective offices, except only so far as it is necessary to the executive of their respective offices, trust or duty to disclose the same.

NATIONAL BANK OF MALAWI PLC

PROXY FORM

I/WE ....(name/s in block letters)

of ....(address)

being the member/members of the above named company and entitled to vote do hereby appoint:

1. ....of ....or failing him/her

2. ....of ....or failing him/her

3. the Chairman of the meeting

as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the Forty Eighth Annual General Meeting of the company to be held virtually from National Bank of Malawi plc Head Office on Thursday 9th July 2020 at 14.00 hours and at any adjourned meeting thereof as follows:

Agenda Item	Mark with X where applicable		
Ordinary Business	In favour	Against	Abstain
1. Noting of Minutes of the 47th Annual General Meeting (For noting only).			
2. Adoption of 2019 Directors' and Auditors' Report and Financial Statements of the Company for the Year Ended 31st December 2019			
3. Declaration of a Final Dividend of K4.3 billion or K17.82 per share			
4. To re-appoint Deloitte Certified Accountants as Auditors as Auditors for the ensuing year and to authorise the Directors to determine their remuneration			
• To confirm the appointment of Mrs. Bessie Nyirenda as an Independent non-executive Director to fill a casual vacancy • To confirm the appointment of Mr. Crispin Mzengereza as an Independent non-executive Director to fill a casual vacancy • To confirm the appointment of Mr. Macleod Nkhoma as an Independent non-executive Director to fill a casual vacancy • To re-elect Mrs. Dorothy Ngwira who retires by rotation but being eligible, has offered herself for re-election • To re-elect Mrs. Maureen Kachingwe who retires by rotation but being eligible, has offered herself for re-election			
6. To authorise Directors to determine the remuneration of Executive Directors			

7. To approve an increase in the fees and sitting allowances of the Chairman and Non-Executive Directors as follows:			
Directors Fees Chairman: K11, 821,500 per annum (2019: K10, 650, 000). Non-Executive Directors: K7, 770,000 per annum (2019: K7, 000, 000).			
Directors Sitting Allowances Chairman: K 367, 410 per sitting (2019: K 331, 000).			
Non-Executive Directors: K 326,340, 000 per sitting (2019: K294, 000).			
8. **Special Business:** To consider and, if deemed fit, to pass with or without modification the following special resolution: **8.1 Adoption of New Articles of Association:** To adopt new Articles of Association of the company in substitution of the existing Articles of Association in compliance with Section 35 of the Companies Act, 2013. The Old Articles of Association are published on the company's website www.natbankmw.com and can also be obtained from the Company Secretary. **8.2 Reason and Effect of Adoption of the New Articles of Association:** The reason for adopting the new Articles of Association is that with the coming in of the Companies Act, 2013, all companies have had to be compliant with the new law.			
The adoption of the new Articles of Association will neither reduce nor affect any shareholding.			
9. **Any Other Business**			

Signed at ………………………………………………………on this ……………day of ……………2019

Signature ……………………………………………………………………………………………

Assisted by me (where applicable) (see note 3)

……………………………………………………………………………………………………

Full name(s) of signatory(ies) if signing in a representative capacity (see note 4

……………………………………………………………………………………………………

NOTE

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the company.
2. In order to be effective, proxy forms must reach the registered office of the company at 7 Henderson Street, Blantyre or the Transfer Secretaries, National Bank of Malawi plc, P.O. Box 945, Blantyre or at 7 Henderson Street, Blantyre not later than 48 hours before the meeting.
3. If this proxy form is returned without any indication as to how the proxy should vote, the proxy will be entitled to vote or abstain from voting as he/she thinks fit.
4. If two of more proxies attend the meeting, then that person attending the meeting whose name appears first on the proxy form, and whose name is not deleted shall be regarded as the validly appointed proxy.
5. A minor must be assisted by his or her guardian.

A proxy need not be a member of the company

NATIONAL BANK OF MALAWI PLC

VOTING FORM

I/WE ....(name/s in block letters)

of ....(address)

being the member/members of the above named company and entitled to vote do hereby appoint:

1. ....of ....or failing him/her

2. ....of ....or failing him/her

3. the Chairman of the meeting

as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the Forty Eighth Annual General Meeting of the company to be held virtually from National Bank of Malawi plc Head Office on Thursday 9th July 2020 at 14.00 hours and at any adjourned meeting thereof as follows:

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4. To re-appoint Deloitte Certified Accountants as Auditors as Auditors for the ensuing year and to authorise the Directors to determine their remuneration			
• To confirm the appointment of Mrs. Bessie Nyirenda as an Independent non-executive Director to fill a casual vacancy • To confirm the appointment of Mr. Crispin Mzengereza as an Independent non-executive Director to fill a casual vacancy • To confirm the appointment of Mr. Macleod Nkhoma as an Independent non-executive Director to fill a casual vacancy • To re-elect Mrs. Dorothy Ngwira who retires by rotation but being eligible, has offered herself for re-election • To re-elect Mrs. Maureen Kachingwe who retires by rotation but being eligible, has offered herself for re-election			
6. To authorise Directors to determine the remuneration of Executive Directors			

7. To approve an increase in the fees and sitting allowances of the Chairman and Non-Executive Directors as follows:			
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The adoption of the new Articles of Association will neither reduce nor affect any shareholding.			
9. **Any Other Business**			

Signed at ……………………………………………………………on this ………………day of ……………….2019

Signature ……

Assisted by me (where applicable) (see note 3)

……

Full name(s) of signatory(ies) if signing in a representative capacity (see note 4

……

NOTE

1. This form should be filled by members of the Company member entitled to attend and vote at the meeting irrespective of whether they will attend the virtual meeting or not.

2. In order to be effective, the proxy form must reach the registered office of the company at 7 Henderson Street, Blantyre or the Transfer Secretaries, National Bank of Malawi plc, P O Box 945, Blantyre or at 7 Henderson Street, Blantyre not later than 48 hours before the meeting.

3. The voting form can be submitted via email on nbmshareholders@natbankmw.com or Whatsapp Number +265 (0) 888 365 986

A proxy need not be a member of the company

NOTES