National Bank of Malawi plc

49th ANNUAL GENERAL MEETING

49th ANNUAL GENERAL MEETING

Contents

NOTICE OF 49TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE FORTY NINTH ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF NATIONAL BANK OF MALAWI PLC WILL BE HELD VIRTUALLY ON 4TH JUNE 2021 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 0885 514 442 and visiting the Company's website (www.natbank.co.mw) from 4 May 2021. 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 7 May to 21 May 2021.
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 2 June 2021.

THE FOLLOWING BUSINESS WILL BE TRANSACTED AT THE MEETING:

AS ORDINARY BUSINESS:

1. APPROVAL OF MINUTES

To approve the Minutes of the 48th Annual General Meeting held on 9th July 2020.

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 2020.

3. DIVIDEND

To declare a final dividend amounting to K8.0 billion (K2019:K4.3 billion) making a total dividend of K13 billion in respect of 2020 profits representing K27.84 per ordinary share, having already paid a first interim dividend of K2.5 billion on 25th September 2020 and a second interim dividend of K2.5 billion on 31st March 2021.

4. APPOINTMENT OF AUDITORS

To re-appoint Deloitte – Chartered 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 Mr. Benard Ndau who was appointed during the year to fill a casual vacancy.

Mr Benard Ndau is a qualified legal practitioner currently working as General Counsel for Press Corporation Plc. Previously he worked as Director of Regulatory Affairs for Airtel Malawi Limited, General Counsel of the Malawi Communications Regulatory Authority (MACRA) and Legal Counsel at the World Bank in Washington DC, USA. Prior to joining the commercial sector, he worked as a legal practitioner at the law firm of Messrs Savjani & Co for five years.

Mr Ndau was a part-time lecturer in Commercial Arbitration at Chancellor College, University of Malawi. He is an associate of the Chartered Institute of Arbitrators (CIArb).

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

5.3 To re-elect Mrs. Bessie Nyirenda 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 2021 as follows:

DIRECTORS' FEES

Chairman:	K13,122,000 per annum (2020: K11,821,500).
Non-Executive Directors:	K8,625,000 per annum (2020: K7,770,000).

SITTING ALLOWANCES

Chairman:	K407,800 per sitting (2020: K367,410).
Non-Executive Directors:	K362,200 per sitting (2020: K326,340).

8. AS SPECIAL BUSINESS:

To consider and, if deemed fit, to pass with or without modification the following special resolution:

To adopt a new article 27B of the Company to incorporate the holding of virtual Annual General Meetings. The proposed article is as below:

"General meetings may be conducted virtually provided all provisions for the giving of notice as stipulated in this clause are followed."

The adoption of this article 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 4th day of May 2021

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 of members will be closed from close of business on 9th July 2021 to 12th July 2021 both dates inclusive, and no transfer will be registered during that time. Only members whose names shall appear in the register as at 9th July 2021 shall be eligible for the dividend, which will be payable on 30th July 2021.

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.

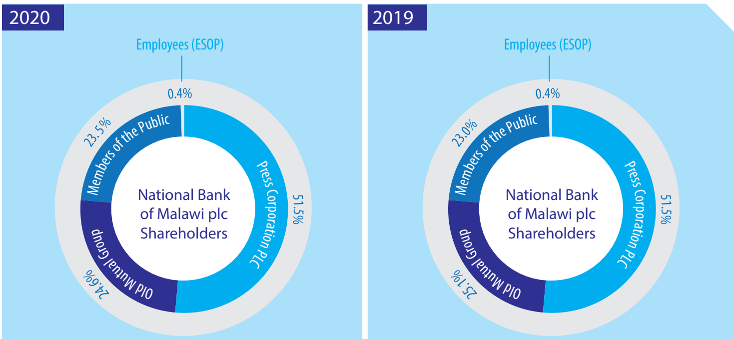
DIRECTORS' REPORT

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 2020.

CAPITAL

The authorised share capital of the Bank is K500m (2019: K500m) divided into 500,000,000 Ordinary Shares of K1 each. The issued capital is K467m (2019: K467m) divided into 466,931,738 (2019: 466,931,738) fully paid Ordinary Shares of K1 each.

The shareholders and their respective shareholdings are:



PROFIT AND DIVIDENDS

The directors report a consolidated profit before tax of K32 808m (2019: K25 351m) for the year. A final dividend of K8 000m (2019: K4 300m) is proposed for the year. A first interim dividend of K2 498m (2019: K2 498m) was paid to shareholders in September 2020. A second interim dividend of K2 500m (2019: K1 500m) was paid on 30 March 2021.

IMPACT OF COVID-19

During the financial year we have seen the emergence of the COVID-19 pandemic. The depth and duration of the economic downturn arising from the pandemic is dependent on the effectiveness of the containment measures put up by the Government, prudential and industry response, and support measures.

The Group has reported an additional credit losses provision of K78m for the potential longer-term impacts of COVID-19. The Group has also written off loans amounting to K4 548m during the period under review. While the write downs were not directly due to the pandemic, the economic downturn exacerbated the customers default position. In addition, non-interest income amounting to K453m was also foregone by the Group following the implementation of a directive from the Reserve Bank of Malawi to reduce fees, and charges related to internet banking, mobile payments and any other related services by forty percent. The Group also incurred K49m in COVID-19 containment measures including but not limited to sanitizer and masks.

Despite the above impacts, the Group has still reported high profit before tax of K32 808m representing 29.42% increase over last year. The financial performance further reinforces our already strong provisioning and balance sheet controls that position the Bank well for a range of possible economic scenarios. Given the unprecedented set of circumstances which are still evolving, a definite assessment of the longer term impact of the COVID-19 pandemic and the consequent economic and societal impacts is difficult at this stage. The Group's lending portfolios continue to be monitored closely, with detailed portfolio stress testing as the situation continues to evolve. The focus for the Group continues to be supporting our customers through continued operational excellence underpinned by the commitment and pride of our people.

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
Biziwick, J	Up to 9th July 2020
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)	All year
Mzengereza, C	All year
Nkhoma, M	From 7th March 2020
Kawawa, M	All year
Jiya, H	All year

On 17 February 2021 Mr B Ndau was appointed as director of National Bank of Malawi plc.

DIRECTORS' INTERESTS

The following directors held shares in the Bank as at 31 December 2020:

Partridge, Dr. G B	846 507 (2019: 846 507) Ordinary Shares
Kawawa, M M	113 255 (2019: 113 255) Ordinary Shares
Nsomba, J	758 (2019: 758) Ordinary shares
Kachingwe, M	1 935 (2019: 1 935) Ordinary Shares
Jiya, H	2 306 (2019: 2 306) Ordinary Shares

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 was as follows:

	Non-Executive Directors fees and expenses K'm	Executive Directors fees and expenses K'm	Total K'm
Entity			
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
For the year ended 31 December 2020			
National Bank of Malawi plc	216	642	858
NBM Capital Markets Limited	12	122	134
NBM Securities Limited	-	-	-
National Bank of Malawi Nominees Limited	-	-	-
Stockbrokers Malawi Limited	5	-	5
NBM Bureau de Change Limited	-	-	-
NBM Pension Administration Limited	8	-	8
NBM Development Bank Limited	29	-	29
Total	270	764	1 034

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 Group.

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 months' 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, Board 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 2020, 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 subsidiaries is shown below:

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	All year	None
Stockbrokers Malawi Limited	Mr. M Kawawa	All year - Chairman	None
	Mr. H Mukaka	All year	None
	Mr. D Kafoteka	All year	None
	Mr.M.Siwu	From February 2020	None
	Mr. N. Kadzakumanja	All year - Company Secretary	None
NBM Pension Administration Limited	Mr. O Kasunda	All year - Chairman	None
	Mrs. Z Mitole	All year - Company Secretary	None
	Mr. H Jiya	All year	None
	Mr. B Boby	All year	None
	Mr. G Munthali	All year	None
	Mr. E Namboya	All year	None
	Mr. B Sitima	All year	None
	Mr. E Chokani	All year	None
NBM Development Bank Limited	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	All year	None
	Mr. F. Muula	All year	None
	Mr. K. Aroni	All year	None

INVESTMENT IN AKIBA COMMERCIAL BANK PLC

In January 2021, the Group completed the acquisition of 51% of Akiba Commercial Bank plc of Tanzania.

DONATIONS

During the year, the Group made charitable donations of K35m (2019: K80m).

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% (2019: 100%)	Investments and fund management
NBM Securities Limited	100% (2019:100%)	Dormant
National Bank of Malawi Nominees Limited	100% (2019:100%)	Holding of investments as nominee (Dormant)
Stockbrokers Malawi Limited	75% (2019:75%)	Registered stockbroker
NBM Bureau de Change Limited	100% (2019:100%)	Dormant
NBM Pension Administration Limited	100% (2019: 100%)	Pension administration
NBM Development Bank Limited	100% (2019: 100%)	Small and Medium Enterprises and long-term financing

AREAS OF OPERATION

The Group has 33 (2019: 33) service centres throughout the country. The Bank and its subsidiaries' registered offices and principal places of business are in Blantyre.

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 2021.

AUDITORS' REMUNERATION

Group Auditor's remuneration including VAT and expenses for the year was K349m (2019: K302m).

BY ORDER OF THE BOARD

Chairman:____________ Director:____________

Date: 25 March 2021

CHAIRMAN's MESSAGE

The Bank posted a group profit after tax of K22.45b representing an increase of 31% from K17.16b reported in respect of 2019.

THE OPERATING ENVIRONMENT

The economic and operational landscape for 2020 was defined by the COVID-19 pandemic and political uncertainty in the run up to the July Fresh Presidential Elections. Expected economic growth for year 2020 was revised downwards to 0.6% from a pre-pandemic estimate of 5.5%.

Inflation averaged 8.6% in the year down from an average of 9.6% recorded the previous year, anchored by non-food inflation which averaged about 3.8% in the year.

The Malawi kwacha depreciated against all major currencies during the year, reflecting scarcity of foreign exchange due to weak export performance (including tobacco) and the impact of COVID-19 pandemic.

The Reserve Bank of Malawi and the Bankers Association of Malawi implemented some measures to help businesses mitigate the impact of the COVID-19 pandemic. These included the reduction of the domestic Liquidity Reserve Requirement from 5% to 3.75% with a view to releasing some liquidity into the economy, a 40% reduction of service fees for digital banking products and restructuring of loans which included the granting of at least 3 months loan repayment moratoria to businesses that would be affected by the pandemic.

PERFORMANCE

I am pleased to report that the Bank performed very well in spite of the operating environment enumerated above. The Bank posted a group profit after tax of K22.45b representing an increase of 31% from K17.2b reported in respect of 2019. Non-interest income grew by 17% while net interest and investment income grew by 9%. Overall Net revenue grew by 12%. The Bank continued to control the growth of expenses within inflation. Operating expenses increased by 7% while net impairment losses reduced by 45%.

Customer deposits increased by 27% year on year, while the Bank's loan book only grew by 6%, largely on account of the COVID-19 pandemic. Consequently, the excess was channeled into Investments in treasury bills and treasury notes which grew by 35%. The Bank achieved an overall growth of 25% in the Statement of Financial Position.

STRATEGY AND PROSPECTS

The economy is expected to grow by 3.6% in 2021 driven by an improved operating and macroeconomic environment due to a manageable COVID-19 pandemic as a result of availability of vaccines through-out the world.

Having secured all the regulatory approvals both locally and with the Tanzanian authorities, the Bank completed the acquisition of 51% controlling stake in Akiba Commercial Bank (ACB) of Tanzania in January 2021 for a consideration of USD7.31 million. Negotiations are still on going to acquire a further 24%. I would like to thank and congratulate the Board and Management for working tirelessly to ensure a successful completion of the transaction, marking our entry into the region. To the Board, management, and staff of ACB, I say "Welcome into the NBM family". We look forward to a great future together.

Looking ahead the Board envisages an improved stable operating environment. However, despite such an environment, the levels of commercial activity will very much depend on how quickly the world and the country deal with the COVID-19 pandemic and its impact. Directors anticipate an improvement in the Group's performance through the Bank's ability to leverage on its core strengths, address challenges and exploit opportunities in the market.

BOARD OF DIRECTORS

Mr. Macleod Nkhoma joined the Board in March, 2020 while Mr. John Biziwick retired in July 2020.

On behalf of the shareholders, and on my own behalf, I would like to welcome Mr. Nkhoma on the Board and thank Mr. Biziwick for his valuable contributions and support during his tenure on the Board. I would also like to thank fellow directors for their counsel, support and co-operation during the year and look forward to a fruitful working relationship with them in 2021 and beyond.

MANAGEMENT AND STAFF

I would like to express my sincere gratitude to management and staff for their hard work, dedication, resilience and commitment during a year full of risks and uncertainties. On behalf of my fellow directors and shareholders, I pledge our unwavering support to the Bank as it faces continuing challenges in 2021. I am confident that the Board can count on its staff for their commitment to take the Bank to greater heights.

Dr. G.B. Partridge
Chairman


NB National Bank

CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

for the Year Ended 31 December 2020

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and the Group and of their operating results for the year ended 31 December 2020, so far as concerns the members of the company.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 2020

The Companies Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Bank and the Group as at the end of the financial year and of the operating results for that year.

The Act also requires the directors to ensure that the Bank and the Group keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and the Group and enable them to ensure that the financial statements comply with the Companies Act.

In preparing the financial statements, the directors accept responsibility for ensuring the following:

- Maintenance of proper accounting records;
- Selection of suitable accounting policies and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Compliance with applicable Accounting Standards when preparing financial statements; and
- Preparation of financial statements on a going concern basis unless it is inappropriate to pre sume that the Bank and the Group will continue in business.

The directors also accept responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and the Group and to maintain adequate systems of internal controls to prevent and detect fraud and other irregularities.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and the Group and of their operating results for the year ended 31 December 2020, so far as concerns the members of the company.

BY ORDER OF THE BOARD

Chairman ______________________

Director ______________________

Date 25 March 2021 ______________________

Deloitte.

P.O. Box 187
Blantyre
Malawi

Deloitte Chartered Accountants
Registered Auditors
First Floor
PCL House, Top Mandala
Kaohisiung Road
Blantyre
Malawi

Tel	: +265 (0) 1 822 277
	: +265 (0) 1 820 506
Cell:	: +265 (0) 887 828 002
	: +265 (0) 997 515 647
Fax	: +265 (0) 1 821 229
Email	: btdeloitte@deloitte.co.mw
www.deloitte	

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 25 to 165 which comprise the consolidated and separate statements of financial position as at 31 December 2020, 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 2020, 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 and Separate Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards)(IESBA Code) 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 and IESBA code. 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.

MAKING AN IMPACT THAT MATTERS since 1845

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

Key Audit Matter	How the matter was addressed in the audit
Determination of Expected Credit Losses(ECL) for loans and advances (Consolidated and 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. Key areas of judgment included: • The identification of exposures with a significant deterioration in credit quality; • The significance of the judgements used in classifying loans and advances into various stages stipulated in IFRS 9 as well as staging impact arising from COVID-19; and • Assumptions used in the expected credit loss model such as, expected future cash flows arising from collateral values, haircuts applied on collateral and forward-looking macroeconomic factors (e.g. unemployment rates, interest rates, gross domestic product growth, property prices).	With respect to staging of loans and advances, our audit procedures comprised the following: • We checked the design and implementation of controls around ECLs; • We obtained an understanding of the Bank's staging criter ia; • We assessed management's criteria for appropriateness and completeness against the requirements of IFRS 9 and other relevant regulatory guidance; • We checked accuracy and completeness of data used in staging; • We selected a sample of loans and advances including but not limited to large exposure loans and advances, customers that are in the industries that have been affected by COVID-19 and checked if they have been correctly staged based on the Bank's accounting policy and IFRS 9 requirements; and • For the selected loans and advances that were restructured including those restructured due to COVID-19, we obtained the restructure facility letters to confirm the restructure and assessed if staging is in line with the requirements of IFRS 9. For expected future cash flows arising from collateral and haircuts applied on collateral, we performed the following procedures: • We obtained an understanding of how the Bank incorporates collateral in its ECL model; • For selected loans, we checked if the collateral values that have been used reflect the current market conditions and whether these were based on recent valuations. • For collateral values that were based on outdated valuations, we performed alternative procedures including inquiries with property valuation experts to assess whether the market values of the assets could be significantly different from the values that the Bank used in the model;

Key Audit Matter	How the matter was addressed in the audit
Determination of Expected Credit Losses(ECL) for loans and advances (Consolidated and Separate financial statements) (Continued)	
As at 31 December 2020, the gross loans and advances to customers were K210.4 billion (2019: K199.9 billion) against which Expected Credit Losses of K10.2 billion (2019: K11.6 billion) were recorded. This is disclosed in note 13 (Loans and advances) to the financial statements. The Expected Credit Losses policy is presented in accounting policies in note 3 to the financial statements. Loans and advances are stated at amortised cost net of identified impairments. We therefore consider this as a key audit matter.	• We checked whether the Bank had a valid charge over the collateral that was used and also whether the collaterals were recently inspected, where necessary; • We obtained management calculation of the haircuts that were applied on the collateral and checked the calculation for accuracy; and • We further checked if the information that was used in the haircut calculation was complete and accurate by reference to transactions data on recent enforcements. With respect to incorporation of forward-looking macroeconomic factors, we performed the following: • With the help of our credit specialists, we read and understood the Bank's method for incorporating forward looking macroeconomic factors and Covid-19 and compared it with the requirements of IFRS 9; • With the involvement of our credit specialists, we checked the calculation that were performed in the forward-looking information model; • We checked and understood the key data sources and assumptions for data used in the model used by the Bank; and • We held discussions with management and corroborated the assumptions used to publicly available information. We found that the modelling approach and methods applied in determining expected credit losses against loans and advances were appropriate and that the amount impaired and recognised in the consolidated and separate financial statements was reasonable and complied with IFRS 9 *Financial Instruments.* We further concluded that the financial statements disclosures in relation to impairment of loans and advances were appropriate.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (Continued)

Key Audit Matter	How the matter was addressed in the audit
Goodwill impairment assessment (consolidated financial statements)	
In October 2015, the Bank acquired 100% shareholding in Indebank Limited. In accordance with IF RS 3, *Business Combinations*, the Bank determined goodwill arising from acquisition which amounted to K4 billion as disclosed in note 20 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.	With the help of our Corporate Finance specialists, 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.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (Continued)

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, actions taken to eliminate threats or safeguards applied.

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

31 March 2021

	Notes	GROUP 2020 K'm	GROUP 2019 K'm	COMPANY 2020 K'm	COMPANY 2019 K'm
ASSETS					
Cash and funds with Reserve Bank of Malawi	5	26 267	18 345	26 267	18 345
Restricted cash	6	5 585	-	5 585	-
Government of Malawi treasury bills and treasury notes	7	180 435	133 278	172 274	123 489
Government of Malawi promissory notes	8	5 196	-	5 196	-
Equity investments	9	4 744	4 102	4 744	4 102
Investment in associates	10	1 339	1 390	992	992
Investment in subsidiaries	11	-	-	6 444	6 444
Placements with other banks	12	44 231	17 826	44 231	17 826
Loans and advances	13	200 170	188 324	199 161	188 178
Other money market deposits	14	37 752	32 997	7 099	18 498
Other assets	15	6 854	5 424	5 480	4 790
Property and equipment	16	35 053	32 236	34 978	32 154
Intangible assets	17	10 047	10 274	9 945	10 160
Right-of-use assets	18	2 355	3 140	2 355	3 140
Deferred tax	19	8 706	7 861	8 617	7 816
Goodwill	20	3 959	3 959	-	-
Total assets		572 693	459 156	533 368	435 934
LIABILITIES AND EQUITY					
LIABILITIES					
Customer deposits	21	403 703	318 470	367 721	298 279
Amounts due to other banks	22	12 557	652	12 557	652
Current income tax liabilities	23	4 306	3 501	4 212	3 357
Loans	24	13 713	16 335	13 713	16 335
Provisions	25	3 797	2 954	3 652	2 745
Other liabilities	26	13 541	12 828	12 891	12 546
Lease liability	27	3 158	3 551	3 158	3 551
Deferred tax	19	-	5	-	-
Total liabilities		454 775	358 296	417 904	337 465
EQUITY					
CAPITAL AND RESERVES					
Share capital		467	467	467	467
Share premium		613	613	613	613
Revaluation reserve		25 150	22 395	26 461	23 706
Retained earnings		91 575	77 287	87 923	73 683
Equity attributable to equity holders of the parent		117 805	100 762	115 464	98 469
Non-controlling interests		113	98	-	-
Total equity		117 918	100 860	115 464	98 469
Total equity and liabilities		572 693	459 156	533 368	435 934
Memorandum items					
Letters of credit and guarantees	38	33 639	22 550	33 639	22 550

The financial statements were approved and authorised for issue by the Board of Directors on 25 March 2021 and were signed on its behalf by:

Director

Director

For the year ended 31 December 2020

	Notes	GROUP		COMPANY	
		2020 K'm	2019 K'm	2020 K'm	2019 K'm
Income					
Interest and similar income	30	55 253	50 904	54 456	50 234
Interest expense and similar charges	30	(5 314)	(5 207)	(5 314)	(5 232)
Net interest income	30	49 939	45 697	49 142	45 002
Commission and other income	31	22 134	18 398	20 255	16 567
Profit from dealing in foreign currencies		5 948	5 249	5 948	5 249
Income from operating leases		326	715	326	715
Net gain on financial instruments classified as held for trading	9	286	144	286	144
Profit on disposal of financial instruments classified as held for trading		57	5	57	5
Share of (loss)/ profits of associate		(85)	100	-	-
Net loss on modified and restructured loans		(20)	(198)	(20)	(198)
Dividend income		33	208	471	618
Properties fair value loss	34	(89)	(139)	(89)	(139)
Profit on disposal of plant and equipment		20	64	20	64
Total income		78 549	70 243	76 396	68 027
Expenditure					
Staff costs	32	20 711	19 856	19 834	19 019
Other operating expenditure	33	22 586	20 624	21 693	19 996
Total expenditure		43 297	40 480	41 527	39 015
Profit before net impairment on financial assets		35 252	29 763	34 869	29 012
Recoveries on impaired loans and advances	13	709	1 413	709	1 413
Impairment losses on financial assets	13	(3 153)	(5 825)	(3 145)	(5 825)
Profit before tax		32 808	25 351	32 433	24 600
Income tax expense	35	(10 359)	(8 196)	(10 075)	(7 778)
Profit for the year		22 449	17 155	22 358	16 822
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss:					
Surplus on revaluation of properties	34	2 239	2 985	2 239	2 985
Deferred tax on revalued assets	19	761	(146)	761	(146)
Total other comprehensive income		3 000	2 839	3 000	2 839
Total comprehensive income for the year		25 449	19 994	25 358	19 661

	Notes	GROUP		COMPANY	
		2020 K'm	2019 K'm	2020 K'm	2019 K'm
Profit attributable to:					
Equity holders of the company	36	22 406	17 106	22 358	16 822
Non-controlling interests		43	49	-	-
		22 449	17 155	22 358	16 822
Comprehensive income attributable to:					
Equity holders of the company		25 406	19 945	25 358	19 661
Non-controlling interests		43	49	-	-
		25 449	19 994	25 358	19 661
Earnings per share (K)	36	47.98	36.63		
Diluted earnings per share (K)	36	47.98	36.63		
Dividend per share (K)	37	17.91	16.06		

GROUP	Share Capital K'm	Share Premium 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
2020							
At beginning of the year	467	613	22 395	77 287	100 762	98	100 860
Total comprehensive income	-	-	3 000	22 406	25 406	43	25 449
Transfer of excess depreciation	-	-	(245)	245	-	(28)	(28)
Dividend paid to minority shareholders							
2019 Final dividend declared and paid	-	-	-	(5 865)	(5 865)	-	(5 865)
2020 First interim dividend declared and paid	-	-	-	(2 498)	(2 498)	-	(2 498)
At end of the year	467	613	25 150	91 575	117 805	113	117 918
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

GROUP	Share Capital K'm	Share Premium K'm	Revaluation Reserve K'm	Retained Earnings K'm	Total K'm
2020					
At beginning of the year	467	613	23 706	73 683	98 469
Total comprehensive income	-	-	3 000	22 358	25 358
Transfer of excess depreciation	-	-	(245)	245	-
2019 Final interim dividend declared and paid	-	-	-	(5 865)	(5 865)
2020 First interim dividend declared and paid	-	-	-	(2 498)	(2 498)
At end of the year	467	613	26 461	87 923	115 464
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

ANALYSIS OF SHARE CAPITAL	2020 K'm	2019 K'm
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

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.

For the year ended 31 December 2020

	Notes	GROUP 2020 K'm	GROUP 2019 K'm	COMPANY 2020 K'm	COMPANY 2019 K'm
Cash flows from operating activities					
Profit before tax		32 808	25 351	32 433	24 600
Adjustments for:					
• Depreciation of property and equipment	16	2 403	2 621	2 377	2 597
• Amortisation of intangible assets	17	1 134	1 066	1 122	1 054
• Amortisation of Right-of-use Asset	18	785	634	785	634
• Interest on lease liability	27	615	677	615	677
• Profit on disposal of property and equipment		(20)	(64)	(20)	(64)
• Write off of property and equipment	16&33	2	4	-	4
• Impairment loss on intangible assets	17&33	-	96	-	96
• Movement in impairment losses on financial assets		3 153	5 825	3 145	5 825
• Gains on disposal of financial instruments classified as held for trading		(57)	(5)	(57)	(5)
• Net gains on financial instruments classified as held for trading	9	(286)	(144)	(286)	(144)
• Dividend receivable		(33)	(208)	(471)	(618)
• Net fair value loss on revaluation of properties	34	89	139	89	139
• Share of loss/(profits) of associate		85	(100)	-	-
• Net loss on modified and restructured loans		20	198	20	198
Operating cashflows before working capital movements		40 698	36 090	39 752	34 993
• Movement in customer deposits		85 233	23 945	69 442	27 253
• Movement in other liabilities and provisions		1 556	3 116	1 252	3 234
• Movement in loans and advances		(14 999)	(27 528)	(14 128)	(27 382)
• Movement in other assets		(1 481)	4 307	(707)	4 312
Cash generated from operations		111 007	39 930	95 611	42 410
Tax paid	23	(9 643)	(5 714)	(9 260)	(5 241)
Net cash flow from operating activities		101 364	34 216	86 351	37 169
Cash flows from investing activities					
Increase in investments		(57 938)	(35 434)	(59 566)	(39 733)
Purchase of property and equipment and intangible assets		(4 100)	(6 014)	(4 076)	(5 980)
Proceeds from disposal of property and equipment		141	443	138	441
Purchase of equity investments		(489)	(391)	(489)	(391)
Proceeds from disposal of equity investments		187	182	187	182
Dividend received		33	208	471	618
Net cash used in investing activities		(62 166)	(41 006)	(63 335)	(44 863)
Cash flows from financing activities					
Decrease in loans		(2 622)	(3 093)	(2 622)	(3 093)
Interest paid on lease liability	27	(615)	(677)	(615)	(677)
Repayments of lease liability	27	(393)	(198)	(393)	(198)
Dividends paid		(8 391)	(7 548)	(8 363)	(7 499)
Net cash outflow from financing activities		(12 021)	**(11 516)**	(11 993)	(11 467)
Net increase/ (decrease) in cash and cash equivalent		27 177	(18 306)	11 023	(19 161)
Cash and cash equivalents at beginning of the year		68 516	86 822	54 017	73 178
Cash and cash equivalents at end of the year (note 40)		95 693	68 516	65 040	54 017

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 (2019: 33) 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 Stock Exchange.

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 2020.

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

2.2 Standards and Interpretations in issue, not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2021 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:

Effective date	Standard, Amendment or Interpretation
Annual reporting periods beginning on or after 1 January 2023	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.

2. Adoption of new and revised International Financial Reporting Standards

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

Effective date	Standard, Amendment or Interpretation
	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 2023	Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.
Annual reporting periods beginning on or after 1 January 2022	Reference to the Conceptual Framework (Amendments to IFRS 3) The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.
Annual reporting periods beginning on or after 1 January 2022	Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16) The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.
Annual reporting periods beginning on or after 1 January 2022	Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)

2. Adoption of new and revised International Financial Reporting Standards

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

Effective date	Standard, Amendment or Interpretation
	The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
Annual reporting periods beginning on or after 1 January 2022	Annual Improvements to IFRS Standards 2018–2020 Makes amendments to the following standards: • **IFRS *1*** – The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs. • **IFRS 9** – *The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.* • **IFRS 16** – *The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.*

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.

3. Accounting policies

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 2020. 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.

3. Accounting policies (Continued)

3.1 Basis of consolidation (Continued)

(b) Associates (Continued)

The Group's share of its associates' post-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 recognized 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. **Accounting policies** (Continued)

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 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.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

marketplace.

Financial assets (Continued)

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

Classification of financial assets

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

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

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the 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.

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Financial assets (Continued)

(i) Amortised cost and effective interest method

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

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

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

For purchased or originated credit-impaired financial assets, the 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.

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Financial assets (Continued)

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).

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.

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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.

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.

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

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 determined to have low credit risk if:

(1) The financial instrument has a low risk of default;
(2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
(3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The 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.

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events: (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event (see (ii) above); (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or (e) the disappearance of an active market for that financial asset because of financial difficulties.

iv) Write-off policy

The 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 IFRS 16 *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)

Financial assets (Continued)

Impairment of financial assets (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)

Financial assets (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 is evidence of the borrower's improved repayment behavior following modification leading to a reversal of the previous significant increase in credit risk.

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Financial assets (Continued)

Modification and derecognition of financial assets (Continued)

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.

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities

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

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the 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 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.

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at FVTPL (Continued)

Fair value is determined in the manner described in note 41.

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.

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.

3. Accounting policies (Continued)

3.5 Financial instruments (Continued)

Financial liabilities and equity (Continued)

Derecognition of financial liabilities (Continued)

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 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.

3. Accounting policies (Continued)

3.7 Property and equipment (Continued)

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. 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

Group as a lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognizes 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.

3. Accounting policies (Continued)

3.9 Leases (Continued)

Group as a lessee (Continued)

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 balance is presented on the face and its details are disclosed 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 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 2020. Based on the assessment, the Group concluded that there were no circumstances necessitating remeasurement of lease liability. Accordingly, the Group maintained the prior year measurements adjusted for interest accruals and rental repayments.

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.

3. Accounting policies (Continued)

3.9 Leases (Continued)

Group as a lessee (Continued)

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 recognized 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.

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.

3. Accounting policies (Continued)

3.9 Leases (Continued)

The Group as lessor

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

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.

3.11 *Non-current assets held for sale*

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.

3. Accounting policies (Continued)

3.11 Non-current assets held for sale (Continued)

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) Restructuring
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) Onerous contracts
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) Warranties
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.

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.

3. **Accounting policies** (Continued)

3.13 **Taxation** (Continued)

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.

3.14 *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. Accounting policies (Continued)

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.

3.17 *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.

3. Accounting policies (Continued)

3.17 Revenue recognition (Continued)

Interest income and expense (Continued)
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.

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.

3. Accounting policies (Continued)

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 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.

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.

3. Accounting policies (Continued)

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

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 minimize 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:

1. Determined by senior management;
2. As a result of external or internal changes;
3. Significant to the entity's operations; and
4. 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) de-recognition of the financial asset.

3. Accounting policies (Continued)

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

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:

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 was 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.

3. Accounting policies (Continued)

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

The calculation of ECLs (Continued)

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

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The 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.

3. Accounting policies (Continued)

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

The calculation of ECLs (Continued)
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 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.

3. Accounting policies (Continued)

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

Incorporation of forward-looking information (Continued)

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 prime rate proved to be statistically significant in the macro-economic model. As such, the Group forecasted the future prime rates and calibrated NPL ratio accordingly which was incorporated in the calculation of the ECLs.

Sensitivity Analysis

The purpose of sensitivity analysis is to provide management with an outlook on possible macro-economic scenarios. The scenarios that were created in the analysis include both stressed and favourable scenarios. Each different macro-economic scenario was derived from the historical bank rate (prime rate), that are sourced from the Reserve Bank of Malawi. The table below outlines these different scenarios.

Macro-Economic Scenarios derived from historical performance of the Bank Rate (Prime Rate) in Malawi

The Economic Scenarios were derived based on historical information

Upturn Economic Scenario			Downturn Economic Scenario		
Scenario	Value of Prime	Change in Prime (decrease in current Prime)	Scenario	Value of Prime	Change in Prime (increase in prime)
Best economic outlook of Prime in History	8.00	(6.50)	Worst economic outlook in History	75.33	60.83
Best economic outlook of Prime in last 20 years	13.00	(1.50)	Worst economic outlook in last 20 years	75.33	60.83
Best economic outlook of Prime in last 10 years	13.00	(1.50)	Worst economic outlook in last 10 years	27.00	12.50
Best economic outlook of Prime in last 5 years	13.50	(1.00)	Worst economic outlook in last 5 years	27.00	12.50
Best economic outlook of Prime in last 2 years	13.50	(1.00)	Worst economic outlook in last 2 years	16.00	1.50

3. Accounting policies (Continued)

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

Incorporation of forward-looking information (Continued)

Sensitivity Analysis (Continued)
Three Economic Scenarios were chosen under either a favourable outcome or stressed outcome. The minimum bank rate over a certain period of time were considered in the different favourable economic scenarios. The maximum bank rate over a certain period of time were considered in the different stressed economic scenarios.

After a thorough evaluation of the most stressed scenarios that have occurred in the past, the following scenario weights were accordingly applied to get to a FLI Overlay. A weighting of 50% were applied to the baseline scenario (prime remains constant) and a weighting of 50% were applied to the first stressed scenario (prime went up by 2%). No favourable economic scenarios were given a weighting, due to the uncertainty associated with the pandemic. The other stressed economic scenarios are very unrealistic and were therefore also assigned with a 0% weighting.

The impact of the various economic scenarios on the impairment number are presented in the table below.

	Impact on Provisions as at 31 December 2020			
	Estimates	**Favourable scenario**		
Macro-economic scenarios	Change in prime rate (%)	(6.50)	(1.50)	(1.00)
Impact	ECL (%)	4.05	4.05	4.07
	Provision (K'm)	8 751	8 751	8 802
	Absolute (K'm) change	(1 738)	(1 738)	(1 686)
	Estimates	**Stressed scenario**		
Macro-economic scenarios	Change in prime rate (%)	1.5	12.5	60.83
Impact	ECL (%)	5.01	6.94	15.12
	Provision (K'm)	10 969	15 247	33 363
	Absolute change (K'm)	481	4 758	22 875
	Estimates	Baseline	No FLI overlay	
Macro-economic scenarios	Change in prime rate (%)	No change (14.5%)	Not applicable	
Impact	ECL (%)	4.87	4.64	
	Provision (K'm)	10 489	9 996	

3. Accounting policies (Continued)

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

Incorporation of forward-looking information (Continued)

Sensitivity Analysis (Continued)
The table above displays the expected results of the positive correlation which the bank Rate has with the PD estimates. In a favourable economic scenario, customers are expected to default less and perform better and therefore the bank will expect to see a decline in the impairment number. In a stressed economic scenario, customers are expected to default and roll quicker into worse arrears buckets and will perform worse and therefore the Group will expect to see an increase in the respective impairment number.

The Impact of Covid-19 on IFRS 9 Post Model Adjustment
The first COVID-19 case in Malawi was reported on 2 April 2020. Malawi is currently experiencing a second wave of the pandemic. The first wave of COVID-19 in Malawi wasn't that severe in terms of transmissions as other countries across the world. The initial lockdown planned at the start of the first COVID-19 wave didn't occur. Malawi are in the early stages of the second wave of the pandemic and this showcases a more severe impact this far than in the first wave.

Despite the second wave of the COVID-19 infections, the Group anticipates an improved macro-economic and business environment due the vaccination drive being pursued and implemented globally.

Malawi had a total of 8,575 reported cases with 5,826 (67.9%) recoveries, 225 (2.6%) deaths and 2,524 (29.4%) active cases which include those lost to follow-up.

Malawi has encountered an exponential growth of reported cases due to the return of over 3,000 nationals which are being ferried from Republic of South Africa (RSA) due to tough economic conditions which have left many Malawi nationals jobless. Many African and European countries have resuscitated lock-down restrictions amid a second wave of a more deadly corona virus strain which is also affecting children.

As at 31st December 2020, the Group's number of cases had started to increase and was spread across the Group's Service Centre's and Divisions. The increase in COVID-19 positive cases across the Group called for strict enforcement of the COVID-19 policy which was formulated during the first wave of the pandemic. Among other things, staff with underlying conditions and those whose work do not require access to core systems worked from home or worked in shifts and where possible allowing members to go on leave as a way of decongesting offices. Banking outdoor activities such as mass account opening and customer visits in groups were restricted to avoid further spread of the virus. Business units were guided on ways to continue with customer recruitments without exposing the Group's staff and customers to the virus.

3. Accounting policies (Continued)

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

Incorporation of forward-looking information (Continued)

Impact of Covid-19 on IFRS 9 Post Model Adjustment (Continued)
The Group just like many advanced establishments, quickly adapted to the environment to ensure business continuity, for instance; -

i. Rolling out its electronic platforms to its customer base to reduce congestion in banking halls. Furthermore, many of the Bank's staff can effectively work from home while reducing the Bank's vulnerability to cyber risks.
ii. Conducting monthly stress tests incorporating COVID-19 scenarios and put in place corrective actions to projected adverse impact. Recent Stress Tests have shown that Bank is highly resilient to the COVID-19 shocks.

A post model adjustment overlay (PMA) is important because it captures the future information on the uncertain economic outlook due to the pandemic. There are two components to the PMA overlay:

a) Apply a conservative factor to the overall provision number.
b) Monitor accounts affected by COVID-19 into the foreseeable future.

The relevancy of the application of a conservative factor to the overall provision number were investigated. A comparison analysis between 2019 and 2020 was done to observe whether there was a substantial change due to the pandemic. A deterioration in the loan book were observed during 2020, which is an indication that the impact of COVID-19 was already present in the loan book. The findings are listed below.

1. Non-performing Loans (NPL) portion of NBM book increased in the last year. An approximately 2% increase in non-performing loans from a year on year comparison between 2019 and 2020.
2. The number and value of written-off accounts have been significantly more in 2020 in comparison to 2019. Massive written off amounts were carried out in June 2020 and December 2020. The general trend of written-off amounts during 2020 are higher in comparison to 2019. The driver of the massive write-off amount in June 2020 is linked to the first wave of COVID-19 in Malawi. The driver of the massive write-off amount in December 2020 could be linked to the start of the second wave of COVID-19 in Malawi.
3. Roll Rates of 12-month PD were investigated, a deterioration in accounts are clearly seen as a high percentage of accounts roll to worse arrears buckets.
4. The accounts on the Bank that were affected by COVID-19 were split in the ECL results as at 31 December 2020. This split was done to get a good understanding of how these accounts are currently reflecting on book. Note that some accounts may reflect as good performers due to the 3-month moratorium that were issued through a Directive to banks by the Reserve Bank of Malawi. This Directive clearly states that all credit facilities affected should be individually assessed.

3. **Accounting policies** (Continued)

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

ECL Results (COVID-19 Accounts vs OTHER Accounts) as at 31 December 2020

			31 DECEMBER AS AT 2020					
Stage	Number Of Accounts	Exposure (K'm)	Impairments (K'm)	Coverage Ratio	12-Month Pd	Lifetime Pd	%Balance Affected	%Accounts Impacted
Stage1	57	17 878	79	0.44%	4.74%	4.74%	10.13%	0.18%
Stage2	9	280	27	9.72%	27.36%		2.95%	0.85%
Stage3	10	177	13	7.20%	0.00%	0.00%	0.66%	0.21%
Total	**76**	**18 335**	**119**	**0.65%**	**6.79%**	**7.29%**	**8.62%**	**0.20%**
Stage	Number Of Accounts	Exposure (K'm)	Impairments (K'm)	Coverage Ratio	12-Month Pd	Lifetime Pd	%Balance Affected	%Accounts Impacted
Stage1	31 684	158 542	1 620	1.02%		4.43%	89.87%	99.82%
Stage2	1 044	9 232	650	7.04%	29.46%		97.05%	99.15%
Stage3	4 792	26 533	7 156	26.97%	0.00%	0.00%	99.34%	99.79%
Total	**37 520**	**194 307**	**9 426**	**4.85%**	**4.56%**	**4.62%**	**91.38%**	**99.80%**

3. Accounting policies (Continued)

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

Incorporation of forward-looking information (Continued)

Impact of Covid-19 on IFRS 9 Post Model Adjustment (Continued)

The 12-month and lifetime PD estimates for accounts impacted by COVID-19 as at 31 December 2020 were slightly higher in comparison to the other accounts.

The last component of the PMA overlay is monitoring the accounts impacted by COVID-19. These accounts will be separately monitored each month to ensure the Group manages the risks associated with such accounts.

Low risk assets

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

1. Malawi Government Securities;
2. Interbank Placements; and
3. 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. Critical accounting judgments and key sources of estimation uncertainty (Continued)

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.

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

4.2 Key sources of estimation uncertainty (Continued)

4.2.2 Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment, at least, on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the 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:

a) Cash flows arising from repayment agreement are aggregated over yearly intervals and assumed to arise at the end of the period;
b) Where there is an agreement but no security in place and cash flows in the subsequent years are doubtful, total future estimated cash flows are assumed to be nil;
c) Unsupported guarantees are assumed to result in nil cash flows; and
d) 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 Incorporating collateral and applying haircuts to market values of securities

Group includes collateral in calculation of LGD for an exposure. The Group applies different haircuts on various types of collateral depending on the asset's liquidity and price volatility. The collateral values are based on open market valuations. According to the Group's policy collateral is revalued every five years. However, the Group inspects the assets offered as collateral every year.

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

4.2 Key sources of estimation uncertainty (Continued)

4.2.6 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.

4.2.7 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.

4.2.8 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.

4.2.9 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.

4.2.10 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.

GROUP AND COMPANY

5. Cash and funds with Reserve Bank of Malawi

	2020 K'm	2019 K'm
Cash	16 040	16 833
Balances with the Reserve Bank of Malawi	10 228	1 512
Expected credit losses	(1)	-
Total cash and funds with Reserve Bank of Malawi	26 267	18 345

The currency analysis of cash is in note 43f.

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 43f and 43h.

6. Restricted cash

GROUP AND COMPANY

	2020 K'm	2019 K'm
Restricted cash	**5 585**	-
	5 585	-

During the year, pursuant to the acquisition of shares in Akiba Commercial Bank plc of Tanzania (Akiba) and in accordance to an agreement with the selling shareholders, the Group set aside funds amounting to K5 585m in an Escrow account with NMB Bank of Tanzania. The amount was set aside solely for the purposes of the acquisition and could not be used for a different purpose. In January 2021, the Group completed the acquisition of 51% of Akiba and the whole Escrow balance was transferred to Akiba. Refer to note 28.

7. Government of Malawi treasury bills and treasury notes

	Average interest rates		GROUP		COMPANY	
	2020	2019	2020 K'm	2019 K'm	2020 K'm	2019 K'm
Government of Malawi treasury bills	11.70%	10.54%	79 103	83 063	70 942	73 274
Government of Malawi treasury notes	10.40%	10.30%	101 349	50 227	101 349	50 227
Expected credit losses			(17)	(12)	(17)	(12)
			180 435	133 278	172 274	123 489
The bills and notes are due to mature as follows:						
• Within three months			28 047	36 098	19 886	26 309
• Between three months and one year			61 850	53 293	61 850	53 293
• Over one year			90 538	43 887	90 538	43 887
			180 435	133 278	172 274	123 489

Government of Malawi treasury bills and treasury notes are denominated in Malawi Kwacha and are held to maturity. The Group assessed the Government of Malawi treasury bills and treasury notes for impairment. No impairment has been recognised in the financial statements.

8. Government of Malawi promissory notes

	GROUP AND COMPANY	
	2020 K'm	2019 K'm
Government of Malawi promissory note	5 197	-
Expected credit losses	(1)	-
	5 196	-

In 2018, the Group extended a K12 902m loan facility to Lilongwe Water Board. This was in respect of Salima Lilongwe Water Project. The Government of Malawi (GoM) is the guarantor for the loan. During the year, on 18 December 2020, GoM issued to the Group a promissory note with a face value of K5 871m on maturity. This was in settlement of loan arrears (principal and interest) as at that date. The promissory note matures on 17 December 2021. The promissory note was discounted at 13.56%. The discount rate was based on the weighted average Treasury Bills rate. The discounted value was K5 170m. The Group has recognized a loss of K701m and a discount income amounting to K27m in the statement of income for the year ended 31 December 2020.

9. Equity investments

GROUP AND COMPANY	2019 K'm	Additions/ (disposals) K'm	Fair value adjustment K'm	2020 K'm	Cost K'm
2020					
Illovo Sugar (Malawi) plc 1,554,500 (2019: 1 554 000) Ordinary shares of K0.02 each at a market value of K80.50 (2019: K153.00) per share	238	-	(113)	125	343
NICO Holdings plc 19,760,550 (2019: 17 760 550) Ordinary shares of K0.20 each at a market value of K52.00 (2019: K48.49) per share	861	96	71	1 028	322
Malawi Property Investment Company plc 34,119,431 (2019: 34 119 431 Ordinary shares of K0.05 each at a market value of K21.00 (2019: K19.53) per share	666	-	50	716	325
National Investment Trust plc 6,663,759 (2019: 6 663 759) Ordinary shares of K1.00 each at a market value of K94.95 (2019: K80.00) per share	533	-	100	633	160
NBS Bank Plc 13,755,784 (2019: 23 434 753) Ordinary shares of K0.50 each at a market value of K21.60 (2019: K13.50) per share	316	(131)	112	297	82
Standard Bank of Malawi plc 100,000 (2019: 100 000) Ordinary shares of K1.00 each at market value of K1 046.39 (2019: K730.00) per share	73	-	32	105	18
Sunbird Malawi plc 5,637,964 (2019: 4 637 964) Ordinary shares of K0.05 each at a market value of K105.00 (2019: K118.00) per share	547	118	(73)	592	359
Telekom Networks Malawi plc 33,350,194 (2019: 33 350 194) Ordinary shares of K0.04 each at a market value of K20.07 (2019: K26.00) per share	868	-	(199)	669	212
Airtel Malawi PLC 20,700,000 (2019: Nil) Ordinary shares of K1.00 each at a market value of K27.98 (2019: N/A) per share	-	273	306	579	273
Total equity investment	4 102	356	286	4 744	2 094

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

9. Equity investments

GROUP AND COMPANY	2019 K'm	Additions/ (disposals) K'm	Fair value adjustment K'm	2020 K'm	Cost K'm
2019					
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.

9. 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			
		Fair value		
	Level 1 K'm	Level 2 K'm	Level 3 K'm	2020 K'm
Equity investments in listed companies	4 744	-	-	4 744

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

	GROUP		COMPANY	
	2020 K'm	2019 K'm	2020 K'm	2019 K'm
10. Investment in associates				
Purchase consideration	992	992	992	992
Share of accumulated results	347	398	-	-
	1 339	1 390	992	992
Assets		9 307	7 725	
Liabilities		(6 565)	(4 930)	
Net assets		2 742	2 795	
Group's share of net assets of associates	1 289	1 314		
Total revenue	5 547	5 645		
Total (loss)/profit for the year	(108)	116		

The Bank holds 47% (2019: 47%) of United General Insurance Company Limited's share capital. Its principal place of business and registered office is Michiru House, Victoria Avenue, Blantyre. The Group assessed the investment in UGI for impairment. No impairment has been recognized in the financial statements.

11. Investment in subsidiaries

	COMPANY 2020 K'm	COMPANY 2019 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% (2019:75%) stake in Stockbrokers Malawi Limited. The Bank also holds 100% (2019: 100%) stake in NBM Bureau de Change Limited, a 100% (2019: 100%) stake in NBM Capital Markets Limited, a 100% (2019: 100%) stake in NBM Pension Administration Limited and a 100% (2019: 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.

The Group assessed the investments in the subsidiaries for impairment. No impairment has been recognized in the financial statements.

12. Placements with other banks

	GROUP AND COMPANY 2020 K'm	GROUP AND COMPANY 2019 K'm
Balances due from other banks	44 235	17 828
Expected credit losses	(4)	(2)
Total placements with other banks	44 231	17 826

Placements with other banks are denominated in the following currencies:

	Average interest rates 2020 %	Average interest rates 2019 %	GROUP AND COMPANY 2020 K'm	GROUP AND COMPANY 2019 K'm
US Dollar denominated	0.50%	0.5%	32 192	11 067
GBP denominated	1.75%	1.75%	3 530	1 954
Euro denominated	0.5%	0.50%	8 023	4 426
ZAR denominated	4.00%	4.00%	470	370
Other	0%	0%	16	9
			44 231	17 826

Money market placements with other banks are held to maturity and mature within one month (2019: one month) of the year-end.

13. Loans and advances

	GROUP 2020 K'm	GROUP 2019 K'm	COMPANY 2020 K'm	COMPANY 2019 K'm
Gross loans and advances	205 344	195 665	204 327	195 519
Staff loans	5 045	4 281	5 045	4 281
Total loans and advances	210 389	199 946	209 372	199 800
Impairment provisions	(10 219)	(11 622)	(10 211)	(11 622)
Net loans and advances	200 170	188 324	199 161	188 178
Due to mature as follows:				
• Within three months	25 982	25 432	25 946	25 432
• Between three months and one year	43 659	64 456	43 595	64 456
• After one year and not later than five years	131 658	98 838	130 749	98 692
• Interest in suspense	(1 129)	(402)	(1 129)	(402)
	200 170	188 324	199 161	188 178
Analysis of net loans by currency				
Malawi Kwacha denominated	145 118	122 904	144 109	122 758
US Dollar denominated	55 052	65 420	55 052	65 420
	200 170	188 324	199 161	188 178

The Malawi Kwacha average lending rate for the Bank's loans and advances as at 31 December 2020 was 20.85% (2019: 21%) per annum and US Dollar denominated loans carried an average interest rate of 8.26% (2019: 8.30%) per annum.

	GROUP & COMPANY 2020 K'm	GROUP & COMPANY 2019 K'm
Movement on interest in suspense		
At beginning of the year	402	552
Suspended in the year	727	229
Recovered	-	(379)
At end of the year	1 129	402
Analysis of recoveries		
Interest in suspense	-	379
Debts previously written off	709	1 034
Transferred to statement of comprehensive income	709	1 413

13. Loans and advances (Continued)

	GROUP AND COMPANY 2020 K'm	GROUP AND COMPANY 2019 K'm
Finance lease receivables		
Gross investment in finance lease receivable:		
• Within three months	354	245
• Between three months and one year	1 849	1 531
• After one year and not later than five years	20 006	23 110
	22 209	24 886
Unearned future income on finance leases	(4 374)	(4 776)
	17 835	20 110
Impairment provision	(350)	(655)
Net investment in finance leases	17 485	19 455
The net investment in finance leases matures as follows:		
• Within three months	348	239
• Between three months and one year	1 736	1 411
• After one year and not later than five years	15 401	17 805
	17 485	19 455

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 2020 was 19.36% (2019: 21%). All leases are in Malawi kwacha.

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

	31 December 2019	31 December 2019	31 December 2020	31 December 2020
Days past due	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
	K'm	K'm	K'm	K'm
0-29 days	167 088	3 006	159 668	2 596
30-90 days	10 287	1 471	19 058	751
91-180 days	11 908	2 092	5 374	580
181-360 days	9 142	4 251	16 004	5 114
More than 360 days	1 521	802	10 285	1 178
Total	**199 946**	**11 622**	**210 389**	**10 219**

13. Loans and advances (Continued)

Restructured loans and modifications relating to COVID-19

The Group has introduced a number of support measures for customers impacted by COVID-19, which include loan repayment deferrals. During the year, loans with a total carrying amounting of K32 884m were restructured (modified). Their total fair value after restructuring was K33 008m resulting into a net fair value gain of K124m which was recognised in the statement of comprehensive income. Out of the total restructured facilities, the carrying amount of loans restructured due to COVID-19 was K28 377m and their fair value was K28 361m resulting in a net modification loss amounting to K16m which has been recognised in the statement of comprehensive income. In accordance with the Reserve Bank of Malawi's measures to mitigate the impact of COVID-19, restructured facilities due to COVID -19 were maintained in the stages they were before restructure.

The Group has also recognised a loss of K144m on loans that were modified in 2018 and 2019. These were normal restructures. The total carrying amount of the loans at the time of restructure was K18 486m.

The net loss recognised in the statement of income for the year ended 31 December 2020 is therefore K20m.

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

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	-
– Charge to income statement	469	896	3 820	5 185
Changes in loss allowance for off balance sheet assets	(90)	(13)	(12)	(115)
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. Loans and advances (Continued)

At 31 December 2020

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 2020	3 809	1 508	6 305	11 622
Changes in the loss allowance				
– Transfer to stage 1	1 234	(297)	(937)	-
– Transfer to stage 2	(90)	4 420	(4 330)	-
– Transfer to stage 3	(1 438)	(4 204)	5 642	-
Charge to income statement	(1 037)	(653)	217	(1 473)
Changes in loss allowance for off balance sheet assets	118	(23)	(25)	70
Closing Balance	**2 596**	**751**	**6 872**	**10 219**

The consolidated charge to the statement of comprehensive income of K3 153m (K3 145m for the Bank) includes loans and advances written down during the year amounting to K4 548m and net impairment losses of investments and other assets amounting to K8m (Notes 5, 6, 7, 11, 12, 13 and 14). The Group's current year charge to income statement includes K8m provisions for NBM Development Bank Limited. The Group has also recognised additional Expected losses amounting to K78m due to COVID-19 post model adjustment.

14. Other money market deposits

	GROUP		COMPANY	
	2020 K'm	2019 K'm	2020 K'm	2019 K'm
Money market investments with Reserve Bank of Malawi and other banks	37 753	32 999	7 100	18 499
Expected credit losses	(1)	(2)	(1)	(1)
	37 752	32 997	7 099	18 498

Money market investments with Reserve Bank of Malawi and other banks are held to maturity and mature within one month (2019: one month) after the year-end. The deposits earned an average interest rate of 11.50% (2019: 10.00%) per annum.

15. Other assets

	GROUP 2020 K'm	GROUP 2019 K'm	COMPANY 2020 K'm	COMPANY 2019 K'm
Sundry receivables	1 747	726	189	344
Office accounts	1 164	601	1 164	601
Prepayments	1 970	1 363	1 970	1 084
Due from local banks	1 008	232	1 008	232
Employee benefit subsidy	616	755	616	755
Mastercard accounts	1 093	1 378	1 093	1 378
Bulk stock stationery	254	307	254	307
Other investments	98	89	98	89
Provision for potential losses on other assets	(1 096)	(27)	(912)	-
Total other assets	6 854	5 424	5 480	4 790

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.

Provision for potential losses on other assets

The provision mainly relates to old cards transactions whose recoverability is doubtful.

Assessment of impairment of other assets due to COVID-19

The Group assessed the other assets for impairment arising from COVID-19. There were no impairments recognized in the financial statements due to COVID-19.

16. Property and Equipment

	Freehold land & buildings K'm	Leasehold land & buildings K'm	Motor vehicles & equipment K'm	Work in progress K'm	Total K'm
GROUP					
Cost or valuation					
At 1 January 2020	22 471	5 975	15 246	256	43 948
Additions	-	-	3 193	-	3 193
Transfer from work in progress	202	50	4	(256)	-
Disposals	-	-	(884)	-	(884)
Write offs	-	-	(25)	-	(25)
Revaluation loss	(137)	-	-	-	(137)
Revaluation surplus	1 356	367	-	-	1 723
At 31 December 2020	23 892	6 392	17 534	-	47 818
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
Depreciation					
1 January 2020	-	759	10 950	3	11 712
Charge for the year	422	267	1 714	-	2 403
Elimination on revaluation	(422)	(142)	-	-	(564)
Elimination on disposal	-	-	(763)	-	(763)
Transfer between classes	-	-	3	(3)	-
Write offs	-	-	(23)	-	(23)
At 31 December 2020	-	884	11 881	-	12 765
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
Carrying amount					
At 31 December 2020	23 892	5 508	5 653	-	35 053
At 31 December 2019	22 471	5 216	4 296	253	32 236

16. Property and Equipment (Continued)

	Freehold land & buildings K'm	Leasehold land & buildings K'm	Motor vehicles & equipment K'm	Work in progress K'm	Total K'm
COMPANY					
Cost or valuation					
At 1 January 2020	22 471	6 213	16 136	257	45 077
Additions	-	-	3 169	-	3 169
Transfer from work in progress	202	50	5	(257)	-
Disposals	-	-	(874)	-	(874)
Write offs	-	-	(22)	-	(22)
Revaluation loss	(137)	-	-	-	(137)
Revaluation surplus	1 356	367	-	-	1 723
At 31 December 2020	23 892	6 630	18 414	-	48 936
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
Depreciation					
1 January 2020	-	1 017	11 903	3	12 923
Charge for the year	422	267	1 688	-	2 377
Elimination on revaluation	(422)	(142)	-	-	(564)
Elimination on disposal	-	-	(756)	-	(756)
Transfer between classes	-	-	3	(3)	-
Write offs	-	-	(22)	-	(22)
At 31 December 2020	-	1 142	12 816	-	13 958
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
Carrying amount					
At 31 December 2020	23 882	5 488	5 598	-	34 978
At 31 December 2019	22 471	5 196	4 233	254	32 154

16. 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	
		2020 K'm	2019 K'm
Freehold	- at 2020 valuation	23 892	-
	- at 2019 valuation	-	22 471
Total freehold land and buildings		23 892	22 471
Leasehold	- at 2020 valuation	6 392	-
	- at 2019 valuation	-	5 975
Total leasehold land and buildings		6 392	5 975

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

2019

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

2020

	Related parties K'm	Others K'm	Total K'm
Motor vehicles	288	239	527

Bottling and Brewing Group Limited, People Trading Centre Ltd and The Foods company Limited are the related parties to whom the Bank leases motor vehicles which were purchased at a cost of K611m (2019: K1 959m).

16. 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 2020
Land and buildings for the Bank were fair valued as at 31 December 2020 by Bernard J Mughogho, BSc (Est. Mgmt) of Knight Frank, qualified independent valuers on a current market value basis.

Out of the K2 287m (2019: K3 045m) the Group's gross revaluation surplus, K48m (2019: K60m) 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 239m (2019: K2 985m) was credited to the revaluation reserve through the statement of other comprehensive income (refer note 34).

Details of land and buildings at fair value and information about the fair value hierarchy as at 31 December 2020 are as follows:

		Fair value		
	Level 1	Level 2	Level 3	2020
	K'm	K'm	K'm	K'm
Freehold land and buildings	-	23 892	-	23 892
Leasehold land and buildings	-	6 392	-	6 392

		Fair value		
	Level 1	Level 2	Level 3	2019
	K'm	K'm	K'm	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 941m (2019: K8 975m).

The Group assessed its property and equipment for indicators of impairment. There were no impairments to the items of property and equipment not even from those arising from the effects of COVID-19. As such no impairment losses were recognized on these assets.

17. 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 2020	265	11 602	2 069	13 936
Additions	-	-	907	907
Transfer from work in progress	-	486	(486)	-
Write offs	(46)	(109)	-	(155)
At 31 December 2020	219	11 979	2 490	14 688
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
Amortisation				
At 1 January 2020	265	3 397	-	3 662
Charge for the year	-	1 134	-	1 134
Write offs	(46)	(109)	-	(155)
At 31 December 2020	219	4 422	-	4 641
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
Carrying amounts				
31 December 2020	-	7 557	2 490	10 047
31 December 2019	-	8 205	2 069	10 274

17. Intangible assets (Continued)

	Development costs K'm	Computer software K'm	Work in progress K'm	Total K'm
COMPANY				
Cost or valuation				
At 1 January 2020	265	11 525	2 048	13 838
Additions	-	-	907	907
Transfer from work in progress	-	475	(475)	-
Write offs	(46)	(109)	-	(155)
At 31 December 2020	219	11 891	2 480	14 590
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
Depreciation				
At 1 January 2020	265	3 413	-	3 678
Charge for the year	-	1 122	-	1 122
Write offs	(46)	(109)	-	(155)
At 31 December 2020	219	4 426	-	4 645
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
Carrying amounts				
31 December 2020	-	7 465	2 480	9 945
31 December 2019	-	8 112	2 048	10 160

The Group assessed intangible assets for impairment. There were no indicators of impairment of the intangible assets which were in use during the reporting period.

The write off relates to computer software that were not being utilised by the Group due to operability limitations. The operability limitations were due to expiry of licences and the assets had been fully amortised.

18. Right-of-use assets

GROUP AND COMPANY

Buildings

	K'm
Cost or valuation	
At 1 January 2020	3 774
At 31 December 2020	3 774
At 1 January 2019	3 168
Lease liability adjustment	606
At 31 December 2019	3 774
Amortisation	
At 1 January 2020	634
Charge for the year	785
At 31 December 2020	1 419
Charge for the year	634
At 31 December 2019	634
Carrying amounts	
31 December 2020	2 355
31 December 2019	3 140

The Group enters into agreement with Property owners (Landlords) to occupy the whole building(s) or part of the building (area in square meters) to operate a service centre, an office, or install Auto Teller Machines (ATMs). 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 2019, 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). During the current year, the Group concluded that there were no circumstances the necessitated the re-measurement of the lease liability. Accordingly, the Group maintained 2019 Right-of-use measurement and adjusted it for amortisation.

In light of the COVID-19 pandemic, the Group assessed the Right-of-use assets for impairment. The factors to consider included operations disruptions, scaling down of use of space etecetra. Based on the assessment, there were no indicators of impairment. As such no impairment loss has been recognised on Right-of-use assets.

19.1 Deferred tax asset

	Opening balance K'm	to profit or loss K'm	Charged to equity K'm	Closing balance K'm
GROUP				
2020				
Accelerated capital allowances	(1 739)	(59)	-	(1 798)
Revaluation of land and buildings	7 460	27	761	8 248
Other temporary differences	2 140	116	-	2 256
Total deferred tax	7 861	84	761	8 706
2019				
Accelerated capital allowances	(1 704)	(35)	-	(1 739)
Revaluation of land and buildings	7 564	42	(146)	7 460
Other temporary differences	2 006	134	-	2 140
Total deferred tax	7 866	141	(146)	7 861
COMPANY				
2020				
Accelerated capital allowances	(308)	(69)	-	(377)
Revaluation of land and buildings	7 285	27	761	8 073
Other temporary differences	839	82	-	921
Total deferred tax	7 816	40	761	8 617
2019				
Accelerated capital allowances	(284)	(24)	-	(308)
Revaluation of land and buildings	7 389	42	(146)	7 285
Other temporary differences	722	117	-	839
Total deferred tax	7 827	135	(146)	7 816

19.2 Deferred tax liability

	Opening balance K'm	On Disposal K'm	to profit or loss K'm	Charge Charged to equity K'm	Closing balance K'm
GROUP					
2020					
Other temporary differences	5	-	(5)	-	-
Total deferred tax	5	-	(5)	-	-
2019					
Other temporary differences	9	-	(4)	-	5
Total deferred tax	9	-	(4)	-	5

	GROUP	
	2020 K'm	2019 K'm
20. Goodwill		
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 Limited to undertake long term financing business. The Bank commenced operations in May 2019.

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

Annual test for impairment
The Group determined the recoverable amount of the Cash Generating Unit (WBD) to be K47bn 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 2021 and projections covering a 4 year period from 2022) discounted at a weighted average cost of capital of 26.45% (2019: 26.00%).

All forecasts used in the determination of value in use are extracted directly from the Bank's 2021 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 Corporate 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 K9.3bn. As such, in accordance with IAS 36 *Impairment of Assets*, NBM determined that the goodwill was not impaired as at 31 December 2020.

21. Customer deposits

	Average interest rates 2020	Average interest rates 2019	GROUP 2020 K'm	GROUP 2019 K'm	COMPANY 2020 K'm	COMPANY 2019 K'm
Analysis by account type:						
Current accounts	0.00%	0.10%	153 917	117 282	153 917	117 790
Foreign currency accounts	0.50%	0.50%	81 609	64 019	81 609	64 019
Savings accounts	3.80%	6.10%	91 582	78 340	91 582	78 340
Deposit accounts	3.90%	7.16%	40 613	35 233	40 613	38 130
Client funds	10.00%	10.00%	35 982	23 596	-	-
Total customer deposits			403 703	318 470	367 721	298 279
Analysis by interest risk type:						
Interest bearing deposits			249 786	177 592	213 804	180 489
Non-interest bearing deposits			153 917	140 878	153 917	117 790
			403 703	318 470	367 721	298 279

All interest bearing accounts, excluding deposit accounts, are at floating rates that are adjusted at the Bank's discretion, refer to note 43e.

Analysis by interest maturity:

	GROUP 2020 K'm	GROUP 2019 K'm	COMPANY 2020 K'm	COMPANY 2019 K'm
Customer deposits are payable as follows:				
• Within three months	400 777	315 042	364 795	294 851
• Between three months and one year	2 926	3 428	2 926	3 428
	403 703	318 470	367 721	298 279
Analysis by sector:				
Agriculture	11 666	9 750	11 666	9 750
Manufacturing	19 336	22 921	19 336	22 921
Wholesale and retail	40 855	37 783	40 855	37 783
Finance and insurance	29 340	18 884	31 386	21 781
Personal accounts	218 760	166 176	218 760	166 176
Construction	12 760	10 802	12 760	10 802
Electricity gas water and energy	12 161	12 628	12 161	12 628
Transport, storage and	6 674	8 073	6 674	8 073
Restaurants and hotels	5 126	3 177	5 126	3 177
Mining and qualifying	3 464	379	3 464	379
Real Estate	2 573	2 019	2 573	2 019
Clients funds	35 982	24 018	-	-
Other	5 006	1 860	2 960	2 790
Total	403 703	318 470	367 721	298 279

The currency analysis of customer deposits is included in note 43f.

22. Amounts due to other banks

	GROUP & COMPANY	
	2020 K'm	2019 K'm
Liabilities in Malawi Kwacha	12 071	54
Liabilities in foreign currency	280	458
Bills in suspense in foreign currency	206	140
Total amounts due to other banks	12 557	652

23. Current income tax liabilities

	GROUP		COMPANY	
	2020 K'm	2019 K'm	2020 K'm	2019 K'm
Balance at beginning of the year	3 501	874	3 357	685
Current charge (note 35)	10 448	8 341	10 115	7 913
Tax paid	(9 643)	(5 714)	(9 260)	(5 241)
Balance at end of the year	4 306	3 501	4 212	3 357

24. 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	
	2020 K'm	2019 K'm
Amounts repayable within one year	3 908	3 623
Amount repayable after one year	9 805	12 712
Total amounts due to other banks	13 713	16 335

24.1 Lines of credit

24.1.1 Malawi Government (denominated in Deutschemark (DM))

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 2020 was K105m (2019: K105m).

24.1.2 United States Agency for International Development (USAID)

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 2020 was K3m (2019: 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 2020 was K9m (2019: 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 Malawi Government on a new repayment schedule.

24.1.3 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 2020 was K67m (2019:K67m).

24.1.4 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 2020 was K25m (2019: K25m).

24.1.5 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 2020, the Bank drew down USD29.142m (2019 USD29.142m) and made total repayments amounting to USD12.36m (2019: USD7.07m). The carrying amount includes accrued interest amounting to USD0.26m (2019USD0.10m) which is repayable by 30 June 2021. The carrying amount of the loan as at 31 December 2020 was K13 504m (2019: K16 129m).

25. Provisions

GROUP

	Employee bonus K'm	Tevet levy K'm	Total K'm
2020			
At 1 January 2020	2 889	65	2 954
Provisions made during the year	3 792	175	3 967
Payments made during the year	(2 965)	(159)	(3 124)
At 31 December 2020	3 716	81	3 797
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

COMPANY

	Employee bonus K'm	Tevet levy K'm	Total K'm
2020			
At 1 January 2020	2 681	64	2 745
Provisions made during the year	3 653	168	3 821
Payments made during the year	(2 756)	(158)	(2 914)
At 31 December 2020	3 578	74	3 652
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

26. Other liabilities

	GROUP		COMPANY	
	2020 K'm	2019 K'm	2020 K'm	2019 K'm
Unclaimed balances	1 304	876	1 304	876
Deferred income	675	535	675	535
Bank cheque	2 232	3 456	2 232	3 456
Office accounts	2 811	2 033	2 811	2 033
Trade and other payables	3 536	2 297	2 739	1 804
Other tax payables	928	1 248	928	1 248
Cash security	653	679	653	679
Cards and other products	1 074	1 209	1 074	1 209
Sundry payables	328	495	475	706
Total other liabilities	13 541	12 828	12 891	12 546

The currency analysis of other liabilities is included in note 43(f).

27. Lease liability

	GROUP AND COMPANY	
	2020 K'm	2019 K'm
Opening lease liability as at 01 January	3 551	3 143
Interest on lease	615	677
Lease repayments (principal and interest)	(1 008)	(875)
Lease liability adjustment	-	606
Closing balance as at 31 December	3 158	3 551

The lease liability relates to discounted future lease payments on contracts that meet the definition of a lease as provided for in IFRS 16 *Lease*s (Refer to note 18). The interest on lease liability has been charged to Statement of Comprehensive income (Refer to note 33). Out of the K1 008m (2019: K875m) payments, K393m (2019: K198m) were towards settlement of the lease liability (principal) and K615m (2019: K677m) for payment of the interest on lease liability.

The maturity profiles for the lease payments are as follows:

GROUP AND COMPANY

	2020 K'm	2019 K'm
Year 1	1 256	1 108
Year 2	1 425	1 256
Year 3	2 100	1 425
Year 4	-	2 100
Total lease payments	4 781	5 889

The currency analysis of other liabilities is included in note 43(f).

28.1 Acquisition of Akiba Commercial Bank of Tanzania.

Subsequent to the reporting period, NBM Group finalised the acquisition of 51% of Akiba Commercial Bank of Tanzania. As at the reporting date, the Group is pursuing the acquisition of additional 24% of Akiba Commercial Bank of Tanzania to take the Group's shareholding in Akiba to 75%. The Board and Management continue to work tirelessly to ensure a successful completion of the additional share acquisition transaction within the 2021 year.

28.2 COVID-19

COVID-19 confirmed cases and related deaths increased during the month of January 2021 to mid-February 2021. There has been a downward trend in both the rate of infections and deaths from mid-February 2021.

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including duration of the pandemic, the severity of the downturn and the speed of economic recovery. In accordance with IAS 10 *Events after the reporting period*, the Group considered whether events after the reporting period confirmed conditions existing before the reporting date. Consideration was given to the macro-economic impact of lockdowns implemented in neighbouring and critical economies (like China), the closure of state borders, and the extension of further government support measures. The Group did not identify any subsequent events precipitated by COVID-19 related developments, which would require adjustments to the amounts or disclosures in the financial statements. Further, no other material non-adjusting subsequent events relating to COVID-19 were identified requiring disclosure in the financial statements. Given the fluid nature of the current situation, the Group will continue to regularly review forward looking assumptions and forecast economic scenarios.

29. Pension scheme

The Group operates a fully defined contribution pension scheme for its employees. The contributions of employees and the employer are 5.5% (2019: 5.5%) and 11% (2019: 11.0%) of the fund members' basic pensionable salaries, respectively. The funds are invested with NBM Pension Administration Limited. The amount charged against income during the year was K1 258m (2019: K1 145m).

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 K427m (2019: K384m) in rentals for such properties during the year.

The Fund was valued by independent actuaries, Alexander Forbes, as at 31 December 2019. As per the actuarial valuation, the General Fund had a surplus of K2 227m (December 2018: surplus of K1 494m) and the Special Fund had a surplus of K963m (December 2018: surplus of K942m). According to the report, the special Fund had no liabilities as at 31 December 2019.

	GROUP 2020 K'm	GROUP 2019 K'm	COMPANY 2020 K'm	COMPANY 2019 K'm
30. Net interest income				
Interest and similar income				
Interest on loans and advances and bills discounted	29 369	27 800	29 280	27 797
Income from investments	17 502	14 360	17 502	14 354
Income from lease financing	3 465	3 714	3 465	3 714
Interest on placements with other banks	1 302	1 157	597	498
Arrangement and other fee income	3 615	3 873	3 612	3 871
	55 253	50 904	54 456	50 234
Interest expense and similar charges				
Banks and customers	4 503	4 291	4 503	4 316
Interest on Foreign Bank loan	532	637	532	637
Money market loans and repos	279	279	279	279
	5 314	5 207	5 314	5 232
Net interest income	49 939	45 697	49 142	45 002

	GROUP 2020 K'm	GROUP 2019 K'm	COMPANY 2020 K'm	COMPANY 2019 K'm
31. Commission and fee income				
Commissions	20 790	17 122	19 166	15 306
Other income	1 344	1 276	1 089	1 261
Total commission and fee income	22 134	18 398	20 255	16 567
32. Staff costs				
Salaries and wages	11 646	10 612	11 177	10 237
Other staff costs	3 987	4 267	3 766	4 050
Staff loans fair value adjustment	28	19	28	19
Staff bonus	3 792	3 001	3 653	2 793
Severance pay	-	812	-	812
Pension costs	1 258	1 145	1 210	1 108
Total staff costs	20 711	19 856	19 834	19 019

33. Other operating expenditure

	GROUP		COMPANY	
	2020 K'm	2019 K'm	2020 K'm	2019 K'm
Recurrent expenditure on premises and equipment	5 873	5 956	5 751	5 799
Depreciation of property and equipment	2 403	2 621	2 377	2 597
Amortisation of intangible assets	1 134	1 066	1 122	1 054
Amortisation of Right-of-use assets	785	634	785	634
Interest expense on lease liability	615	677	615	677
Impairment of intangible assets	-	96	-	96
Write off of plant and equipment	2	4	-	4
Legal charges	110	241	110	238
Communication	1 497	1 441	1 480	1 426
Travel, Hotel and meals	650	818	639	795
Office expenses	1 261	1 084	1 242	1 062
Security and insurance	1 174	990	1 151	962
Professional fees	373	1 108	358	1 073
Card expenses	2 769	1 181	2 769	1 181
Agent bank charges	145	105	145	105
Reserve Bank of Malawi Supervisory fees and inspection charges	112	130	109	127
Customer cash collection expenses	34	42	34	42
Write off of system balances	911	(229)	731	(174)
SMS Banking expenses	655	567	655	567
Auditor's remuneration including VAT and expenses	349	302	265	205
Directors' remuneration				
- fees for services as directors	155	107	105	83
- for managerial services	764	720	642	604
Board expenses	115	179	111	177
Other expenses	700	784	497	662
Total other operating expenses	22 586	20 624	21 693	19 996

34. Properties fair value gains and losses

	GROUP AND COMPANY	
	2020 K'm	2019 K'm
Fair value loss on properties through income statement	(137)	(199)
Fair value gains on properties through income statement	48	60
Net fair value losses through statement comprehensive income	(89)	(139)
Fair value gains on properties included in other comprehensive income	2 239	2 985
Total properties fair value gains	2 150	2 846

35. Income tax expense

	GROUP 2020 K'm	GROUP 2019 K'm	COMPANY 2020 K'm	COMPANY 2019 K'm
Income tax (note 23)	10 448	8 341	10 115	7 913
Deferred tax (note 19)	(89)	(145)	(40)	(135)
Total income tax expenses	10 359	8 196	10 075	7 778
Profit before tax	32 808	25 351	32 433	24 600
Reconciliation of rate of tax	%	%	%	%
Standard rate of taxation	30	30	30	30
Permanent differences	2	2	1	2
Effective rate of taxation	32	32	31	32

36. 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 2020	GROUP 2019
Profit attributable to equity holders of the Company (K'm)	22 406	17 106
Net profit used to determine diluted earnings per share (K'm)	22 406	17 106
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)	47.98	36.62

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 nil outstanding share options which are dilutive potential ordinary shares. As such the diluted earnings per share are the same as basic earnings per share.

36. Diluted earnings per share (Continued)

	GROUP	
	2020	2019
Profit attributable to equity holders of the Company (K'm)	22 406	17 106
Net profit used to determine diluted earnings per share (K'm)	22 406	17 106
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)	47.98	36.62

37. Dividend per share

	GROUP AND COMPANY	
	2020 K'm	2019 K'm
Final dividend (prior year)	5 865	5 001
First interim dividend (current year)	2 498	2 498
	8 363	7 499
Weighted average number of Ordinary Shares in issue (millions)	467	467
Dividend per share	17.91	16.05

The proposed current year final dividend is K8 000m (2019: K4 300m) representing K17.13 per share (2019: K9.21 per share). A second interim dividend of K2 500m (2019: K1 500m) will be paid on 30 March 2021.

38. Contingencies

	GROUP		COMPANY	
	2020 K'm	2019 K'm	2020 K'm	2019 K'm
Letters of credit and guarantees				
Foreign guarantees	1 967	1 609	1 967	1 609
Local guarantees and performance bonds	4 682	4 157	4 682	4 157
Letters of credit	26 990	16 784	26 990	16 784
Total letters of credit and guarantees	33 639	22 550	33 639	22 550
Other contingencies				
Legal claims	1 414	1 714	1 414	1 714
Customer funds under management	98 193	77 920	-	-
Total other contingencies	99 607	79 634	1 414	1 714

38. Contingencies (Continued)

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 K5 529m (2019: K4 431m).

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.

39. Commitments

	GROUP AND COMPANY 2020 K'm	2019 K'm
Expenditure contracted for but not yet incurred	1 112	1 013
Expenditure approved by the Board but not contracted	5 781	945
Total commitments	6 893	1 958

These commitments are to be funded from internal resources.

40. Cash and cash equivalents

	GROUP 2020 K'm	GROUP 2019 K'm	COMPANY 2020 K'm	COMPANY 2019 K'm
Cash and funds with Reserve Bank of Malawi (note 5)	26 267	18 345	26 267	18 345
Placements with other banks (note 12)	44 231	17 826	44 231	17 826
Other money market deposits (note 14)	37 752	32 997	7 099	18 498
Amounts due to other banks (note 22)	(12 557)	(652)	(12 557)	(652)
Total cash and cash equivalents	95 693	68 516	65 040	54 017

41. 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	Total Amortised cost K'm	carrying amount K'm	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	7	-	-	133 278	133 278	133 278
Equity investments	9	4 102	-	-	4 102	4 102
Placements with other banks	12	-	-	17 826	17 826	17 826
Loans and advances	13	-	-	188 324	188 324	188 324
Other money market deposits	14	-	-	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	21	-	-	318 470	318 470	318 470
Amounts due to other banks	22	-	-	652	652	652
Loans	24	-	-	16 335	16 335	16 335
Provisions	25	-	-	2 954	2 954	2 954
Other liabilities		-	-	1 617	1 617	1 617
Lease liability	27	-	-	3 551	3 551	3 551
Total financial liabilities		-	-	343 579	343 579	343 579

41. Financial assets and liabilities (Continued)

Accounting categories and fair values (Continued)

GROUP	Notes	Fair value Fair value through profit or loss K'm	through other comprehensive income K'm	Amortised cost K'm	Total carrying amount K'm	Fair value K'm
2020						
Assets						
Cash and bank balances with Reserve Bank of Malawi	5	26 267	-	-	26 267	26 267
Restricted cash	6	-	-	5 585	5 585	5 585
Government of Malawi treasury bills and treasury notes	7	-	-	180 435	180 435	180 435
Government of Malawi promissory note	8	-	-	5 196	5 196	5 196
Equity investments	9	4 744	-	-	4 744	4 744
Placements with other banks	12	-	-	44 231	44 231	44 231
Loans and advances	13	-	-	200 170	200 170	200 170
Other money market deposits	14	-	-	37 752	37 752	37 752
Other assets		-	-	2 180	2 180	2 180
Total financial assets		31 011	-	475 549	506 560	506 560
Liabilities and equity						
Customer deposits	21	-	-	403 703	403 703	403 703
Amounts due to other banks	22	-	-	12 557	12 557	12 557
Loans	23	-	-	13 713	13 713	13 713
Provisions	25	-	-	3 797	3 797	3 797
Other liabilities		-	-	1 530	1 530	1 530
Lease liability	27	-	-	3 158	3 158	3 158
Total financial liabilities		-	-	438 458	438 458	438 458

41. 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	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	7	-	-	123 489	123 489	123 489
Equity investments	9	4 102	-	-	4 102	4 102
Placements with other banks	12	-	-	17 826	17 826	17 826
Loans and advances	13	-	-	188 178	188 178	188 178
Other money market deposits	14	-	-	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	21	-	-	298 279	298 279	298 279
Amounts due to other banks	22	-	-	652	652	652
Loans	24	-	-	16 335	16 335	16 335
Provisions	25	-	-	2 745	2 745	2 745
Other liabilities		-	-	1 051	1 051	1 051
Lease liability	27	-	-	3 551	3 551	3 551
Total financial liabilities		-	-	322 613	322 613	322 613

41. 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	Fair value K'm
2020						
Assets						
Cash and bank balances with Reserve Bank of Malawi	5	26 267	-	-	26 267	26 267
Restricted cash	6	-	-	5 585	5 585	5 585
Government of Malawi treasury bills and treasury notes	7	-	-	172 274	172 274	172 274
Government of Malawi Promissory note	8	-	-	5 196	5 196	5 196
Equity investments	9	4 744	-	-	4 744	4 744
Placements with other banks	12	-	-	44 231	44 231	44 231
Loans and advances	13	-	-	199 161	199 161	199 161
Other money market deposits	14	-	-	7 099	7 099	7 099
Other assets		-	-	1 167	1 167	1 167
Total financial assets		31 011	-	434 713	465 724	465 724
Liabilities and equity						
Customer deposits	21	-	-	367 721	367 721	367 721
Amounts due to other banks	22	-	-	12 557	12 557	12 557
Loans	24	-	-	13 713	13 713	13 713
Provisions	25	-	-	3 652	3 652	3 652
Other liabilities		-	-	1 053	1 053	1 053
Lease liability	27	-	-	3 158	3 158	3 158
Total financial liabilities		-	-	401 854	401 854	401 854

42. Fair value measurements

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

42.1 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.
- 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.

42.2 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	
	2020 K'm	2019 K'm
Financial assets at fair value through profit or loss		
Non-derivative financial assets held for trading		
Level 1	4 744	4 102

42. Fair value measurements (Continued)

42.3 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 2020 K'm	Fair value 2019 K'm	Fair value hierarchy	Valuation technique(s) and key input(s)
Equity investments	4 744	4 102	Level 1	Quoted prices
Promissory note	5 196	-	Level 2	Government of Malawi Discounted cash flows using applicable interest rates and agreed repayment plan agreed
	9 940	4 102		

42.4 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.

43. 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.

43. Financial risk management

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 maintains an appropriate system of internal controls to ensure that these risks are managed within the agreed parameters. The Board delegates risk related responsibilities to six Board committees namely; - the Risk Committee, the Credit Committee, the Audit Committee, the Appointments, Remuneration and Governance Committee, Related Parties Committee and the Board IT Projects Oversight Committee. The Board Committees comprise of a non-executive membership only and they report regularly to the main 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 has the overall responsibility for the Bank's system of internal controls and for reviewing its effectiveness. The Committee also exercises the full powers and authority of the Board in accounting and financial reporting matters as guided by its terms of reference. Results of pre-arranged and surprise risk-based audits provide the Directors with information which assists them to assess the effectiveness of internal controls and management of risks in each business unit. The Board Audit Committee is 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 Board 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.

43. Financial risk management

a) Introduction and overview (Continued)
Risk management framework (Continued)

The Board Related Parties Committee is responsible for considering credit applications from Companies and Individuals related to the Bank to ensure that all transactions are conducted at arm's length.

The Board IT Projects Oversight Committee is responsible for reviewing and approving the Bank`s IT strategy and policy documents from time-to-time to ensure that management has an effective strategic planning process for IT issues in place and that the IT strategy is aligned with the business strategy. The Committee further reviews the annual IT and operational strategies, including the financial, tactical and strategic benefits of proposed major IT and operational related initiatives.

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) **Political and Business Environment Risk** – the economic and Business risk remained High for 2020.
The political risk remained High in the first half of the year. The Supreme Court had upheld a Constitutional Court ruling for Fresh Presidential Election which was held on 23rd June 2020 and herald the change in Government. In the first half of the year political demonstrations ruled the day and businesses were impacted. The change in Government meant a change in the macroeconomic policies of the Government. However, despite the change in the political landscape, the macroeconomic indicators remained relatively stable in 2020.

ii) **The Impact of Covid-19** – was very disruptive to many business models in 2020 and even now. Covid-19 has seen the disruption and closure of some businesses. There has been continuous risk and security assessment and improvements in response. In response, the Reserve Bank of Malawi issued regulatory guidelines with the following as directives to banks by;-

43. Financial risk management (Continued)

b) Current and Emerging Risks (Continued)

ii) The Impact of Covid-19 (Continued)

a. To provide moratorium on interest and principal repayments for loans by borrowers on a case by case basis;

b. To restructure and refinance or renegotiate loans for small to medium scale enterprises, corporates and other borrowers affected by COVID19 on a case by case basis;

c. To reduce by forty (40) percent fees and charges related to internet banking, mobile payments and any other related services, except for POS and visa and master card related payments, in order to encourage usage of electronic payment transactions; and

d. To defer all payments of bonuses and dividends until the risk of COVID19 is under control. However, this would be assessed by the Registrar of Financial Institutions on a case by case basis.

The directives were initially effective for three months from April 2020 to June 2020. However, the moratorium directive was extended. As at the reporting date, moratorium directive was still effective. The directives did not have significant impact on the business of the group as the reduction in the fees for three months was compensated with increased volumes owing to the fact that more customers were recruited on the digital platforms. The deferment of repayments did not also affect the group as interest income was still be recognised as it remained payable by the customers.

iii) Technology and Cyber security risk – There have been malicious acts of randomly generating login pin using demographic intelligence on Mo626 and BankNet360 platforms. The attackers execute using phishing and brute-force attacks (submission of passwords to a target to get the actual password of the customer) on Transaction Personal Identification Number (T-PIN).

The Group already has a solution that it is deploying. There is an enhanced feature under Mo626Digital that binds a phone to the application which the Group is implementing. The Group expects that the implementation of the solution will reduce the risk to low level.

iv) Investment in new territory-In January 2021, the Group has completed the acquisition of Akiba Commercial Bank plc of Tanzania. The Group is therefore exposed to the risks associated with the investment in the new territory. The Group will put in place measures to identify, manage and mitigate itself against the impact of such risks on its investment in Akiba.

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:

43. Financial risk management (Continued)

c) Credit risk (Continued)

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).

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 ten 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.

43. Financial risk management (Continued)

c) Credit risk (Continued)

Management of credit risk (Continued)

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;
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 organization, 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:-

(ii) Significant financial difficulty of the issuer or obligor;
(iii) A breach of contract, such as a default or delinquency in interest or principal payments;
(iv) 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;
(v) It becoming probable that the borrower will enter bankruptcy or other financial reorganization;
(vi) The disappearance of an active market for that financial asset because of financial difficulties;
(vii) The purchase or origination of a financial asset at a deep discount that reflects incurred credit losses; and

43. Financial risk management (Continued)

c) Credit risk (Continued)

Management of credit risk (Continued)

(viii) 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:

a. adverse changes in the payment status of borrowers in the Bank; and
b. national or local economic conditions that correlate with defaults on the assets in the Bank.

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 2020 was at K210 389m (2019: K199 946m) with Non-Performing Loans (NPL) standing at 15.05% (2019: 11.29%) With default rate increasing from the previous reporting period, the Group will enhance its recoveries efforts and credit risk management to ensure the ratio goes down.

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

c) **Credit risk** (Continued)

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.

Extent of utilisation of granted limit

The Bank closed 2020 with utilized overdrafts of K33 124m (2019: K47 896m) against limits of K55 546m (2019: K66 146m) representing 59.63% (2019: 72.41%) 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)

Due to COVID-19, there are significant forbearances in the reporting period. Refer to note 13 for the impact of the forbearances.

Changes in business, financial and economic conditions;

Inspite of COVID-19, the business condition was relatively stable in the reporting period. The economy experienced marginal depreciation of the kwacha and inflation remained in single digit. During the same period the interest rates continued the downward trend experienced during the previous year. The inflation rate is expected to decline further in 2021 due to expected bumper food harvest. The Group was not much affected by COVID-19 due to the measures put in place by the Reserve of Malawi and also due to the Bank's initiatives to recruit more customers on the digital platforms and closer monitoring of the loan exposures.

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.

43. Financial risk management (Continued)

c) Credit risk (Continued)

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	
	2020 K'm	2019 K'm	2020 K'm	2019 K'm
Concentration by sector				
Agriculture	38 408	36 202	38 408	36 202
Finance and insurance	4 365	7 718	4 365	7 718
Manufacturing	22 970	20 573	22 970	20 573
Other	33 460	13 568	33 460	13 568
Transport and communication	8 896	11 236	8 896	11 236
Real estate	6 763	4 829	6 763	4 829
Personal	42 894	31 762	42 894	31 762
Wholesale and retail	42 414	62 436	41 405	62 290
	200 170	188 324	199 161	188 178

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.

Group loans and advances to customers at amortised cost categorised by Stages

	2020	2019
Stage	**K'm**	**K'm**
Stage 1	159 668	167 088
Stage 2	19 058	10 287
Stage 3	31 663	22 571
Total Gross Carrying Amount	**210 389**	**199 946**
Loss Allowance	(10 219)	(11 622)
Carrying amount	**200 170**	**188 324**

43. Financial risk management (Continued)

c) Credit risk (Continued)

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.

Gross maximum exposure	GROUP		COMPANY	
	2020 K'm	2019 K'm	2020 K'm	2019 K'm
Balances with the Reserve Bank of Malawi	10 227	1 512	10 227	1 512
Restricted cash	5 585	-	5 585	-
Government of Malawi treasury bills and treasury notes	180 435	133 278	172 274	123 489
Government of Malawi Promissory note	5 196	-	5 196	-
Placements with other banks	44 231	17 826	44 231	17 826
Loans and advances	200 170	188 324	199 161	188 178
Other money market deposits	37 752	32 997	7 099	18 498
Other assets	2 180	1 506	1 167	594
Total recognised financial instruments	485 776	375 443	444 940	350 097
Guarantees and performance bonds	6 649	5 766	6 649	5 766
Letters of credit	26 990	16 784	26 990	16 784
Total unrecognised financial instruments	33 639	22 550	33 639	22 550
Total credit exposure	519 415	397 993	478 579	372 647

43. Financial risk management (Continued)

c) Credit risk (Continued)

Gross maximum exposure (Continued)

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

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
GROUP			
2020			
Balances with the Reserve Bank of Malawi	10 227	-	10 227
Restricted cash	5 585	-	5 585
Government of Malawi treasury bills and Treasury notes	180 435	-	180 435
Government of Malawi Promissory note	5 196	-	5 196
Placements with other banks	44 231	-	44 231
Loans and advances	200 170	5 612	194 558
Other money market deposits	37 752	-	37 752
Other assets	2 180	-	2 180
	485 776	5 612	480 164
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	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

43. Financial risk management (Continued)

c) Credit risk (Continued)

	Carrying Amount K'm	Offset K'm	Net exposure to credit risk K'm
COMPANY			
2020			
Balances with the Reserve Bank of Malawi	10 227	-	10 227
Restricted cash	5 585	-	5 585
Government of Malawi treasury bills and treasury notes	172 274	-	172 274
Government of Malawi promissory note	5 196	-	5 196
Placements with other banks	44 231	-	44 231
Loans and advances	199 161	5 612	193 549
Other money market deposits	7 099	-	7 099
Other assets	1 167	-	1 167
	444 940	5 612	439 328
2019			
Balances with the Reserve Bank of Malawi	1 512	-	1 512
Government of Malawi treasury bills and RBM Bonds	123 489	-	123 489
Placements with other banks	17 826	-	17 826
Loans and advances	188 178	4 863	183 315
Other money market deposits	18 498	-	18 498
Other assets	594	-	594
	350 097	4 863	345 234

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.

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	
	2020 K'm	2019 K'm
Individually impaired:		
Grade 9: Impaired	19 125	7 940
Grade 8: Impaired	5 467	11 908
Past due but not impaired:		
Grade 7: Watch list	26 129	12 046
Neither past due nor impaired:		
Grade 1 - 3 Low risk	13 856	14 013
Grade 4 - 6 Fair risk	145 812	154 039
Impairment provision	(10 219)	(11 622)
Total net carrying amount	200 170	188 324

43. Financial risk management (Continued)

c) Credit risk (Continued)

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

	GROUP	
	Gross amount K'm	Provision K'm
31 December 2020		
Risk Grade		
Grade 9: Impaired	19 125	5 843
Grade 8: Impaired	12 538	1 029
Grade 7: Watch list	19 058	751
Grade 4 – 6 Fair risk	145 812	2 301
Grade 1 - 3 Low risk	13 856	110
Total Gross carrying amount	210 389	10 034
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

The impairment provision of K10 034m (2019: K11 507m) excludes an off-balance sheet assets provision amounting to K185m (2019: K115m).

The current year total carrying amount includes K1 009m (2019:K146m) loans and advances extended by NBM Development Bank. The provision related to the NBM Development Bank Limited amounted to K8m (2019: nil) as at the reporting date.

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.

43. Financial risk management (Continued)

c) Credit risk (Continued)

Write-off policy (Continued)

During the period under review, the Group wrote off K4 548m (2019: K755m). Refer to note 13. 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.

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

	GROUP & COMPANY	
	2020 K'm	2019 K'm
Against individually impaired		
Motor vehicles	1 205	737
Commercial property	12 286	2 328
Residential property	849	355
Government guarantees	13 119	9 597
	27 459	13 017
Against the rest of the loan book		
Motor vehicles	19 634	27 456
Commercial property	115 429	96 225
Residential property	27 126	32 224
Cash	5 612	4 863
Equities	-	2 101
Mortgages	-	5 297
Debentures	-	1 191
Other guarantees	37 097	35 064
Government guarantees	-	2 926
Total	204 898	207 347
Grand Total	232 357	220 364

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.

43. Financial risk management (Continued)

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.

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:

	2020	2019
At 31 December	41%	38%
Average of the period	36%	44%
Maximum for the period	41%	51%
Minimum for the period	25%	36%

43. Financial risk management (Continued)

d) Liquidity risk (Continued)

Measurement of 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
2020						
Financial assets						
Cash and funds with Reserve Bank of Malawi	26 267	-	-	-	26 267	26 267
Restricted cash	5 585	-	-	-	5 585	5 585
Government of Malawi treasury bills and treasury notes	-	28 047	61 850	90 538	180 435	180 435
Government of Malawi promissory note	-	-	5 196	-	5 196	5 196
Equity investments	-	4 744	-	-	4 744	4 744
Placements with other banks	44 231	-	-	-	44 231	44 231
Loans and advances	14 513	11 313	43 595	130 749	200 170	200 170
Other money markets deposits	37 752	-	-	-	37 752	37 752
Other assets	2 180	-	-	-	2 180	2 180
Total financial assets	130 528	44 104	110 641	221 287	506 560	506 560
Financial liabilities						
Loans	-	-	3 908	9 805	13 713	13 713
Customer deposits	363 202	37 575	2 926	-	403 703	403 703
Amounts due to other banks	12 557	-	-	-	12 557	12 557
Provisions	-	-	3 797	-	3 797	3 797
Other liabilities	1 530	-	-	-	1 530	1 530
Lease liability	-	-	893	2 265	3 158	3 158
Total financial liabilities	377 289	37 575	11 524	12 070	438 458	438 458
Contractual liquidity mismatch	**(246 761)**	**6 529**	**99 117**	**209 217**	**68 102**	**68 102**
Cumulative mismatch	**(246 761)**	**(240 232)**	**(141 115)**	**68 102**	**-**	**-**

43. Financial risk management (Continued)

d) Liquidity risk (Continued)

Measurement of 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
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	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
Lease liability	-	-	934	2 617	3 551	3551
Total financial liabilities	280 917	36 394	10 939	15 329	343 579	343 579
Contractual liquidity mismatch	**(200 073)**	**18 812**	**106 810**	**127 250**	**52 799**	**52 799**
Cumulative mismatch	**(200 073)**	**(181 261)**	**(74 451)**	**52 799**	**-**	**-**

43. 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
2020						
Financial assets						
Cash and funds with Reserve Bank of Malawi	26 267	-	-	-	26 267	26 267
Restricted cash	5 585	-	-	-	5 585	5 585
Government of Malawi treasury bills and treasury notes	-	19 886	61 850	90 538	172 274	172 274
Government of Malawi Promissory notes	-	-	5 196	-	5 196	5 196
Equity investments	-	4 744	-	-	4 744	4 744
Placements with other banks	44 231	-	-	-	44 231	44 231
Loans and advances	13 504	11 313	43 595	130 749	199 161	199 161
Other money markets deposits	7 099	-	-	-	7 099	7 099
Other assets	1 167	-	-	-	1 167	1 167
Total financial assets	97 853	35 943	110 641	221 287	465 724	465 724
Financial liabilities						
Loans	-	-	3 908	9 805	13 713	13 713
Customer deposits	327 220	37 575	2 926	-	367 721	367 721
Amounts due to other banks	12 557	-	-	-	12 557	12 557
Provisions	-	-	3 **652**	-	3 652	3 652
Other liabilities	1 053	-	-	-	1 053	1 053
Lease liability	-	-	893	2 265	3 158	3 158
Total financial liabilities	340 830	37 575	11 379	12 070	401 854	401 854
Contractual liquidity mismatch	**(242 977)**	**(1 632)**	**99 262**	**209 217**	**63 870**	**63 870**
Cumulative mismatch	**(242 977)**	**(244 609)**	**(145 347)**	**63 870**	**-**	**-**

43. 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	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
Lease liability	-	-	934	2 617	3 551	3 551
Total financial liabilities	260 160	36 394	10 730	15 329	322 613	322 613
Contractual liquidity mismatch	**(195 019)**	**9 023**	**107 019**	**127 396**	**48 419**	**48 419**
Cumulative mismatch	**(195 019)**	**(185 996)**	**(78 977)**	**48 419**	**-**	**-**

The contractual liquidity mismatch shows the mismatch before any adjustments are made for product and customer behavioral 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 behavioral assumptions when there is indication that there is a shift in one or more variables.

43. Financial risk management (Continued)

e) Market risk (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-today 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.

43. Financial risk management (Continued)

e) Market risk (Continued)

Exposure of interest rate risk: non-trading portfolio (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
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	17 826	-	-	-	-	17 826
Loans and advances	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	60 993	51 104	117 749	142 579	23 953	396 378
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
Lease liability	-	-	934	2 617	-	3 551
Total financial liabilities	138 422	36 394	7 985	15 329	145 449	343 579
Interest sensitivity gap	**(77 429)**	**14 710**	**109 764**	**127 250**	**(121 496)**	**52 799**
Cumulative gap	**(77 429)**	**(62 719)**	**47 045**	**174 295**	**52 799**	**-**

2019						
Impact on profit of an increase in interest rates:						
+1%	(774)	147	1 098	1 273	-	1 744
+2%	(1 548)	294	2 196	2 546	-	3 488
+3%	(2 322)	441	3 294	3 819	-	5 232
Impact on profit of a decrease in interest rates:						
-1%	774	(147)	(1 098)	(1 273)	-	(1 774)
-2%	1 548	(294)	(2 196)	(2 546)	-	(3 488)
-3%	2 322	(441)	(3 294)	(3 819)	-	(5 232)

43. Financial risk management (Continued)

e) Market risk (Continued)

Exposure of interest rate risk: non-trading portfolio (Continued)

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
2020						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	26 267	26 267
Restricted cash	5 585	-	-	-	-	5 585
Government of Malawi treasury bills and treasury notes	-	28 047	61 850	90 538	-	180 435
Government of Malawi Promissory note	-	-	-	-	5 196	5 196
Equity investments	-	-	-	-	4 744	4 744
Placements with other banks	44 231	-	-	-	-	44 231
Loans and advances	14 513	11 313	43 595	130 749	-	200 170
Other money market deposits	37 752	-	-	-	-	37 752
Other assets	-	-	-	-	2 180	2 180
Total financial assets	102 081	39 360	105 445	221 287	38 387	506 560
Financial liabilities						
Loans	-	-	3 908	9 805	-	13 713
Customer deposits	209 285	37 575	2 926	-	153 917	403 703
Amounts due to other banks	12 557	-	-	-	-	12 557
Provisions	-	-	-	-	3 797	3 797
Other liabilities	-	-	-	-	1 530	1 530
Lease liability	-	-	893	2 265	-	3 158
Total financial liabilities	221 842	37 575	7 727	12 070	159 244	438 458
Interest sensitivity gap	**(119 761)**	**1 785**	**97 718**	**209 217**	**(120 857)**	**68 102**
Cumulative gap	**(119 761)**	**(117 976)**	**(20 258)**	**188 959**	**68 102**	**-**
2020						
Impact on profit of an increase in interest rates:						
+1%	(1 198)	18	977	2 092	-	1 889
+2%	(2 396)	36	1 954	4 184	-	3 778
+3%	(3 594)	54	2 931	6 276	-	5 667
Impact on profit of a decrease in interest rates:						
-+1%	1 198	(18)	(977)	(2 092)	-	(1 889)
+2%	2 396	(36)	(1 954)	(4 184)	-	(3 778)
+3%	3 594	(54)	(2 931)	(6 276)	-	(5 667)

43. Financial risk management (Continued)

e) Market risk (Continued)

Exposure of interest rate risk: non-trading portfolio (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						
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	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
Lease liability	-	-	934	2 617	-	3 551
Total financial liabilities	141 319	**36 394**	7 985	15 329	121 586	322 613
Interest sensitivity gap	**(95 117)**	**4 921**	**109 764**	**127 396**	**(98 545)**	**48 419**
Cumulative gap	**(95 117)**	**(90 196)**	**19 568**	**146 964**	**48 419**	**-**

2019						
Impact on profit of an increase in interest rates:						
+1%	(951)	49	1 098	1 274	-	1 470
+2%	(1 902)	98	2 196	2 548	-	2 940
+3%	(2 853)	147	3 294	3 822	-	4 410
Impact on profit of a decrease in interest rates:						
-1%	951	(49)	(1 098)	(1 274)	-	(1 470)
-2%	1 902	(98)	(2 196)	(2 548)	-	(2 940)
-3%	2 853	(147)	(3 294)	(3 822)	-	(4 410)

43. Financial risk management (Continued)

e) Market risk (Continued)

Exposure of interest rate risk: non-trading portfolio (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
2020						
Financial assets						
Cash and funds with Reserve Bank of Malawi	-	-	-	-	26 267	26 267
Restricted cash	5 585	-	-	-	-	5 585
Government of Malawi treasury bills and treasury notes	-	19 886	61 850	90 538	-	172 274
Government of Malawi Promissory note	-	-	-	-	5 196	5 196
Equity investments	-	-	-	-	4 744	4 744
Placements with other banks	44 231	-	-	-	-	44 231
Loans and advances	13 504	11 313	43 595	130 749	-	199 161
Other money market deposits	7 099	-	-	-	-	7 099
Other assets	-	-	-	-	1 167	1 167
Total financial assets	70 419	31 199	105 445	221 287	37 374	465 724
Financial liabilities						
Loans	-	-	3 908	9 805	-	13 713
Customer deposits	173 303	37 575	2 926	-	153 917	367 721
Amounts due to other banks	12 557	-	-	-	-	12 557
Provisions	-	-	-	-	3 652	3 652
Other liabilities	-	-	-	-	1 053	1 053
Lease liability	-	-	893	2 265	-	3 158
Total financial liabilities	185 860	37 575	7 727	12 070	158 622	401 854
Interest sensitivity gap	**(115 441)**	**(6 376)**	**97 718**	**209 217**	**(121 248)**	**63 870**
Cumulative gap	**(115 441)**	**(121 817)**	**(24 099)**	**185 118**	**63 870**	**-**

2020						
Impact on profit of an increase in interest rates:						
+1%	(1 154)	(64)	977	2 092	-	1 851
+2%	(2 308)	(128)	1 954	4 184	-	3 702
+3%	(3 462)	(192)	2 931	6 276	-	5 553
Impact on profit of a decrease in interest rates:						
-1%	1 154	64	(977)	(2 094)	-	(1 851)
-2%	2 308	128	(1 954)	(4 184)	-	(3 702)
-3%	3 462	192	(2 931)	(6 276)	-	(5 553)

43. Financial risk management (Continued)

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
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	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
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
Lease liability	3 551	-	-	-	-	-	3 551
Total financial liabilities	260 987	75 937	1 756	**4 406**	493	-	343 579
Net balance open position	51 011	1 466	230	61	22	9	52 799

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

43. 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
2020							
Financial assets							
Cash and funds with Reserve Bank of Malawi	25 824	285	19	23	116	-	26 267
Restricted cash	-	5 585	-	-	-	-	5 585
Government of Malawi Treasury bills and treasury notes	180 435	-	-	-	-	-	180 435
Government of Malawi Promissory note	5 196	-	-	-	-	-	5 196
Equity investments	4 744	-	-	-	-	-	4 744
Placements with other banks	-	32 192	3 530	8 023	470	16	44 231
Loans and advances	145 118	55 052	-	-	-	-	200 170
Other money market deposits	37 752	-	-	-	-	-	37 752
Other assets	2 180	-	-	-	-	-	2 180
Total financial assets	401 249	93 114	3 549	8 046	586	16	506 560
Financial liabilities							
Loans	209	13 504	-	-	-	-	13 713
Customer deposits	322 094	69 953	3 318	8 100	238	-	403 703
Liabilities to other banks	12 277	74	-	-	206	-	12 557
Provisions	3 797	-	-	-	-	-	3 797
Other liabilities	1 530	-	-	-	-	-	1 530
Lease liability	3 158	-	-	-	-	-	3 158
Total financial liabilities	343 065	83 531	3 318	8 100	444	-	438 458
Net balance open position	58 184	9 583	231	(54)	142	16	68 102
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit							
	-	(958)	(23)	5	(14)	(2)	(992)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit							
	-	958	23	(5)	14	2	992

43. 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 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	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
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
Lease liability	3 551	-	-	-	-	-	3 551
Total financial liabilities	240 021	75 937	1 756	4 406	493	-	322 613
Net balance open position	46 631	1 466	230	61	22	9	48 419
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

43. 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
2020							
Financial assets							
Cash and funds with Reserve Bank of Malawi	25 824	285	19	23	116	-	26 267
Restricted cash	-	5 585	-	-	-	-	5 585
Government of Malawi Treasury bills and treasury notes	172 274	-	-	-	-	-	172 274
Government of Malawi Promissory note	5 196	-	-	-	-	-	5 196
Equity investments	4 744	-	-	-	-	-	4 744
Placements with other banks	-	32 192	3 530	8 023	470	16	44 231
Loans and advances	144 109	55 052	-	-	-	-	199 161
Other money market deposits	7 099	-	-	-	-	-	7 099
Other assets	1 167	-	-	-	-	-	1 167
Total financial assets	360 413	93 114	3 549	8 046	586	16	465 724
Financial liabilities							
Loans	209	13 504	-	-	-	-	13 713
Customer deposits	286 112	69 953	3 318	8 100	238	-	367 721
Liabilities to other banks	12 277	74	-	-	206	-	12 557
Provisions	3 652	-	-	-	-	-	3 652
Other liabilities	1 053	-	-	-	-	-	1 053
Lease liability	3 158	-	-	-	-	-	3 158
Total financial liabilities	306 461	83 531	3 318	8 100	444	-	401 854
Net balance open position	53 952	9 583	231	(54)	142	16	63 870
Impact of a 10% strengthening of the Malawi Kwacha against other currencies on profit							
	-	(958)	(23)	5	(14)	(2)	(992)
Impact of a 10% weakening of the Malawi Kwacha against other currencies on profit							
	-	958	23	(5)	14	2	992

43. Financial risk management (Continued)

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:

- 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.

43. Financial risk management (Continued)

h) Compliance risk (Continued)

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.

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 Liquidity Reserve Requirement in the year were as follows:

a. 5.0 percent on local currency deposits; and
b. 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

The clear threat to capital adequacy in 2020 was the implementation of the directive on Supervision of Domestic Systemically Important Banks by Reserve Bank of Malawi which shall require systemically important banks to put aside additional Tier I capital of between 1.00% and 3.50%. The assessment on National Bank by the Reserve Bank require the Bank to set aside a capital surcharge of 1.5% above the core capital requirement of 10%. A Bank's available capital was raised to be a minimum of 11.5 % of its risk bearing assets and contingent liabilities.

At the end of the year, the National Bank's available capital was 25% (2019: 23%) of its risk bearing assets and contingent liabilities.

43. Financial risk management (Continued)

h) Compliance risk (Continued)

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 is 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 41% (2019: 38%)

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.

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 11.5% 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.

43. Financial risk management (Continued)

i) Capital management (Continued)

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.

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

	2020 K'm	2019 K'm
Tier 1 capital		
Ordinary share capital	467	467
Share premium	613	613
Retained earnings	87 923	73 683
Unconsolidated investment	(3 767)	(3 763)
Total regulatory (tier 1) capital	85 236	71 000
Supplementary capital		
Revaluation reserve	26 461	23 706
Deferred tax	(8 617)	(7 816)
Unconsolidated investment	(3 767)	(3 763)
Total regulatory (tier 2) capital	99 313	83 127
Risk-weighted assets		
Retail bank, corporate bank and treasury	392 417	367 013
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	25%	23%
Total tier 1 capital expressed as a percentage of risk-weighted assets	22%	19%

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

43. Financial risk management (Continued)

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 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 – Standardized Approach (SA); and
c. Market Risk – Standardized 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 11.5% and 15% for tier I and tier II ratios, respectively. Further, the ratios are above the 2020 set risk appetite for the Group for capital ratios of the range of 11.5% to 15% for tier I and 15% to 20 % 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 own 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.

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.

43. Financial risk management (Continued)

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 the way in which clients, to which it provides 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 at; building reputation capital, and earning the goodwill of key stakeholders by communicating proper and positive information to the marketplace and also identifying risk events as being either specific or systemic as this will determine the course of corrective action.

44. 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% (2019: 51.5%) of the Ordinary Shares. The Old Mutual Group owns 24.6% (2019: 25.1%) of the Ordinary Shares and the remaining 23.9% (2019: 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% (2019: 44.5%) of Press Corporation plc.

44. Related party transactions (Continued)

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.

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 2020 K'm	Net 2019 K'm
Press Corporation plc and its subsidiaries	5 462	(2 844)	2 618	2 602
Old Mutual Group	4 698	(2 784)	1 914	1 914
Castel Malawi Limited	1	(1 132)	(1 131)	(1 524)
Limbe Leaf Tobacco Company Limited	-	(371)	(371)	(206)
Puma Malawi Limited	2	(447)	(445)	(1 357)
Macsteel Limited	-	(64)	(64)	(37)
Press Trust	-	(66)	(66)	(204)
Directors	406	(102)	304	504
Employees	5 680	(446)	5 234	5 459
Open Connect Limited	1	(1 225)	(1 224)	(3 526)
United General Insurance Limited	-	-	-	(2)
National Bank of Malawi Pension Fund	-	(86)	(86)	(53)
Total related party balance	16 250	(9 567)	6 683	3 570

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

44. Related party transactions (Continued)

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 (2019: nil).

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

The following transactions were conducted with related parties:

	GROUP AND COMPANY	
	2020 K'm	2019 K'm
Interest receivable		
Press Corporation plc and its subsidiaries	800	1 309
Press Trust	-	1
Directors	4	3
Puma Malawi Limited	2	3
Macsteel Limited	1	-
Employees	1 107	1 123
Average interest rate (%)	21	19
Operating lease income		
Malawi Telecommunication Limited	203	2
Open Connect Limited	25	-
Bottling and Brewing Group Limited	42	158
Interest payable		
Press Corporation plc and its subsidiaries	104	24
Old Mutual Group	6	31
Puma Malawi Limited	9	93
Open Connect Limited	-	13
Employees	765	785
Purchases		
Press Corporation plc and its subsidiaries	3	799
Puma Malawi Limited	146	187
Commission income		
Press Corporation plc and its subsidiaries	315	243

	GROUP		COMPANY	
	2020 K'm	2019 K'm	2020 K'm	2019 K'm
Compensation of key management personnel				
Salaries, bonuses and benefits	3 674	2 980	3 499	2 864

No specific share options were offered to key management personnel during the year (2019: nil). No shares were exercised by key management during the year (2019: nil).

45. 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.

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					
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. Business segments (Continued)

Group	Corporate banking K'm	Retail banking K'm	Treasury K'm	Other K'm	Total K'm
Statement of comprehensive income					
2020					
Total external income	43 249	14 989	25 109	1 224	84 571
Segment result	36 791	12 981	25 109	1 224	76 105
Unallocated expenses	-	-	-	-	(43 297)
Profit before tax	-	-	-	-	32 808
Corporate tax	-	-	-	-	(10 359)
Group profit for the year	-	-	-	-	22 449
Other information					
Depreciation					
Unallocated depreciation	-	-	-	-	3 537
Revaluation surplus on property					
Unallocated fair value gain	-	-	-	-	48
Statement of financial position					
2020					
Total consolidated segment assets	121 321	88 295	290 120	72 957	572 693
Liabilities and equity					
Total consolidated segment liabilities and equity	194 530	91 582	106 039	62 624	454 775
Other information					
Unallocated capital additions	-	-	-	-	117 918
Total	-	-	-	-	572 693

46. 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.

	2020	2019
Kwacha/GBP	1 088	967
Kwacha/Rand	56	52
Kwacha/US Dollar	771	737
Kwacha/Euro	987	837
Inflation (%)	7.9	11.5

As at 25 March 2021, the above rates had moved as follows:

Kwacha/GBP	1 132
Kwacha/Rand	56
Kwacha/US Dollar	784
Kwacha/Euro	983
Inflation rate (%) (February 2021)	8.3

48TH
AGM MINUTES

FOURTY EIGHTH AGM MINUTES

MINUTES OF THE FORTY EIGHTH ANNUAL GENERAL MEETING OF NATIONAL BANK OF MALAWI PLC HELD VIRTUALLY FROM THE NATIONAL BANK OF MALAWI PLC BOARDROOM ON 9TH JULY 2020 AT 14:00 PM

Shareholders Present:

Brian Bobby
Eluphy Salamba
John Mitchell
Winston Phethi

Proxies / Representatives

Job Nelson Mwatikana – Representing NICO Life Insurance Company; SUCOMA Group Pension Scheme; Toyota Malawi Pension Fund; National Investment Trust Ltd; NICO Life Deposit Administration Fund; First Capital Bank Pension Fund; PCL Pension Fund; NICO General Insurance Company Ltd; Public Service Pension Trust Fund; RBM 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.

Mr. J. Bizwick – Representing Press Corporation Limited

In Attendance:

Directors:

Dr. George Partridge	(Chairman)
Mrs. D. Ngwira	
Mr. J. Bizwick	
Mr. J. Nsomba	
Mr. R. Banda	
Mr J. Mhura	
Mr C. Mzengereza	
Mr M. Nkhoma	
Mr. M. Kawawa	
Mr. H. Jiya	
Mrs. Z.E Mitole	Company Secretary

Observers:

Benard Sande
Edda Khulamba
Mercy Mulele
Gari Mathanga

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 Forty-Eighth Annual General Meeting.

The Chairman advised that the AGM was being held virtually to comply with the Government's restrictions on gatherings due to COVID-19. The Company had duly obtained approval from the Malawi Stock Exchange and the Registrar of Companies to hold a virtual AGM following the procedures laid out by the Malawi Stock Exchange.

The Company had received proxies that would be duly recorded.

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 as 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.

5. Ordinary business

i) **To note the Minutes of the 47th Annual General Meeting held on Thursday 7th June 2019.**

a. The Minutes of the 47th Annual General Meeting held on 7th June 2019 were adopted as a correct record of the deliberations on that day.

b. The Secretary advised that all member who voted had voted in support of the motion to adopt and confirm the minutes

ii) To Receive and Consider the Directors' and Auditors' Report and the Financial Statements of the Company for the Year ended 31st December 20119.

The Secretary confirmed that all members who voted had voted in support of the motion. It was therefore resolved that:

"The Directors' and Auditors' Report and Financial Statements for the year ended 31st December 2019 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. The Secretary confirmed that all members who voted had voted in favour of the motion. It was therefore resolved that:

"A final dividend amounting to MK4.5 billion making a total dividend of K8.3 billion in respect of 2019 profits representing MK17.82 per ordinary share, having already paid a first interim dividend of MK2.5 billion on 20th September 2019 and a second interim dividend of MK1.5 billion on 30th March 2020, be approved".

iv) Appointment of Auditors

a. The secretary confirmed that all members who voted had voted in favour of the motion. It was therefore resolved that:

"Messrs Deloitte be re-appointed as auditors for the Company for the year ending 31st December 2020 and Directors be authorized to fix their remuneration".

v) Directors' Appointments and Re-Election

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

The Secretary confirmed that all members who voted had voted in favour of motion. It was therefore resolved that:

"Mrs. Bessie Nyirenda, who was appointed during the year to fill a casual vacancy, be confirmed as Director of the Company with effect from the date of her appointment".

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

   The Secretary confirmed that all members who voted had voted in favour of motion. It was therefore resolved that:

   "Mr. Crispin Mzengereza, who was appointed during the year to fill a casual vacancy, be confirmed as Director of the Company with effect from the date of his appointment".

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

   The Secretary confirmed that all members who voted had voted in favour of the motion. It was therefore resolved that:

   "Mr. Macleod Nkhoma, who was appointed during the year to fill a casual vacancy, be confirmed as Director of the Company with effect from the date of his appointment".

4. **To re-elect Mr. Raymond Banda, who retired by rotation in terms of the Articles of Association but being eligible, had offered himself for re-election.**

   The Secretary confirmed that all members who voted had voted in favour of the motion. It was therefore resolved that:

   "Mr. Raymond Banda, who retires by rotation in terms of the Articles of Association but being eligible, be re-elected".

5. **To re-elect Mrs. Dorothy Ngwira, who retired by rotation in terms of the Articles of Association but being eligible, had offered herself for re-election.**

   The Secretary confirmed that all members who voted had voted in favour of the motion. It was therefore resolved that:

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

6. **To re-elect Mrs. Maureen Kachingwe who retires by rotation in terms of the Articles of Association but being eligible, had offered herself for re-election.**

   The Secretary confirmed that all members who voted had voted in favour of the motion. It was therefore resolved that:

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

vi) Executive Directors' Remuneration

The Secretary confirmed that all members who voted had voted in favour of the motion. It was therefore resolved that:

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

vii) 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 2020 as follows:

1. Directors' Fees

The Secretary confirmed that all members who voted had voted in favour of the motion. It was therefore resolved that:

"The net fees of the Chairman and Non-Executive Directors with effect from 1st January 2020 be fixed as follows:

Chairman:	K11,821,500 per annum (2019: K10,650,000)
Non-Executive Directors:	K7,770,000 per annum (2019: K7,000,000)

2. Directors' Sitting Allowances

The secretary confirmed that all members who voted had voted in favour of the motion. It was therefore resolved that:

"The sitting allowances of the Chairman and Non - Executive Directors with effect from 1st January 2020 be fixed as follows":

Chairman:	K367,410 per sitting (2019: K331,000)
Non-Executive Directors:	K326,340 per sitting (2019: K294,000)

viii) Special Business

Adoption of New Articles of Association

The Secretary confirmed that all members who voted had voted in favour of the motion. It was therefore resolved that:

"New Articles of Association of the Company be adopted in substitution of the existing Articles of Association in compliance with Section 35 of the Companies Act, 2013."

ix) Other Business

As there was no further business to discuss for which prior notice had been given, the meeting was declared closed at 14:35 pm.

....	....
CHAIRMAN	**DATE**

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 Ninth Annual General Meeting of the Company to be held virtually from National Bank of Malawi plc Head Office on Friday 4th June 2021 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 48th Annual General Meeting (For noting only)			
2. Adoption of 2020 Directors' and Auditors' Report and Financial Statements of the Company for the Year Ended 31st December 2020			
3. Declaration of a Final Dividend of K8 billion or K17.13 per share			
4. To re-appoint Deloitte Certified Accountants as Auditors as Auditors for the ensuing year and to authorize the Directors to determine their remuneration			
5. • To confirm the appointment of Mr. Benard Ndau as an Independent non-executive Director to fill a casual vacancy • To re-elect Mr. Chrispin Mzengereza who retires by rotation but being eligible, has offered himself for re-election • To re-elect Mrs. Bessie Nyirenda who retires by rotation but being eligible, has offered herself for re-election			
6. To authorize 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: K13,122,000 net per annum (2020: K11,821,500). Non-Executive Directors: K8,625,000 net per annum (2020: K7,770,000).			
Directors Sitting Allowances Chairman: K407,800 net per sitting (2020: K367,410). Non-Executive Directors: K362,200 net per sitting (2020: K326,340).			
8. **Special Business:** To consider and, if deemed fit, to pass with or without modification the following special resolution: **8.1 Adoption of a New Article 27B in the Articles of Association** To adopt a new article 27B of the Company to incorporate the holding of virtual Annual General Meetings. The proposed article is as below: *"General meetings may be conducted virtually provided all provisions for the giving of notice as stipulated in this clause are followed."* The adoption of this article will neither reduce nor affect any shareholding.			
9. **Any Other Business**			

Signed at ……………………………………………………………on this ………………day of …………………….2021

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. 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.

3. A minor must be assisted by his or her guardian

4. 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.

5. 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.

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 cast my/our vote on the proposed resolutions for the Forty Ninth Annual General Meeting of the company to be held virtually from National Bank of Malawi plc Head Office on Friday, 4th June 2021 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 48th Annual General Meeting (For noting only)			
2. Adoption of 2020 Directors' and Auditors' Report and Financial Statements of the Company for the Year Ended 31st December 2020			
3. Declaration of a Final Dividend of K8 billion or K17.13 per share			
4. To re-appoint Deloitte Certified Accountants as Auditors as Auditors for the ensuing year and to authorize the Directors to determine their remuneration			
5. • To confirm the appointment of Mr. Benard Ndau as an Independent non-executive Director to fill a casual vacancy • To re-elect Mr. Chrispin Mzengereza who retires by rotation but being eligible, has offered himself for re-election • To re-elect Mrs. Bessie Nyirenda who retires by rotation but being eligible, has offered herself for re-election			
6. To authorize 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: K13,122,000 net per annum (2020: K11,821,500). Non-Executive Directors: K8,625,000 net per annum (2020: K7,770,000).			
Directors Sitting Allowances Chairman: K407,800 net per sitting (2020: K367,410). Non-Executive Directors: K362,200 net per sitting (2020: K326,340).			

8. **Special Business:** To consider and, if deemed fit, to pass with or without modification the following special resolution: **8.1 Adoption of a New Article 27B in the Articles of Association** To adopt a new article 27B of the Company to incorporate the holding of virtual Annual General Meetings. The proposed article is as below: *"General meetings may be conducted virtually provided all provisions for the giving of notice as stipulated in this clause are followed."* The adoption of this article will neither reduce nor affect any shareholding.			
9. **Any Other Business**			

Signed at ....on this ....day of 2021

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) 885 514 442

NOTES